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Retirement Provisions of the CARES Act

April 15, 2020

The expansive CARES Act (Coronavirus Aid, Relief, and Economic Security Act) passed on March 27, 2020 provides significant provisions that affect retirement plans. Below is a summary of some of these provisions.

Waiver of RMDs in 2020

- Participants can choose to waive Required Minimum Distributions (RMDs) due in calendar year 2020.
- These waivers include RMDs from IRAs, 401(k), 403(b) and other defined contribution plans, as well as any required RMDs to be paid by April 1, 2020 for the prior year (for those turning 70.5 in 2019).
- If RMDs have already been taken in 2020, they can be rolled into a new or existing IRA within 60 days, IF the taxpayer has not had a prior IRA-to-IRA or Roth IRA to Roth IRA rollover in the preceding 12 months.
- RMDs from inherited IRAs, if already made in 2020, are not eligible for the 60-day rollover.

One year added to Five Year rule for Inherited IRAs

While non-spousal IRA RMDs may not be rolled over into another IRA, beneficiaries can add one year to the maximum 5 years payout from death to distribute the IRA in full if the decedent had not reached the required beginning date before death. As a result, the effective period becomes 6 years from the date of death to fully distribute the IRA.

Extended date to fund retirement accounts

Contributions to traditional and Roth IRAs, Health Savings Accounts, Archer Medical Saving Accounts and Coverdell Education Savings Accounts can be made up to July 15, 2020.

Retirement Loans and Distributions

Coronavirus related distributions and loans can be made available to participants who qualify as a Coronavirus Related (CVR) Eligible Participant. To qualify the participant may self-certify that they met one of the following requirements:

- You, your spouse, or dependent has been diagnosed with the coronavirus,
- You have experienced adverse financial consequences because you have been quarantined, furloughed, laid off or have had work hours reduced due to the coronavirus,
- You are unable to work because of a lack of child care due to the coronavirus,

- You own or operate a business and have had to close or reduce hours due to the coronavirus, or
- You have experienced an adverse financial consequence due to other factors as provided in guidance issued by the Internal Revenue Service

The 10% early distribution penalty is waived for up to \$100,000 of 2020 distributions from IRA's and company-sponsored retirement plans (aggregated) for coronavirus-related distributions before December 31, 2020. Although the distributions are taxable, these funds may be repaid into an employer plan or IRA within three years. Otherwise, taxes are spread out evenly over three years unless the participant chooses a shorter time frame.

Loans from qualified plans (IRAs do not qualify) through September 23, 2020 (180-day period from date of enactment) are now capped at \$100,000 or 100% of the vested account balances. Payments on existing loans due between March 27, 2020 and December 31, 2020 are delayed up to 12 months, allowing the due date to extend past the typical five-year repayment schedule.

We are Here to Help

Clarifications on the CARES Act are continuing and we anticipate more guidance on these issues in the weeks to come. Decisions around retirement plans may require additional planning in 2020 so please contact us to discuss how we can help.

Please visit our COVID-19 Resource Center at <https://www.mowat.com/covid-19-resource-center/> for real-time guidance and relevant federal and state information regarding this ongoing healthcare crisis.