The CARES Act and Qualified Retirement Accounts

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There are some changes with respect to qualified retirement accounts after the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act or Act). These changes are primarily temporary in nature and are in response to the ongoing Covid-19 emergency. This Alert will summarize these retirement tax changes.

Hardship Withdrawal Rules

Individuals financially impacted by Covid-19 can withdraw up to $100,000 in emergency funds from their retirement accounts through December 31, 2020. Those funds can be repaid into the same retirement accounts for up to three years.

Early Withdrawal Penalty

Non-retiree age individuals financially impacted by the pandemic are exempt from paying the 10% penalty on emergency withdrawals from retirement accounts.

Plan Loans

Individuals financially impacted by Covid-19 can lend themselves up to $100,000 or 100% of their vested account balance in the plan. Any participant with a current outstanding loan from their plan with a repayment due from the date of enactment of the CARES Act through December 31, 2020 can delay their loan repayment(s) for up to one year.

Required Minimum Distributions (RMDs) - Temporary Waiver

The Act waives RMDs for calendar year 2020 for defined contribution plans, including 401(k), 403(b), 457(b) and IRA plans, allowing individuals to keep assets in their retirement plan(s). Under current law, individuals generally at age 72 (this was recently changed under the SECURE Act from age 70.5) must take an RMD from their defined contribution plans and IRAs. The legislation also includes special rules regarding the waiver period to, in essence, hold harmless those individuals (and plans) who took advantage of the RMD waiver for 2020.

Single– Employer Defined Benefit Plan Funding Rules

Single-employer defined benefit plans are provided with funding relief by giving companies more time to meet their funding obligations by delaying the due date for any contribution otherwise due during 2020 until January 1, 2021. At that time, contributions due earlier would be due with interest. The provision also provides that a plan's status for benefit restrictions as of December 31, 2019 will apply throughout 2020, such that a plan sponsor may elect to treat the plan's adjusted funding target attainment percentage for the last plan year ending before January 1, 2020, as the adjusted funding target attainment percentage for plan years which include calendar year 2020.

Plan Amendments

The legislation further permits retirement plans to adopt these rules immediately, even if the plan does not currently allow for hardship distributions or loans, provided the plan is amended on or before the last day of the first plan year beginning on or after January 1, 2020, or later if prescribed by the Treasury Secretary.

Expansion of DOL Authority to Postpone Certain Deadlines

The legislation provides the Department of Labor (DOL) with expanded authority to postpone certain deadlines under ERISA. In general, the legislation increases the circumstances to go beyond a terroristic or military action to also include a public health emergency declared by the Secretary of Health and Human Services under the Public Health Service Act.

Form 5500 Due April 15, 2020

There are expectations that the Form 5500 and other employee benefit plan filings will be provided an automatic extension of time to file forms with the government and other regulatory relief; however, as of this Alert there has been no official announcement.

Contact Us

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