



Important Provisions of the CARES Act Impacting Retirement Plans

Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the "Act") on March 27, 2020. The Act is quite extensive, but we want you to be aware of three important changes which will impact your plan and your participants. First, the Act creates a special "Coronavirus-Related Distribution" option for qualified individuals. Second, it temporarily loosens criteria for plan loans. Third, it provides a suspension of required minimum distributions for 2020.

Following are the details:

1. **Coronavirus-Related Distribution ("CRD").** Plans may allow qualified participants to obtain a plan distribution:
 - a. **Amount:** The distribution cannot exceed \$100,000 in the aggregate from all related employer plans.
 - b. **When Available:** The CRD must occur during 2020.
 - c. **Qualified Individual:** The participant must fall into one of the following categories:
 - i. The participant, spouse or dependent has been diagnosed with SARS-CoV-2 or COVID-19 by a CDC approved test; or
 - ii. The participant experienced adverse financial consequences because of quarantine, layoff, reduction in hours, or loss of work because of lack of child care or business closing. The foregoing includes self-employed situations.
 - d. **Proof:** The participant can self-certify. The employer does not need to obtain written evidence other than the certification.
 - e. **Covered Plans:** Eligible plans include Individual Retirement Accounts, 401(k), 403(b) and governmental 457(b) plans.
 - f. **Tax Consequences:** The 10% penalty tax under IRC 72(t) is waived. The distribution will be taxable pro rata over three years beginning with the year of distribution. In the alternative, the taxpayer can elect at the time of filing his/her 2020 tax return to have the entire amount taxed in the year of distribution.
 - g. **Withholding:** The CRD is exempt from mandatory 20% withholding.
 - h. **Repayment:** The participant may repay some or all of the CRD in one or more installments over a three year period beginning at the time of distribution. Repayment may be to an IRA or employer plan. Repaid amounts are treated as if they were an eligible rollover distribution thus excluding the amount from taxation.
2. **Loans.** Rules regarding loans are relaxed:
 - a. **Amount:** Loans may be made up to \$100,000 and may be 100% of the account value.
 - b. **When Available:** Relaxed rules are in place for 180 days following the Act's passage.

- c. **Qualified Individual:** Same definition as used for a Coronavirus-Related Distribution.
- d. **Repayment Delayed:** Qualified participants with loan payments owed between now and December 31, 2020, may delay the payment for up to one year from the original due date. Loans must be re-amortized after the delay to cover unpaid interest and missed payments. The period of delay may be disregarded when applying the five year limitation on amortizations. However, note that participants will have to begin loan payments if otherwise required after January 1, 2021.

***Example:** Bob obtained a loan in July 2019, with monthly payments of \$200. Bob's employer lays him off and so Bob meets the criteria of a Qualified Individual. Bob misses nine monthly payments between April 1 and the end of 2020. In January, 2021, he must make his \$200 payment required under the original loan. Also, by April 1, 2021, he has two choices:*

1. *In addition to his regular payments, Bob must repay the April 2020 installment plus interest and then the same approach in May, June, etc. until he repaid the nine missing payments, or*
2. *Re-amortize his loan to include all the missing payments and accrued interest. If he re-amortizes, he can extend the loan by nine months even if it would otherwise exceed the five year limitation.*

3. Required Minimum Distributions (RMDs). Participants and beneficiaries (whether in retirement plans or IRAs) will not receive required minimum distributions (RMDs) for 2020. This waiver includes 2019 RMDs which normally would be due by April 1, 2020.

Two considerations:

- a. If an individual received an RMD after January 1, 2020, but before the Act's passage, he or she can roll the distribution amount within 60 days to an employer retirement plan or Individual Retirement Account. Doing so would offset the taxable distribution.
- b. If a beneficiary has elected a distribution within the fifth anniversary of the account owner's death, 2020 is excluded when calculating the five year limitation.