EBRI survey looks into effect of CARES Act on government DC plans

The Public Retirement Research Lab, a joint program of EBRI and NAGDCA, has surveyed federal, state, and local government defined contribution (DC) plan recordkeepers about their experience with Coronavirus Aid, Relief, and Economic Security (CARES) Act loan and distribution provisions and with participant saving and investment behavior during the pandemic. As of July 2020, recordkeepers responding represent approximately 75,000 plans and more than 10,000,000 participants.

The CARES Act, which was passed in March 2020, provides that qualified individuals may treat as coronavirus-related distributions up to $100,000 in distributions made from their eligible retirement plans (including IRAs) between January 1 and December 30, 2020. A coronavirus-related distribution is not subject to the 10 percent additional tax that otherwise generally applies to distributions made before an individual reaches age 59Â½. In addition, a coronavirus-related distribution can be included in income in equal installments over a three-year period, and an individual has three years to repay a coronavirus-related distribution to a plan or IRA and undo the tax consequences of the distribution.

Also, the CARES Act provides that plans may implement certain relaxed rules for qualified individuals relating to plan loan amounts and repayment terms. In particular, plans may suspend loan repayments that are due from March 27 through December 31, 2020 and the dollar limit on loans made between March 27 and September 22, 2020, is raised from $50,000 to $100,000.

Coronavirus-related distributions

The survey found that the average percentage of state and local government DC plans that implemented coronavirus-related distributions (CRDs) under the CARES Act in April was 39 percent, rising to 47 percent by July 2020. The range was wide, with some recordkeepers reporting that virtually all of the government plans on their system had CRDs and others reporting a nominal amount. Based on the availability and utilization of CRDs reported by the recordkeepers, the Lab calculated that just under half a percent (0.48 percent) of state and local government plan participants on average took CRDs in April 2020, rising to 0.82 percent by July 2020. The average dollar amount was higher, however, in April at $12,666, declining to $11,542 by July.

In contrast, a lower share of participants in the federal government took a CRD (0.29 percent in June 2020, rising to 0.57 percent), but the average distribution was much larger than for state and local government plan participants. However, the survey notes that the plan balance of federal workers is larger than that of state and local workers.

Loans

In addition, more recordkeepers reported implementing deferred loan repayments (39 percent in April 2020 climbing to 49 percent in July 2020) under the CARES Act vs. higher loan maximums (12 percent dropping to 7 percent in July 2020) for state and local government plans. This may reflect plan sponsors' concerns about additional plan leakage from greater loan access, according to the survey. Initially, plan sponsors may have interpreted the $100,000 CARES Act loan maximum to be mandatory. Subsequent clarification that the higher loan maximum is not mandatory might explain the declining proportion offering these higher loan maximums over time. The study also found the average percentage of state and local government DC plan participants changing their deferral rate was significantly higher in March 2020 (2.45 percent) than in subsequent (1.90 percent in July 2020) or prior months (2.00 percent in January 2020 and 1.47 percent in February 2020).

Plan investment elections

As to monthly plan investment elections, state and local government DC plans saw an increase in monthly investment election changes in March 2020. The survey found that the average number of investment election changes nearly doubled from the prior month, going from 1.4 percent to 2.7 percent. Similarly, the proportion of federal participant investment election changes increased from 2.6 percent of workers making a change to 4.8 percent making a change between February 2020 and March 2020. For federal workers, investment election changes spiked again in June 2020 (6.3 percent).

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