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The CARES Act & Your Retirement Plan

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on Friday, March 27, 2020. This $2 trillion emergency relief package is intended to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis. The CARES Act contains special provisions for coronavirus-related distributions and loans from individual retirement plans. In addition, certain required minimum distributions (RMDs) for individual retirement plans have been suspended for 2020. The following is a summary CARES Act retirement plan provisions.

Retirement Plan Distributions

A 10% penalty tax generally applies to distributions from an employer retirement plan or individual retirement account (IRA) before age 59½ unless an exception applies.

Under the CARES Act:

- The penalty tax will not apply to up to $100,000 of coronavirus-related distributions to an individual during 2020.
- Income resulting from a coronavirus-related distribution is spread over a three-year period for tax purposes unless an individual elects otherwise.
- Coronavirus-related distributions can also be paid back to an eligible retirement plan within three years of the day after the distribution was received.
- The definition of "coronavirus related" applies to individuals diagnosed with the illness or who have a spouse or dependent diagnosed with the illness, as well as individuals who experienced financial hardship due to quarantines, furloughs, and business closings during the epidemic.

Beware IRS-related COVID-19 Scams:

If you receive a call or e-mail from someone claiming to be with the IRS asking for a pre-payment or for your personal or financial information in order to receive economic impact payments connected with the coronavirus pandemic, it is a scam. Please report it here: **https://www.treasury.gov/tigta/contact_report_covid.shtml**

Loans & Retirement Plans

Employer retirement plans such as a 401(k) can allow an employee to take out a loan. These loans can generally be repaid over a period of up to five years. The loan is generally limited to the lesser of $50,000 or 50% of the total benefit the employee has a right to receive under the plan.

Under the CARES Act:

- A coronavirus-related loan made between March 27, 2020, and September 22, 2020, the loan limit is increased to $100,000 or 100% of the amount the employee can rightfully receive under the plan (whichever amount is less).

- In the case of a loan outstanding after March 26, 2020, the due date for any repayment that would normally be due between March 27, 2020, and December 31, 2020, may be delayed by coronavirus-related qualifying individuals for one year, and the delay period is disregarded in determining the five-year period and the term of the loan.

Required minimum distributions (RMDs)

RMDs are generally required to start from an employer retirement plan or IRA by April 1 of the year after the plan participant or IRA owner reaches age 70½ (age 72 for those who reach age 70½ after 2019). If an employee continues working after age 70½ (age 72 for those who reach age 70½ after 2019), RMDs from an employer retirement plan maintained by the current employer can be deferred until April 1 of the year after retirement. (RMDs are not required from a Roth IRA during the lifetime of the IRA owner.)

Under the CARES Act:

- RMDs are suspended from IRAs and defined contribution plans (other than Section 457 plans for nongovernmental tax-exempt organizations) for 2020.
- This waiver includes any RMDs for 2019 with an April 1, 2020, required beginning date that were not taken in 2019.
- This one-year suspension does not generally affect how post-2020 RMDs are determined