



16 FAQs ABOUT RETIREMENT PLANS AND DISTRIBUTIONS UNDER THE CARES ACT

The Coronavirus Aid, Relief, and Economic (CARES) Act includes provisions related to retirement plans and distributions. Here is what you need to know about this aspect of the law.

1. HOW DOES THE CARES ACT AFFECT RETIREMENT SAVINGS?

The CARES Act may affect your retirement in several different ways, depending on the type of retirement account you have and your circumstances. The biggest changes that the CARES Act makes to retirement plans and their distributions include:

- Waived penalties on retirement withdrawals
- Increased retirement plan loan amounts.
- Suspended required minimum distributions (RMDs).

There are also changes to how charitable contributions affect your tax and retirement plan.

2. CAN I WITHDRAW FUNDS FROM MY RETIREMENT SAVINGS DURING THE PANDEMIC WITHOUT PENALTY EVEN IF I AM NOT YET 59 ½?

Yes, if you meet certain requirements and your plan sponsor adopts the CARES Act provisions authorizing penalty-free distributions.

- a) Maximum amount of withdrawal.** The CARES Act lets you withdraw up to \$100,000 or 100 percent of your vested balance (whichever is less) from retirement accounts, including 401(k)s and IRAs without paying a 10% early-withdrawal penalty if you are younger than 59 ½.
- b) Coronavirus-related distribution.** You must meet one of the following conditions to receive this benefit:
 - You, your spouse, or a dependent has been diagnosed with COVID-19.
 - You have suffered financially because of the pandemic, such as losing time off work because of a quarantine, being furloughed, having your hours reduced, being unable to work because of childcare obligations with a school closed, or some other similar condition that is outside your control.
- c) Timing of distribution.** You may make a single withdrawal or multiple distributions that total up to the maximum amount. The penalty waiver applies only to distributions taken during 2020.

3. IF I TAKE FUNDS FROM MY RETIREMENT SAVINGS DURING THE PANDEMIC THAT QUALIFY FOR A PENALTY-FREE WITHDRAWAL, HOW WILL I BE TAXED?

A penalty-free withdrawal during 2020 is not subject to 20% mandatory federal tax withholding when the funds are distributed. However, the distribution is still subject to income tax as it would be for a typical distribution, but this tax liability can be spread across three years.

How your withdrawals are taxed depends on whether you contributed funds after you were taxed on them or before you were taxed on them. For pretax contributions, the entire distribution is taxable--your contributions, any amounts that your employer matched, and the earnings on your account are taxable. For post-tax accounts, only the earnings on your account are taxable.

You will also have the option to re-contribute the funds to your retirement account during the three years following the distribution to minimize some or all of the tax liability associated with your distribution. The repayments are not counted toward annual contribution limits.

4. WHAT DO I HAVE TO DO TO PROVE THAT I QUALIFY FOR PENALTY-FREE RETIREMENT WITHDRAWAL UNDER THE CARES ACT?

If you make a COVID-19 retirement withdrawal, you will self-certify that you meet the eligibility criteria.

5. HOW DOES THE CARES ACT AFFECT A LOAN FROM A 401(K) OR OTHER QUALIFIED PLANS?

The maximum loan amount has doubled from \$50,000 to \$100,000 or 100% of the worker's vested account balance, whichever is less. The maximum amount is reduced by any other loans outstanding in the last twelve months. Plan sponsors can impose lower limits.

To qualify for the higher loan limits, you, your spouse, or a dependent must have been diagnosed with COVID-19 or you must have suffered financially because of the pandemic.

The change applies to loans made from March 27, 2020 through September 22, 2020.

The change is not automatic and not all retirement plans allow for loans. Loans from IRAs are not permitted.

6. CAN I DELAY REPAYMENTS OF AN EXISTING LOAN FROM A 401(K) OR A QUALIFIED PLAN?

You can suspend existing retirement plan repayments due between March 27, 2020 and December 31, 2020 for up to one year if you, your spouse, or a dependent has been diagnosed with COVID-19 or you have suffered financially because of the pandemic. Check with your sponsor or go to your retirement account portal and select the option to view or modify your loan. If you have more than one loan, you will likely have to repeat this process for each loan.

7. SHOULD I USE THE CARES ACT TO DIP INTO MY RETIREMENT SAVINGS?

Even if you can dip into your retirement savings, this does not necessarily mean that you should. You will have to consider several factors to determine whether it is a good idea to dip into your retirement savings, such as the following:

- Whether you will be eligible for the waived early withdrawal penalty if you take a distribution.
- How much savings you might lose in lost compound interest
- How much financial assistance you need.
- The tax effects of taking an early distribution.
- Whether you will be able to re-contribute the funds.
- If you take a loan, whether you will be able to repay it. Usually, you have five years or six if you have a coronavirus-related hardship.
- The tax effects of failing to repay the loan. If you don't repay the loan, the unpaid portion is taxed as a distribution.
- Whether you have other options to help you with financial distress.

8. IS MY RETIREMENT PLAN REQUIRED TO ADOPT THESE CARES ACT CHANGES TO DISTRIBUTIONS AND LOANS?

No. These CARES Act provisions are optional. Individual employers must adopt the changes and some of them are taking longer than others. Your plan doesn't have to permit them even if they already offer hardship withdrawals or loans. Some plan sponsors report that they do not plan to adopt any CARES Act provisions related to retirement plan loans and distributions and others may only implement some of these provisions. You'll need to check with your plan to see what is available.

9. DO I STILL HAVE TO TAKE REQUIRED MINIMUM DISTRIBUTION (RMD) FOR 2020?

The CARES Act lets you cancel your required minimum distributions for 2020. Your RMDs may automatically restart in 2021. This change affects the following types of retirement plans:

- 401(a).
- 403(a).
- 457(b).
- Inherited retirement accounts.
- 401(k).
- 403(b).
- IRA.

Canceling your RMD for 2020 will not require you to take two RMDs in 2021. Instead, you can simply avoid taking out the distribution, which lets you keep more money in your retirement account and not be subjected to additional tax liability. This provision is particularly important because of the extreme market volatility that has arisen since the spread of COVID-19.

That being said, retirees who want to take their RMDs in 2020 still can; they just aren't required to. This also allows individuals to complete a Roth conversion since they will not be required to receive their RMDs before doing the conversion.

10. HOW DO I CANCEL SCHEDULED RMDs?

In most situations, RMDs will not be automatically canceled, so you will need to contact your plan sponsor to cancel. Many providers are including a simple option on their websites for this purpose.

11. WHAT CAN I DO IF I ALREADY RECEIVED MY RMD THIS YEAR?

If you already received your RMD for 2020, you can repay it into an eligible plan. However, you only have 60 days after receiving the RMD to take this action.

12. DOES THE CARES ACT AFFECT CHARITABLE CONTRIBUTIONS?

The CARES Act affects charitable contributions, which may be part of your overall retirement and estate plan. Under the CARES Act, you can make a qualified charitable distribution of \$100,000 or less from your IRA to a qualified charity this year. This distribution would not be treated as taxable income for you. However, if you do not take an RMD, this gift will not offset the tax liability on the RMD.

Individuals who do not itemize their deductions can receive a deduction of up to \$300 for cash contributions they make to charities in 2020. This is an above-the-line deduction, so you can include it even without itemizing.

There are also changes to the limits on charitable contributions. Typically, individual limits for people who itemize their deductions are maxed at 60% of the person's adjusted gross income. However, this limit is suspended for the year. Corporations are typically limited to 10% of their taxable income on their charitable contributions, but this has been raised to 25% for the year.

13. WHERE CAN I FIND OUT MORE?

You should check with your employer and plan administrator to see what options are available to you. There are many complex aspects of the changes, so you must understand your options and the repercussions of retirement plan distributions or loans. A financial or tax advisor or consumer rights attorney can also assess your situation and provide you with legal advice tailored to your particular situation.