

# CARES Act: Relief for Retirement Plan Participants

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The CARES Act, signed into law on March 27, 2020, contains several relief provisions relating to retirement plans, designed to ease restrictions on plan participants gaining access to funds. Highlights of these changes include:

## I. Temporary Waiver of RMDs for 2020

The required minimum distribution (RMD) rules are waived for 2020 for certain defined contribution plans such as 401(k) plans, 403(b) plans, 457 plans maintained by a State or municipality under 457(e)(1)(A), and IRAs.

If an account owner turned 70 ½ in 2019 or earlier, he or she would have needed to take an RMD by April 1, 2020. This requirement is waived for 2020.

## II. Temporary Waiver of Ten Percent Early Distribution Penalty

Historically, if a plan participant took a withdrawal before age 59 ½, in most instances a ten percent early distribution penalty was applied (in addition to ordinary income tax on the distribution). The CARES Act waives this penalty for “coronavirus-related distributions,” for distributions up to \$100,000, during calendar year 2020. The distribution may be included in income for tax purposes ratably over three years, beginning with 2020, the year of distribution.

If the account owner repays the distribution back into the plan within three years, he or she can avoid paying the income tax as well.

“Coronavirus-related distributions” include: (i) a positive diagnosis with coronavirus by a CDC approved test; (ii) a positive diagnosis of the spouse or dependent of the plan participant; or (iii) a participant suffers adverse financial consequences as a result of being quarantined, furloughed, layoff, reduction in hours, job loss, or inability to work due to lack of child care due to the coronavirus. Plan administrators may rely on employee certifications.

## III. Increase in Qualified Plan Loan Amounts

For qualified plan loans taken during the 180 day period commencing on the date of enactment of the CARES Act, the maximum loan amount is increased to \$100,000, up from \$50,000. Further, if a plan participant has previously taken a plan loan, he or she can withhold making loan repayments during calendar year 2020 and reconvene making payments in 2021.

For additional information contact Brian Kahle.