THE CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY (C.A.R.E.S.) ACT:

Personal Financial Wellness

ADP is committed to helping employees understand the recent legislation designed to help Americans relieve some of the financial burdens caused by the Coronavirus pandemic.

Always Designing for People™

Credit protections, mortgage and student loan relief measures

The C.A.R.E.S. Act ("The Act") of 2020 is a $2.5 trillion stimulus package passed on March 27, 2020, aimed at providing some financial relief to small businesses and their individuals amid the Coronavirus pandemic. This is the third round of government support in the wake of this public health crisis and includes assistance for small businesses, impacted employees, hospitals and state and local governments. The Act includes measures aimed at supporting personal financial wellness by protecting consumer credit from attack through a pause in adverse credit reporting and temporary relief from mortgage and student loan obligations.

Credit Protection

The Act amends the Fair Credit Reporting Act (FCRA) to stop adverse credit reporting and generally provides for the deferral, modification or forgiveness of payments for 120 days from the date the act was signed into effect.

- During this time, creditors are not permitted to report delinquency or default to any credit bureau for consumers who take steps to fulfill one of the following strategies on their loan and credit payments: make a partial payment, agree to defer one or more payments, agree to a forbearance of delinquent amounts, make a loan or contract modification, or are granted other relief or assistance by the creditor.

WHAT THIS MEANS

Consumers experiencing hardship due to the COVID-19 crisis can receive temporary protection from adverse credit reporting provided they work with their creditors to modify or fulfill their payment obligations.

Temporary mortgage loan relief

Federal mortgage holders experiencing hardship due to the COVID-19 pandemic can receive up to 180 days forbearance on principal and interest payments and any fees or charges.

- The borrower must request the forbearance from their mortgage servicer and affirm their financial hardship. The borrower can also request a forbearance extension for another 180-day period or request a shortened period from their mortgage servicer.
- Evictions and foreclosure actions are prohibited for 60 days from March 18, 2020.
- To help protect renters and tenants, similar rules are in effect for multifamily properties backed by federal loans. Borrowers of multifamily housing who request up to 90 days forbearance cannot evict, initiate eviction proceeding, charge any late fees, penalties or other charges to a tenant in the dwelling covered by the forbearance.

WHAT THIS MEANS

To help support financial security, individuals can temporarily pause mortgage payments. Individuals and their families cannot be evicted, and foreclosure actions are prohibited for 60 days from March 18. Similar forbearance rules are in effect for borrowers of multifamily housing to help protect renters from eviction.

Student loan relief

The Act includes measures related to higher education including temporary relief for individuals with student loans and provisions that allow employers to assist their workers with student loan repayment.

Employer payments for student loans

- The Act allows employers to make either a pre-tax contribution of up to $5,250 annually for qualifying tuition expenses or student loan repayments on behalf of an eligible employee. The payments can offset principal or interest on any qualified education loan incurred by the employee. This benefit currently expires on December 31, 2020, though there is a likelihood this will become permanent.

WHAT THIS MEANS

Many workers have substantial student loan debt. This provision permits employers to help them pay their loan obligations through pre-tax loan assistance payments of up to $5,250 through the end of 2020.

Temporary relief for federal student loan borrowers

- The Act provides temporary student loan relief by deferring all loan and interest payments without penalty to the borrower for all federally owned student loans. The automatic suspension began March 13 and will continue through September 30, 2020.
- The Act also suspends involuntary loan collection for these outstanding loans. This includes wage garnishments, reductions of tax refunds and other federal benefits or other involuntary collection activities. Credit reporting conducted by consumer reporting agencies will also be suspended for the period.
- The Act also allows for a portion of a federally backed loan to be forgiven should a student be forced to withdraw from higher education due to a COVID-19 hardship.

WHAT THIS MEANS

Eligible federal loan borrowers will not have to make payments and loan interest will not accrue during the suspension period, and borrowers will not have adverse credit reporting during this period. Involuntary loan collection will also cease during the suspension period.

Relief on distributions and loans in retirement savings plans

The Act also includes Coronavirus-related distribution options that may be adopted by retirement plans to help plan participants impacted by the virus.

Penalty-free Coronavirus related distributions in 2020

- The Act allows affected retirement plan participants to take distributions in 2020 of up to $100,000 from a retirement plan or IRA and these withdrawals are not subject to mandatory 20% withholding and do not incur the 10% early distribution tax that normally applies to payments made prior to age 59½.
- Employers can rely on a 'self-certification' from an 'impacted' employee[1] and is eligible. The distribution needs to be made between January 1 and December 31, 2020.
- The income taxes due on the distribution amount are optionally includable over a three-year period.
- The distribution may be repaid to an eligible retirement plan or IRA within three years of taking the distribution.

WHAT THIS MEANS

If a participant finds themselves in a hardship situation due to the Coronavirus, the early distribution penalty is waived. And unlike hardship withdrawals under the current rule, participants will have the option of repaying the money back to their retirement plan allowing them to make up some of the financial ground they may have otherwise lost.

Temporary waiver of Required Minimum Distribution (RMD) rules

- The Act allows plans to suspend making RMD in 2020 and will also apply to participants who turned age 70½ in 2019 and have not yet received their 2019 distribution.
- This would be a required provision for retirement plans.

WHAT THIS MEANS

Participants who have or are required to take a minimum distribution in 2020 based on the value of their December 31, 2019 account balance now have the option to suspend their distribution. Those who have seen a decline in their retirement accounts in 2020 can now opt to take their distribution at a later time when their account balance has potentially stabilized.

1 An impacted employee is an individual (including spouses or dependents) who have been diagnosed with the virus, or who experiences adverse consequences as a result of the crisis, including being quarantined, furloughed, laid off or unable to work due to lack of child care due to Covid-19.

Loan dollar limits increased temporarily

- The maximum loan amount that an impacted individual may borrow from their retirement plans is temporarily increased from 50% to 100% of their total vested account balance, up to $100,000 (from $50,000).
- Impacted employees may also have their loan repayments suspended for up to 12 months for repayment due dates between the date of enactment through December 31, 2020.

WHAT THIS MEANS

An increase in the amount participants can borrow from their retirement plans will help to give them some financial relief during this difficult economic time.

Support for Americans

The goal of the C.A.R.E.S. Act is to assist Americans and small businesses during this unprecedented public health crisis. Within the Act there are several provisions that positively impact employees, the most significant of which provides them with more access to their retirement money in the event of an emergency — along with several credit protections. This is an opportune time for business owners to review their retirement plan options and for employees to understand the benefits available during these trying times.

Let's Talk.

For more information on the C.A.R.E.S. Act and how it effects your business, please contact an ADP licensed Retirement Services District Manager.

DM Name
DM Email
DM Phone number

ADP RETIREMENT SERVICES 71 Hanover Road Florham Park, NJ 07932

Always Designing for People™