Coronavirus and Your Plan: What You Need to Know Now

As we collectively struggle through the challenges presented by the Coronavirus pandemic, one thing is certain: employers are faced with some tough choices that will impact the company and its employees well into the future. Here are a few brief comments and considerations on the decisions you may have to make for your 401(k) plan.

First, remember that your 401(k) plan's fiduciaries still have legal responsibility for operating the plan in accordance with ERISA, even in the midst of the current crisis; if you need further information, contact us. You should also reach out to your plan's legal counsel, because there are legal considerations involved, and individual facts and circumstances can make a difference in how you should approach these decisions.

Staff reductions

Sending employees home is hard. How you do it has a direct impact on them and on the plan, and it may depend on whether or not you expect to bring employees back when the crisis has passed. If you do let people go, consider furloughs. Employees on furlough are still employees under the 401(k) plan, and therefore are not entitled to immediate distribution of their plan accounts. If your plan allows hardship loans or withdrawals, employees cannot transfer the money into an IRA or another employer's plan. Terminated employees, on the other hand, can receive an immediate plan distribution, which they can keep (and be taxed upon) or transfer to another qualified plan.

However, if you terminate a large number of employees (generally 20% or more), it could trigger a partial plan termination—in which case terminated employees must become fully vested in their employer contribution accounts.

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Company matches and contributions

The company's coffers are likely strained at this point, which could prompt you to ask whether to make scheduled employer contributions to the retirement plan. If the plan requires company contributions, as is the case in a safe harbor 401(k) plan, a defined benefit plan, or another plan with minimum funding requirements, and you anticipate difficulty in affording the employer contribution, it's better to act sooner than later. Year-end is too late to avoid the obligation. But by acting right away you may be able to freeze or suspend contributions. Plans with discretionary employer contributions may be able to suspend them temporarily.

Employee communication

Getting required notices to employees is more challenging now with so many people working offsite (or not at all). Even so, the notice requirements have not been suspended as of this writing. Make sure to distribute all required plan notices on schedule, whether that's by mail or electronically.

While quick action may be necessary in our current circumstances, it's usually best to take a considered approach. If you're thinking about terminating the plan and distributing assets, you won't be allowed to reinstate the plan within 12 months if you later change your mind. That's another reason to take a breath, gather guidance and think things through before you act. Things may look very different in six months, and you will be glad that you proceeded in a thoughtful way. In the meantime, we are here to help. Please contact your Pentegra Relationship Management team with any questions.

Our team is here to help you navigate these changes.

Contact us at 800-872-3473.

Follow our conversation.

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