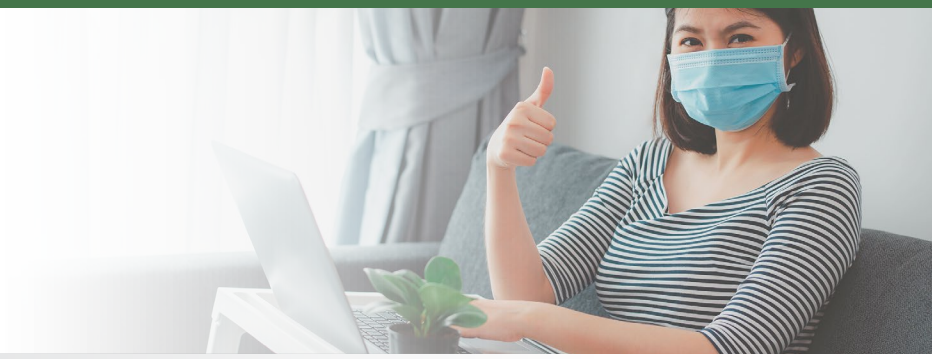
Edberg Perry



Advisor Connect | How the CARES Act Applies to Your Retirement Plan

IMPORTANT HIGHLIGHTS

The Coronavirus Aid, Relief and Economic Security (CARES) Act includes provisions that may apply to your retirement plan. Here are some important highlights to know first.

The CARES Act expands and relaxes rules on withdrawals, participant loans, and defers mandatory distributions for participants of 401(k) and most other defined contribution plans or IRAs.

CORONAVIRUS-RELATED DISTRIBUTIONS (CRD)

A plan participant may take a coronavirus-related distribution (CRD) of up to $100,000 any time in calendar year 2020 based on any of these events:

> A participant, participant's spouse or dependent is diagnosed with the virus (via test approved by CDC).
>
> A participant experiences adverse financial consequences as a result of quarantine, furlough, being laid off, having work hours reduced, closing of business, or other factors as determined by the Secretary of the Treasury.

The administrator of the plan may rely on the individual's certification that the individual qualifies for a coronavirus-related distribution under these categories.

Withholding tax and early withdrawal penalties are waived

> The mandatory 20% withholding tax is waived.
>
> The 10% early withdrawal penalty (if under age 59 ½) is waived.

A CRD may be re-contributed or rolled over

> The amount distributed may be re-contributed to the plan, or to another plan, within three years after the date the distribution is received, without regard to any plan limit on contributions.

Taxation on a distribution not recontributed

> If the individual does not re-contribute the distribution within three years, taxation on the distribution may be spread over a 3-year period.

A TEMPORARY INCREASE IN PLAN LOAN LIMITS

The CARES Act temporarily allows a participant who meets the same requirements as for coronavirus-related distributions to take an increased loan. This is available for 180 days beginning March 27, 2020.

The Increase

> A qualified participant (rules still apply) may request a loan of up to 100% of the present value of their vested account balance, with a maximum loan of $100,000.

Relaxed Loan Repayment Provisions

Participants with an outstanding plan loan with a repayment due from the date of the CARE Act's enactment through Dec. 31, 2020 can delay their loan repayment(s) for up to one year. This is available for any loan whether coronavirus-related or not.

> Subsequent loan repayments will be adjusted to reflect the delay in the due date and any interest accruing during the delay.
>
> The 5-year loan repayment period can also be extended for one year, but interest will continue to accrue during the delayed repayment period.

2020 REQUIRED MINIMUM DISTRIBUTIONS (RMDS) WAIVED

Required Minimum distributions (RMDs) from defined contribution plans for calendar year 2020 need not be made. This waiver applies to defined contribution 401(a) qualified plans, defined contribution 403(a) and 403(b) plans, governmental defined contribution 457(b) plans, and IRA's.

> Plan amendments for these provisions are not required until the last day of the first plan year beginning on or after January 1, 2022 (January 1, 2024 for governmental plans).

This information is provided for informational purposes and applies to many, but not all qualified retirement plans. Please contact us to discuss the details of the CARES Act and how it may apply to your plan. We're here to help.