THE CARES ACT

(CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY)

An Overview of Relief Provided for IRA Owners and Retirement Plan Participants

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.

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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.

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.

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.

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
>
> a. 50% of the participant's vested plan balance or
>
> b. $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
>
> a. 100% of the Qualified Individual's vested plan balance or
>
> b. $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.

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 70½but 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.

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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FAQ

Concerning the Relief Provided for

IRA Owners and Retirement Plan Participants

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CARES Act

Q: What is the CARES Act?

A: The CARES Act, otherwise known as the Coronavirus Aid, Relief and Economic Security Act, is a massive federal stimulus package designed by Congress to provide aid and assistance to individuals and businesses as the country deals with the international coronavirus pandemic.

Q: When was the CARES Act enacted?

A: The CARES Act was passed by the House and Senate during the week of March 23rd, 2020, and signed into law by President Trump on Friday, March 27, 2020.

Q: What types of assistance are made available through the CARES Act?

A: The CARES Act, approximately 800 pages in length, contains numerous provisions and provides over $2 trillion worth of financial stimulus designed to help individuals, families, businesses, nonprofits and healthcare workers and providers.

Q: What impact does the CARES Act have on retirement savings?

A: The CARES Act includes several provisions that make temporary changes to the federal laws governing IRAs and workplace retirement plans (e.g., 401(k) plans) in an effort to provide greater financial flexibility for individuals throughout the country as they wrestle with the numerous hardships created by the international coronavirus pandemic.

Q: What types of temporary changes does the CARES Act make to the federal laws governing IRAs and workplace retirement savings plans?

A: The CARES Act enables qualifying individuals to take penalty-free withdrawals ("Coronavirus-Related Distributions") from IRAs and workplace retirement savings plans that are eligible for flexible taxation and repayment options not generally available for retirement savings distributions. In addition, the Act provides increased loan limits and suspension of loan repayment requirements for qualifying individuals who have (or who take) a loan from their workplace retirement savings plans. Lastly, the CARES Act suspends all required minimum distributions (RMDs) from IRAs and workplace retirement plans for 2020.

Q: When did the CARES Act go into effect?

A: Many of the provisions of the CARES Act went into effect immediately upon the law's enactment (March 27, 2020). Furthermore, some provisions of the Act are retroactively effective to distributions and plan loans taken prior to the law's enactment.

Coronavirus-Related Distributions

Q: What is a Coronavirus-Related Distribution?

A: A Coronavirus-Related Distribution is an IRA or workplace retirement plan distribution taken by a Qualified Individual on or after January 1, 2020, and before December 31, 2020.

Q: Is there a limit on how much someone may take as a Coronavirus-Related Distribution?

A: The maximum amount that may be taken as a Coronavirus-Related Distribution by any one individual is $100,000.

Q: Are Coronavirus-Related Distributions generally included in taxable income?

A: While Coronavirus-Related Distributions must generally be included in taxable income, the CARES Act includes a special provision allowing taxpayers to include the taxable portion of any Coronavirus-Related Distribution in their taxable income ratably over a three-year period. Note: As with other IRA and retirement plan distributions, certain types of retirement funds—such as Roth savings and nondeductible Traditional IRA contributions—that are taken as part of a Coronavirus-Related Distribution are not taxed upon distribution. (Note: As addressed below, Qualified Individuals have up to three years to avoid paying taxes on Coronavirus-Related Distributions by making one or more repayments to their IRA or workplace retirement savings plans.)

Q: What exactly does it mean to include the taxable portion of a Coronavirus-Related Distribution in income over a three-year period?

A: A taxpayer who does not wish to include a taxable Coronavirus-Related Distribution in income for 2020 may include one third of the taxable distribution in his or her income for years 2020, 2021 and 2022.

Q: Are Coronavirus-Related Distributions taken by individuals under age 59½ subject to the 10% federal penalty on early distributions?

A: No. Coronavirus-Related Distributions are exempt from the 10% early distribution penalty under IRC Sec. 72(t). Coronavirus-Related Distributions withdrawn from SIMPLE IRAs within the first two years of participation are also exempt from the 25% early distribution that typically applies in those scenarios.

Q: Are individuals required to include the taxable portion of a Coronavirus-Related Distribution in taxable income ratably over a three-year period, or is this simply an option?

A: The CARES Act provides individuals with the option of including the taxable portion of their Coronavirus-Related Distributions in taxable income ratably over a three-year period but does not require that taxpayers do so.

Q: What are the potential advantages of including a Coronavirus-Related Distribution included in taxable income ratably over a three-year period?

A: While the advantages and/or disadvantages of doing so will vary for each taxpayer based on their unique circumstances, one of the potential advantages for some taxpayers is that spreading out the taxation over three years may result in some or all of the distribution being taxed at a lower marginal tax rate.

Q: How is the election made to pay the taxes for a 2020 Coronavirus-Related Distribution ratably in 2020, 2021 and 2022?

A: Taxes owed for 2020 Coronavirus-Related Distribution are included in gross income ratably over the three-year period unless the taxpayer makes an election not to have the pro rata tax apply. This election will be made on the taxpayer's 2020 federal income tax return.

Q: Are individuals permitted to repay a Coronavirus-Related Distribution?

A: Yes. Under the CARES Act, individuals are eligible to repay all or a portion of a Coronavirus-Related Distribution at any time during the three-year period beginning on the day after the distribution is received.

Q: If an individual repays all or some of a Coronavirus-Related Distribution, can they avoid paying taxes on the portion that is repaid?

A: Yes. The portion of any Coronavirus-Related Distribution that is repaid within the permissible three-year timeframe is not includable in the recipient's taxable income.

Q: Must all employers that sponsor workplace retirement savings plans make Coronavirus-Related Distributions available to plan participants?

A: No. The CARES Act does not mandate that all workplace retirement savings plans allow Coronavirus-Related Distributions.

Q: What types of retirement savings arrangements are eligible for Coronavirus-Related Distributions?

A: Under the CARES Act, most types of tax-qualified retirement savings arrangements are eligible for Coronavirus-Related Distributions including

-Traditional IRAs

-Roth IRAs

-SIMPLE IRAs

-SEP IRAs

-401(k)s

-401(a) plans (e.g., profit sharing plans, money purchase plans, etc.)

-403(a) and 403(b) arrangements

-governmental 457(b) plans

Workplace Retirement Plan Loans

Q: Does the CARES Act include special rules for loans taken from workplace retirement savings plans?

A: Yes, the CARES Act includes several provisions designed to provide Qualified Individuals with increased access to plan loans and increased repayment flexibility.

Q: What changes does the CARES Act make to the limits on participant loans?

A: The CARES Act significantly increases the maximum amount that a Qualified Individual may take as a participant loan from a workplace retirement savings program.

Under the normal rules, plan participant loans are generally limited to the lesser of

a. 50% of the plan participant's vested balance or

b. $50,000.

Under the CARES Act, workplace retirement saving plans are permitted—for a limited time—to allow loans to Qualified Individuals up to the lesser of

a. 100% of the Qualified Individual's vested balance or

b. $100,000.

Q: Is there a time limit on how long the CARES Act increased plan loan limits are available?

A: Yes. The CARES Act provides that the increased plan loan limit is only available for loans taken by Qualified Individuals within 180 days of the law's enactment (including the date of enactment). Accordingly, unless extended by Congress, the option for increased plan loans will expire on September 22, 2020.

Q: Are participant loans from a workplace retirement savings plan taxable like a plan distribution?

A: No. Plan loans are generally not taxable to plan participants provided the loan limits are adhered to and the loan is administered in adherence with the federal laws governing participant loans. The CARES Act provisions affecting participant loans are designed to help provide Qualified Individuals with greater access to funds through plan loans and greater flexibility through suspension of 2020 loan repayments.

Q: Are employers required to make increased plan loan limits available?

A: No. The CARES Act does not mandate that workplace savings plans make increased plan loans available to Qualified Individuals.

Q: Does the CARES Act provide relief from plan loan repayments?

A: Yes. The CARES Act provides that Qualified Individuals may forego plan loan repayments for the remainder of 2020.

Q: Is the option for suspending plan loan repayments available for plan loans that were taken out prior to the enactment of the CARES Act?

A: Yes. Qualified Individuals are eligible to suspend repayments on plan loans for the remainder of 2020 regardless of whether their plan loans were preexisting or were taken after the CARES Act was enacted.

Q: How does an individual go about requesting a suspension of plan loan repayments?

A: A Qualified Individual who wishes to take advantage of the CARES Act provision allowing suspension of plan loan repayment should consider contacting either their company's Plan Administrator or their company's human resource department.

Required Minimum Distributions

Q: Does the CARES Act make changes to the required minimum distribution (RMD) rules?

A: Yes, the CARES Act waives all RMD requirements for 2020. In addition, the CARES Act contains a special provision for individuals who turned 70½ during 2019 and were required to begin taking RMDs by no later than April 1, 2020.

Q: Is the RMD waiver mandatory, or may individuals still take their 2020 RMDs if they want to?

A: The CARES Act eliminates the requirement that individuals must take a distribution during 2020. The Act does not preclude IRA owners or plan participants from taking discretionary distributions from their retirement savings during 2020.

Q: If an individual already took their 2020 RMD, is there any way to put the funds back into their IRA or workplace retirement savings plan?

A: Potentially, yes. Individuals who have already taken mandatory distributions during 2020 but would have preferred to leave the amounts in their IRAs or workplace retirement plan 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.

Q: Is there a special rule in the CARES Act for individuals who turned 70½ during 2019?

A: Yes. Individuals who turned 70½ in 2019 had until April 1, 2020 —their "required beginning date" — to take their 2019 RMDs under the normal rules. The CARES Act contains a provision that waives the 2019 RMD requirement for some—but not all—of these individuals. If such individual took distribution of their 2019 RMD during 2019, the CARES Act RMD waiver does not apply. However, for those individuals who delayed their 2019 RMDs until 2020, the CARES Act RMD waiver is applicable (i.e., such individuals may forego both their 2019 and their 2020 RMDs).

Q: Does the CARES Act have any impact on IRA owners and plan participants who reach age 70½ during 2020?

A: A different law that was enacted in late 2019, the SECURE Act, changed the age at which individuals must begin taking RMDs. Under the SECURE Act, individuals who reach age 70½ in 2020 or later are not required to begin taking mandatory distributions until age 72.

Beneficiary Distributions

Q: Does the RMD waiver apply to life expectancy payment distributions that are required to be taken in 2020 by IRA and employer plan beneficiaries?

A: Yes. The CARES Act waives 2020 mandatory life expectancy payment distributions for IRA beneficiaries and retirement plan beneficiaries. As with IRA owners and plan participants, beneficiaries may still choose to take discretionary withdrawals.

Q: Does the CARES Act provide relief from mandatory distributions for IRA beneficiaries and retirement plan beneficiaries who are subject to the 5-Year Rule?

A: Yes. The CARES Act stipulates that beneficiaries taking withdrawals under the 5-Year Rule may disregard 2020 in determining the deadline by which all inherited funds must be distributed from the decedent's inherited IRA or retirement plan. (Note: The 5-Year Rule is a distribution rule that requires a beneficiary to take complete distribution of all inherited funds by no later than December 31 of the fifth year following the year of the IRA owner's or plan participant's year of death.)

Q: Does the CARES Act provide any relief for beneficiaries of IRA owners and plan participants who have passed away during 2020?

A: Generally, when an IRA owner or plan participant who is in distribution status passes away, their beneficiaries are responsible for taking distribution—before year end—of any outstanding current-year RMD amounts that were not taken prior to death. Due to the blanket waiver on all 2020 RMDs, beneficiaries of IRA owners or plan participants who pass away during 2020 are not required to take distribution of any undistributed, year-of-death RMDs. Beneficiaries, however, may still choose to take discretionary withdrawals.