

Coronavirus-Related Loans Key Considerations for CRA Participants

The CARES (Coronavirus Aid, Relief and Economic Security) Act was signed into law on March 27, 2020. This legislation is aimed at providing financial relief for individuals and businesses that have been significantly impacted by the COVID-19 pandemic. Some of the key provisions included in the bill apply to loans from CRA's 401(a) and 457(b) plans.

Coronavirus-Related Loans are ONLY available from plans that offer loans.

You should confirm if your employer offers loans on CRA retirement plans, as many do not.

Only "COVID-affected participants" are eligible for Coronavirus-Related Loans.

(See eligibility requirements below)

Per the CARES Act, the following loan provisions apply to **eligible plan participants**:

- The maximum available retirement plan loan has increased from \$50,000 to \$100,000. Eligible participants may borrow 100% of their vested balance, up to \$100,000 (total loan from both 401(a) and 457(b) plans). This increased loan amount is only available for loans initiated between March 27, 2020 and September 22, 2020.
- Eligible participants have the option of deferring loan payments through December 31, 2020. This applies to new loans and to participants with existing loans. **Although payments can be deferred, interest will continue to accrue on the loan. The current interest rate is 4.25%.**
- CRA permits only one retirement loan at a time per CRA plan. While this policy remains unchanged, individuals with an outstanding loan will have the option to refinance their existing loan and increase their outstanding balance up to the maximum loan amount of \$100,000.
- **If your employer has additional loan restrictions, these restrictions will remain in place.**

ELIGIBILITY REQUIREMENTS

- You, your spouse or a member of your household must have been diagnosed with COVID-19, or
- You, your spouse, or a member of your household must have suffered adverse financial consequences due to the pandemic. Examples might include reduced income from being quarantined or furloughed, having your hours and/or pay reduced, being unable to work due to lack of childcare, having a job offer rescinded or start date for a job delayed, or other issues beyond your control arising out of this situation.
- Eligibility for CARES Act-related provisions will be self-certified by the CRA plan participant. Misrepresentations can result in tax penalties.

THINGS TO CONSIDER

Potential Job Loss

The COVID-19 crisis has had a destabilizing effect on the job market. If you were to lose your current job before repaying your outstanding loan balance, you would be required to repay your outstanding balance in total or it will be treated as a taxable distribution for federal and state income tax purposes and may be subject to the IRS 10% early withdrawal penalty.

Impact on Take-Home Pay

Participant loans are required to be repaid through payroll deduction and will reduce your take-home pay each pay period by the amount of the loan payment. Whether you are considering taking a new retirement loan, or refinancing an existing loan, it is important to think about whether you will be able to afford these payments. Should you default on your loan, the outstanding balance will be treated as a taxable distribution for federal and state income tax purposes and may be subject to the IRS 10% early withdrawal penalty. You are encouraged to call us at 800.352.0313 to discuss your maximum loan availability and repayment amounts.

Reduced Market Recovery Opportunity

Amounts borrowed from your retirement account takes those dollars out of your account. Because these amounts are no longer invested, they do not have the opportunity to benefit from a potential market recovery.

Alternative Solutions

Consider other options including bank lending. Bank lending is currently offered at lower-than-normal interest rates, and may be a considerably better option for those who qualify. Borrowing from your bank has the added benefit of not being dependent on payroll deduction.

REQUESTING A LOAN

The first step is to call us at 800.352.0313 to discuss the specific loan provisions that apply to your plan, review your maximum loan amount and repayment options and amounts. All loan forms can be obtained from your employer.

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The above information is based on CRA's understanding of the CARES Act provisions that apply to CRA 401(a) and 457(b) retirement plans. Provision details are subject to change as the U.S. Internal Revenue System issues additional guidance on these new provisions.

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