

# Qualified Plan News

## September 2020 Capital Markets Review

Index	Period Ending September 30, 2020					
	Qtr	YTD	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500	8.93	5.57	15.15	12.28	14.15	13.74
Russell 2000	4.93	-8.69	0.39	1.77	8.00	9.85
Russell 3000 Value	5.42	-12.23	-5.67	2.11	7.43	9.75
Russell 3000 Growth	12.86	23.00	36.12	20.73	19.51	16.91
MSCI ACWI Ex U.S.	6.25	-5.44	3.00	1.16	6.23	4.00
Barclays U.S. Aggregate Bond	0.62	6.79	6.98	5.24	4.18	3.64
T-Bills	0.03	0.56	1.02	1.65	1.16	0.61

### Commentary

The U.S. equity market returned 9.2% in the quarter, bringing the year-to-date return to 5.4%. Despite mixed economic data, stocks advanced through August as investors reacted positively to strong earnings from large tech companies, encouraging news regarding the development of a vaccine for the coronavirus, and accommodative guidance from the Federal Reserve. U.S. equities retreated in September amid valuation concerns and Congress failing to pass a second relief bill.

Large-cap stocks outperformed both the mid- and small-cap segments of the market in the quarter. Large-cap stocks are the only cap segment of the market to have a positive return in the year-to-date period, outperforming mid- and small-cap stocks by 7.9 and 14.3 percentage points, respectively.

Growth stocks outperformed value stocks by 7.5 percentage points in the quarter and extended their outperformance in the year-to-date period to 35.2 percentage points. Unfavorable

relative performance from the financial and energy sectors were the primary detractors in the value segment of the market for the period, while stronger relative performance in the technology and consumer discretionary sectors contributed to the relative performance of the growth segment of the market.

International equities returned 6.3% in the quarter as stock prices were supported by improving economic conditions, better-than-expected corporate earnings, and continued fiscal and monetary support from governments and central banks throughout the world. Increased investor preference for risk assets led to a depreciating U.S. dollar against most major currencies during the quarter.

Favorable performance from technology and internet stocks contributed to the outperformance of growth stocks relative to value stocks. China's stronger relative economic recovery versus other economies around the world led to a 12.5% equity return

# Qualified Plan News

in the quarter. Several European countries have reinstated travel and social restrictions in response to a rising number of reported COVID-19 cases, leading to underperforming equity markets in the U.K., France, and Spain.

The investment-grade U.S. fixed income market returned 0.6% in the quarter. U.S. Treasury yields were little changed in the quarter and remain low. The Federal Reserve announced plans to allow inflation to exceed its target of 2%, committing to keeping rates near zero for some time.

Corporate investment-grade and high yield bonds continued to rebound from the losses in March when investors sold securities with perceived credit risk in favor of U.S. government bonds. The return of U.S. Treasuries was relatively flat, while the corporate and high-yield segments earned 1.5% and 4.6% in the quarter, respectively.

Municipal bonds increased 1.2% in the quarter due to strong demand from investors despite weaker tax revenues caused by the pandemic and uncertainty of bailouts from the federal government. Developed non-U.S. government bonds advanced 0.9% in the quarter, but U.S.-based investors experienced a 4.4% return due to a weaker dollar. Emerging market government bonds produced positive returns in the quarter but remain negative in the year-to-date period.

Preliminary estimates from a subset of core real estate managers indicate a modestly positive gross return for the quarter. Overall rent collections from underlying operations have steadily improved since the beginning of the second quarter. Changes in valuation assumptions, such as rent growth, leasing, and credit risk, resulted in declines in property values in the quarter.

## What Plan Sponsors Need to Know About the CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides relief for individuals who have suffered financially from the COVID-19 virus. The CARES Act, which the president signed into law on March 27, 2020, includes measures designed to allow increased access to retirement accounts and potential tax relief for related withdrawals.

Retirement plan sponsors should review the CARES Act provisions and assess how they may impact their plans and participants. Here is a general outline of the new law.

### What can I expect as a plan sponsor?

The CARES Act includes relaxed rules on plan distributions and loans. If you intend to adopt these provisions, you will want to make sure you have the systems in place to handle

them. You will also have to be prepared to deal with a potential uptick in the number of participants in your retirement plan seeking information on how they can access some of the money in their plan accounts.

### How does the CARES Act change the rules on plan distributions?

The act permits eligible retirement plans to allow qualified individuals to take in-service distributions of up to \$100,000 from their plan accounts—including distributions of 401(k) deferrals—without incurring the 10% additional tax on early distributions that would otherwise generally apply to distributions made prior to age 59½. These “coronavirus-related distributions” may only be made to a “qualified individual” on or after January 1, 2020, and before December 31, 2020. Penalty-free coronavirus-related withdrawals may also be taken from individual retirement accounts.

### Who is a “qualified individual” for purposes of coronavirus-related distributions?

The category includes any individual who has been diagnosed with the SARS-CoV-2 virus or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention or whose spouse or dependent has been diagnosed. It also includes individuals who experience adverse financial consequences as a result of:

- Being quarantined, furloughed, laid off, or having work hours reduced due to SARS-CoV-2 or COVID-19;
- Being unable to work on account of a lack of childcare due to the virus or disease;
- Closing or reducing hours of a business owned or operated by the individual due to the virus or disease; or
- Other factors as determined by the Treasury Secretary.

### How do we determine that an employee satisfies the conditions?

The law provides that the plan administrator of an eligible retirement plan may rely on an employee’s certification that the employee satisfies the conditions.

### How are the distributions taxed?

The taxable amount of a coronavirus-related distribution is included in gross income ratably over three tax years. Alternatively, taxpayers may elect to include the entire taxable amount in income in the year received.

### Do the plan distributions have to be repaid?

No. However, a plan may allow individuals to repay the amount distributed by making one or more contributions at any time during the three-year period following the date

# Qualified Plan News

of distribution. The repayments would be treated as rollover contributions to the retirement plan and would not be subject to income tax or to the plan's contribution limits.

## How does the CARES Act relax the rules on plan loans?

The act temporarily doubles the maximum amount that a qualified individual may borrow from his or her plan account from \$50,000 to \$100,000 and increases the percentage limit from 50% to 100% of the vested account balance. These loan limits are effective for the 180-day period beginning March 27, 2020, and ending September 22, 2020.

Additionally, qualified individuals with an outstanding loan (on or after March 27, 2020) may delay loan repayments due during the period from March 27, 2020, to December 31, 2020, for up to one year. The extension of loan due dates may present plan sponsors with some difficulties, since it is likely to require communications with employees and the updating of loan procedures.

Plans that allow loans may (but are not required to) incorporate the increased loan limits and delayed repayment provisions.

## Would participants have to satisfy any conditions for the loan relief?

Only "qualified individuals" may take advantage of the higher loan limits or delayed loan repayments. The same rules that apply for coronavirus-related distributions outlined above are used to determine if an individual qualifies.

## Are there changes regarding required minimum distributions (RMDs)?

Yes. The Act waives 2020 RMDs from defined contribution retirement plans (and IRAs). The suspension also applies to participants who turned 70½ in 2019 and did not receive their first RMD before January 1, 2020. Individuals who have already taken these RMDs may roll the amounts into the retirement plan if the plan so allows.

Amounts distributed in 2020 that would have been required minimum distributions except for the CARES Act are not treated as eligible rollover distributions and would not require employers to provide the special tax notice under 402(f) of the Internal Revenue Code.

## Am I required to offer these reforms in my plan?

No, the provisions are optional. Plan sponsors will need to choose which options, if any, they wish to add to their plan. These changes will, however, require a plan amendment.

## When will our plan need to be amended?

Amendments to reflect the CARES Act must be made by the last day of the first plan year beginning on or after January 1, 2022 (e.g., by December 31, 2022, for a calendar-year plan).

## Record Retention — The "Paper" Trail

As plan sponsors are well aware, the pension law (ERISA) includes specific reporting and disclosure obligations with respect to qualified retirement plans. A lesser known fact is that ERISA also has specific requirements regarding the retention of plan records. Below we answer questions you and other plan sponsors may have about retaining records and the importance of a record retention policy.

**Why would we need a record retention policy?** A retirement plan, by its very nature, generates a large amount of documentation. Some records should be retained indefinitely. Others may be disposed of in time. Having an established document retention system that allows plan records to be reviewed, updated, and preserved or disposed of in an organized fashion fosters good administration and helps the plan comply with pension law. Such a system can also make required documents readily accessible for IRS review, if requested.

**Who is responsible for retaining plan records?** Under ERISA, the plan administrator—which is often the plan sponsor—is ultimately responsible for maintaining the plan's records.

**What records do we need to keep?** The list is long. First, you need to keep all records that support the information included in your plan's Form 5500 filings and other reports and disclosures. These supporting documents essentially include whatever records a government auditor might need to verify the accuracy of the original report or disclosure. You also need to keep records used to determine eligibility for plan participation and any plan benefits to which employees and beneficiaries may be entitled. Records include:

- The original signed and dated plan document, plus all original signed and dated plan amendments
- Employee communications, including summary plan descriptions (SPDs), summaries of material modifications (SMMs), and anything else describing the plan that you provide to plan participants
- The determination, advisory, or opinion letter for the plan
- All financial reports

# Qualified Plan News

- Copies of Form 5500
- Payroll records used to determine eligibility and contributions, including details supporting any exclusions from participation
- Evidence of the plan's fidelity bond
- Documentation supporting the trust's ownership of the plan's assets
- Documents relating to plan loans, withdrawals, and distributions
- Nondiscrimination and coverage test results
- Employee personal information, such as name, Social Security number, date of birth, and marital/family status
- Employment history, including hire, termination, and rehire dates (as applicable) and termination details
- Officer and ownership history and familial relationships
- Election forms for deferral amount, investment direction, beneficiary designation, and distribution request
- Transactional history of contributions and distributions

**How long do we need to keep the records?** Generally, you should keep records used for IRS and DOL filings for at least six years after the filing date. Retain records relevant to the determination of benefit entitlement indefinitely (basically, permanently).

## Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans — [irs.gov/ep](https://irs.gov/ep)

Department of Labor, Employee Benefits Security Administration — [dol.gov/ebsa](https://dol.gov/ebsa)

401(k) Help Center — [401khelpcenter.com](https://401khelpcenter.com)

BenefitsLink — [benefitslink.com](https://benefitslink.com)

Plan Sponsor — [plansponsor.com](https://plansponsor.com)

Plan Sponsor Council of America — [psca.org](https://psca.org)

Employee Benefits Institute of America — [ebia.com](https://ebia.com)

Employee Benefit Research Institute — [ebri.org](https://ebri.org)

S&P 500 is a commonly used measure of common stock performance. Russell 2000 is a commonly used measure of small capitalization stocks. Russell 3000 Value measures performance of U.S. equity universe broad value segment with lower price-to-book ratios and lower forecasted growth values. Russell 3000 Growth measures performance of Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. MSCI ACWI EX U.S. tracks 850 stocks traded in 22 world markets (excludes U.S. based stocks). Barclays U.S. Aggregate Bond Index tracks domestic investment grade bonds (including corporate, government, and mortgage-backed securities). Citigroup 3-Month U.S. Treasury Bill Index tracks short-term U.S. government debt instruments. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

## Contact Information

To learn more, please contact:

Greenberg, Wexler & Eig, LLC  
(301) 656-0660  
[gwellc.com](https://gwellc.com)

This information is for general and educational purposes and not intended as legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third-party sources are believed to be reliable but not guaranteed.

© Copyright 2020 M Financial Group. All rights reserved. #3294099.1 Expires 9/2022