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AN OVERVIEW OF RELIEF PROVIDED FOR IRA OWNERS AND RETIREMENT PLAN PARTICIPANTS

The CARES Act

(Coronavirus Aid, Relief And Economic Security)

The information provided in this overview is educational in nature, and is not intended to be, and should not be construed as legal or tax advice.

The CARES Act

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (**CARES Act**) was enacted.

Among its numerous provisions designed to help bolster the economy and provide a measure of financial security to Americans as the country battles the coronavirus, the law contains several important provisions designed to provide Americans with increased access to and flexibility with their retirement savings.

While some provisions of the **CARES Act** and other federal relief are available to all individuals, other options are limited to individuals who meet certain criteria. Under the **CARES Act**, individuals who meet the definition of a "Qualified Individual" are potentially eligible to take advantage of special retirement distribution options ("Coronavirus-Related Distributions") as well as special retirement plan loan options.

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Qualified Individuals

To be considered a "Qualified Individual" and, therefore, eligible to take advantage of the **CARES Act** provisions concerning "Coronavirus-Related Distributions" and increased retirement plan loan limits and flexible repayment options, an individual must qualify under one (or more) of the following categories:

Someone Diagnosed

An individual diagnosed with the virus SARS-CoV-2 or with the coronavirus disease (COVID-19) by a test approved by the Centers for Disease Control and Prevention,

Someone Whose Spouse or Dependent Is Diagnosed

An individual whose spouse or dependent is diagnosed with the virus SARS-CoV-2 or with the coronavirus disease (COVID-10) by a test approved by the Centers for Disease Control and Prevention, or

Someone Who Experiences Adverse Financial Consequences

An individual who experiences adverse financial consequences due to the virus SARS-CoV-2 or the coronavirus disease (COVID-19):

- as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease,
- being unable to work due to lack of child care related to such virus or disease,
- for business owners, being unable to work due to the closing or reduction of hours of a business owned or operated by the individual, or
- other factors determined by the Secretary of Treasury.

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Coronavirus-Related Distributions

For Qualified Individuals, the CARES Act increases potential access to workplace retirement savings and softens the financial hardship of taking withdrawals from IRAs and workplace retirement savings plans during 2020. While individuals have personal control over their own IRA savings and can generally take distributions at any time, retirement plan participants may or may not have access to distributions from their employer-sponsored retirement plans depending on whether their employers choose to make such distribution options available. The CARES Act outlines special rules that will apply to “Coronavirus-Related Retirement Distributions” taken by “Qualified Individuals” during 2020.

Exemption from 10% Early Distribution Penalty

Qualified Individuals under age 59½ who take a Coronavirus-Related Distribution on or after January 1, 2020, and before December 31, 2020, may claim an exemption from the 10% early distribution penalty that typically applies to taxable retirement savings distributions taken prior to age 59½.

Taxable Over Three Years (Optional)

Qualified Individuals who take Coronavirus-Related Distributions from an IRA or workplace retirement savings plan during 2020 are eligible (but not required) to include the taxable portion of their distributions in taxable income ratably over three tax years rather than having to include the entire distribution in their taxable incomes during 2020.

Up to Three Years to Repay (Optional)

In addition, Qualified Individuals who take Coronavirus-Related Distributions may (but are not required to) repay all or a portion of the distributions back into an IRA or workplace retirement plan at any time during the three-year period beginning on the day after the day the distribution is received.

$100,000 Maximum

The maximum amount of retirement savings distributions that a Qualified Individual may treat as a Coronavirus-Related Distribution is limited to $100,000.

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Increased Limit On Participant Loans

The CARES Act also contains provisions allowing employers to provide Qualified Individuals with increased access to workplace retirement savings in the form of plan loans.

Under normal circumstances, the maximum loan a plan participant may typically take from a workplace retirement savings plan is the lesser of

50% of the participant's vested plan balance or

$50,000

Under the CARES Act, plan sponsors may (but are not required to) increase the maximum loan amount for "Qualifying Individuals" to the lesser of

100% of the Qualified Individual's vested plan balance or

$100,000

Option To Suspend Plan Loan Repayments For Remainder Of 2020

In addition to increasing the limit on plan loans, the CARES Act provides Qualified Individuals with the option to suspend loan repayments for the remainder of 2020 on participant loans taken from workplace retirement savings plans. Under normal circumstances, plan participants must generally make plan loan repayments at least quarterly (or more frequently) and plan loans must generally be repayable within five years.

Under the CARES Act, Qualified Individuals are not required to make plan loan payments for the remainder of 2020, and loan repayment timeframes are extended to reflect the suspension period. This loan repayment relief is available to Qualified Individuals for both new plan loans as well as for existing plan loans that were outstanding on March 27, 2020.

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Waiver Of 2020 RMD Requirements

In addition to providing increased access to retirement savings, the new law waives all required minimum distributions (RMDs) for 2020. Under normal circumstances, federal laws typically require individuals of a certain age (historically age 70½ but recently changed to age 72) to take mandatory distributions from their retirement savings. Under the CARES Act, these mandatory distribution requirements are waived for 2020.

Individuals Already in Distribution Status

For individuals who were already in required distribution status (generally, those who turned 70½ prior to 2019), the law waives the mandatory distribution requirement for 2020.

Individuals Just Beginning RMDs

For individuals who reached age 70½ during 2019 and were required to take their first RMDs by no later than April 1, 2020, the law waives the mandatory distribution requirement for 2020 and, in some cases, the 2019 mandatory distribution as well. Only individuals who did not take their 2019 RMDs during 2019, however, are eligible for a waiver of the 2019 RMD.

RMD Relief Also Available for Beneficiaries

In addition to providing RMD relief for plan participants and IRA owners, the law provides temporary relief from the required distribution rules that apply to beneficiaries of deceased plan participants and IRA owners.

For beneficiaries, the form of relief varies depending on (1) when the plan participant or IRA owner passed away and (2) the beneficiary distribution option to which the beneficiary is subject. The 2020 RMD is waived for beneficiaries taking some form of life expectancy distributions. For beneficiaries subject to the 5-Year Rule, the 2020 calendar year is to be excluded when determining the applicable 5-year distribution timeframe.

Although the mandatory distribution requirements have been waived for 2020, individuals still have the option of taking distributions at their discretion. The law change merely provides IRA owners, plan participants and certain beneficiaries with the option of foregoing all or part of the required distribution amount if they wish to do so. Individuals who have already taken mandatory distributions during 2020 but would have preferred to leave the amounts in their IRAs or workplace retirement plans may wish to consult with a tax advisor to determine if some or all of their distributions may qualify either for conventional rollover treatment or for repayment treatment as a Coronavirus-Related Distribution.

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Postponed Tax Filing Deadline

Another recent relief provision, while not part of the CARES Act, is a federal pronouncement postponing the tax filing deadline from April 15, 2020, to July 15, 2020. Due to this postponement, taxpayers are now eligible to make IRA, HSA and Coverdell Saving Account contributions for the 2019 tax year up until July 15, 2020.

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