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Additional Benefits Impacted by COVID-19 and Regulatory Responses

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The disruptions caused by COVID-19, the novel coronavirus, are making many people wonder how their spending accounts (FSA/DCAP) and retirement plans may be impacted.

SBI has compiled a list of commonly asked questions from clients and employers regarding these benefits. We'll continue to update this communication with the questions/responses as received. Here are answers to some common questions regarding COVID-19, spending accounts and retirement plans.

MEDICAL FLEXIBLE SPENDING ACCOUNT (FSA)

I am not working at this time due to the COVID-19, can I decrease my FSA election amount?

- Yes, the COVID situation provides several possible reasons to allow an election change. For example, the IRS allows an election change for:
    - Reductions in hours that causes loss in coverage
    - Change in employment status
    - FMLA leave
    - Substantial change in employer benefits/cost

What happens if I get laid off or terminated and my employer terminates my FSA?

- You can still submit claims for expenses up to the termination date of the FSA, and you have until the claim's submission deadline set by your employer to submit them.

If I go on COBRA, can I still use my FSA?

- If you go on COBRA for your insurance, you may also go on COBRA for your FSA if your account is underspent and you continue to pay into the FSA on a post-tax basis; however, you are not required to go on the FSA COBRA plan (they are two separate plans.)

I have increased medical expenses due to the COVID-19, can I increase my FSA election amount?

- Unfortunately, no, an increase in medical expenses does not qualify as a reason to increase your FSA election amount.

Has the IRS expanded the eligible expenses list due to COVID-19?

Yes. Health FSA, HRA and HSA funds can now be used to purchase over-the-counter medical products, including those needed in quarantine and social distancing, and feminine hygiene products, *without a prescription from a physician*. This change occurred on March 27, 2020 as part of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* that Congress passed.

DEPENDENT CARE ASSISTANCE PROGRAM (DCAP)

I am not working at this time due to the COVID-19, can I decrease my DCAP election amount as I do not need daycare services right now?

- Yes, the COVID situation provides several possible reasons to allow an election change. For example, the IRS allows an election change for:
    - Reductions in hours
    - Change in employment status (including furlough or layoff)
    - FMLA leave
    - Substantial change in employer benefits/cost
    - Change of cost from the provider
    - Change of provider resulting in change of cost

My child's school is closed due to the COVID-19, I still must work though, can I increase my DCAP election?

- The election may be increased if the child being unable to attend school results in an increase in daycare expenses. For example, both spouses work during the school year and one does not work when school is out, so they never needed day care until now.

What about FSA Account Rollovers? Will there be an expansion to the current Rollover Rules? Will DCAP Rollover be added?

- Currently, only Health FSA elections of up to $500 can be rolled over into the next plan year. No DCAP rollovers are allowed. We will monitor IRS guidance for any changes related to the COVID situation.

How are Retirement Plans effected?

COVID-19-Related Distributions

- Under the CARES Act, employers that sponsor retirement plans may allow participants who have been impacted by COVID-19 to take an **in-service distribution of up to $100,000 without paying the 10% penalty tax for early distributions.** Eligible participants may receive these penalty-free distributions from Jan. 1, 2020 through Dec. 31, 2020.

Participants Impacted by COVID-19

A participant is impacted by COVID-19 if:

- The participant is diagnosed with COVID-19;
- The participant's spouse or dependent is diagnosed with COVID-19; or
- The participant experiences adverse financial consequences as a result of:
  - Being quarantined, furloughed or laid off or having work hours reduced due to COVID-19;
  - Being unable to work due to lack of childcare due to COVID-19;
  - Closing or reducing hours of a business owned or operated by the participant due to COVID-19; or
  - Experiencing other factors as determined by the Secretary of the Treasury Department.

Plan administrators may rely on an employee's certification that he or she satisfies one or more of these eligibility factors.

- Unless the participant elects otherwise, the amount of the distribution is included proportionally in the participant's taxable income over a three-year period, beginning with the year of distribution. Also, employers that permit these distributions must allow participants to repay the distribution at any time during the three-year period following the distribution. The distribution can be repaid in one or more installments during this period, and does not have to be repaid in full.

Plan Loans

- If an employer's retirement plan permits loans, the CARES Act allows the employer to **increase the maximum loan amount and extend the repayment period** for loans made during the 180-day period beginning on March 27, 2020, to participants impacted by COVID-19, as described above.
- The maximum loan amount for participants impacted by COVID-19 may not exceed the lesser of:
  - $100,000 (increased from $50,000); or
  - The present value of the employee's nonforfeitable accrued benefit under the plan (increased from one-half of the employee's nonforfeitable accrued benefit under the plan).

- In addition, the deadline for any loan repayments that are due between March 27, 2020 and Dec. 31, 2020, is **delayed for one year** for participants impacted by COVID-19. When this delay applies, any subsequent repayments must be appropriately adjusted to reflect the delay in the due date and any interest accruing during the delay. Also, the delay is disregarded in determining the five-year maximum loan period.

For more information

Should you have a specific question not addressed here, or need additional information, please contact your SBI Account Executive or Karen Smith Wohlers, Employee Benefits Compliance Officer
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