ROBIN S. WEINGAST
AND ASSOCIATES, INC.

EFFECTS OF COVID-19 RELATED MARKET TURMOIL ON YOUR TRADITIONAL DEFINED BENEFIT PLAN

The recent market turmoil caused by the COVID-19 Pandemic is creating many aspects of concern among all of us, so we would like to take this opportunity to address some concerns that you may have with regard to how it affects your Defined Benefit Plan with issues ranging from your ability to fund the 2019 contribution (if not funded yet) and/or future contributions and the effect on your participants' accrued benefits.

Defined Benefit Plans fund for an accumulation at retirement that will provide a monthly benefit over an actuarially expected reminder of a lifetime after retirement. However, small Defined Benefit Plans generally never pay such monthly benefits. Instead, on plan termination, the accumulation (for an owner only plan) or the lump sum equivalent of a non-owner participant's accrued benefit is transferred to a Rollover IRA with withdrawals taken as needed during retirement years. Accumulations in a Defined Benefit Plan investment account are a function of contribution deposits and the plan account's investment performance.

Defined Benefit Plans offer flexibility in that annual contributions can be within the range of a minimum required contribution to a maximum deductible contribution. The annual calculation of the contribution range is a complicated actuarial calculation, primarily based on emerging liabilities of projected benefits derived via a benefit formula based on employees' years of service and earnings and the year-end value of the plan investment account. Generally, significant investment gain of the plan investment account decreases the end points of available range, whereas investment loss increases the end points of the range.

The 2019 contribution range will be based on the 12/31/19 value of plan assets and the 2020 contribution range will be based on the 12/31/20 value of plan assets, as well as the other factors mentioned above. Understandably, you very likely have concern about your ability to afford the 2019 and/or 2020 contribution. If calculations have not yet been run for your 2019 contribution, we recommend that you forward the information we require (employees census data with the statement showing the 12/31/19 value of plan assets), so we can run such calculations and commence discussion regarding what you will contribute for 2019.

The timing of the COVID-19 crisis and its effect on the market is such that benefits for the 2020 plan year have yet to accrue, with participants not completing 1,000 hours in the current plan year, as it generally takes until mid to late June for participants to attain 1,000 hours. **This gives you the opportunity to FREEZE benefit accruals for 2020 before they become an obligation that you may not be able to afford.**

Given the uncertainly of the long-term effects of the market decline, we suggest that you take action to freeze 2020 accruals no later than the end of April and sooner, if possible. We will need time to prepare the amendment and notice, so please let us know as soon as possible (preferably by the end of April) if you want to proceed with a freeze on benefits to ensure that amendments are executed and notices are distributed on a timely basis (i.e., no later than the end of May).

A freeze imposed on benefits does not require that it remain intact indefinitely or even for the 2020 plan year. Benefit accruals can be unfrozen, whenever you feel more comfortable about your future business and ability to resume funding the plan. The freeze will not guarantee that no contribution is required for 2020, but the freeze will reduce the minimum contribution required for 2020.

If you have not yet funded the 2019 contribution and your 2019 tax return goes on extension beyond the new 7/15/20 deadline (recently granted by the IRS), you will have until 9/15/20 to decide upon an amount and to fund the contribution. If your tax return is not going on extension, the contribution will need to be funded by the time you file your tax return.

Other relevant relief that the IRS or Department of Labor may be issuing:

- An automatic extension to October 15 for filing of the IRS Form 5500 series calendar year plan years, so an extension request will not be required by the usual 7/31/20 deadline.
- A 120-day extension of the defined benefit plan restatement deadline (i.e., currently April 30, 2020).

We will keep you posted if any of that relief is granted.

Your participants most likely have valid concerns over how the recent market loss will affect the benefit they have accrued in the Defined Benefit Plan. What they may not realize is that their accrued benefits are independent of market performance and they are entitled to the lump sum equivalence of their accrued benefit, after they terminate employment, and that remains the same without regard to market performance. You may want to consider sharing this information to your participating employees.

Each Defined Benefit Plan has its own unique circumstances and opportunities for lower contributions vary, depending on many different factors. If you have any concerns, we invite you to contact your Plan Administrator and/or Robin directly about any issues, including your ability to fund contributions for 2020 (or even 2019 - if not funded yet). Such an analysis would allow us to share with you any important issues that are relevant within the context of your plans' particular circumstances.

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