Dopkins WEALTH MANAGEMENT, LLC
Registered Investment Advisor

# CARES Act allows retirement accounts to provide cash relief

March 27, 2020 – Known as the Coronavirus, Aid, Relief and Economic Security (CARES) Act (H.R. 748 as amended), on Wednesday, March 25th, the Senate voted and passed this unprecedented $2 trillion stimulus bill covering every aspect of the U.S. economy, including retirement relief provisions. The bill was approved by the House of Representatives and signed by President Trump today, Friday, March 27th.

**Although there are many different aspects to the stimulus bill, including financial assistance to both large and small businesses, cash payments to individual citizens and assistance to state and local municipalities, the bill also covers some relief for participants of qualified retirement plans.**

As for the retirement-based provisions, the final bill focuses on several distribution aspects of plans, including provisions to ease retirement plan hardship and loan rules to free up funds for individuals impacted by the pandemic and to provide relief from the required minimum distribution (RMD) rules. The bill also adds funding relief for single-employer defined benefit plans.

Below are the key provisions affecting retirement plans:

**Hardship Distributions (Section 2202):** The CARES Act waives the 10% early withdrawal penalty tax under Internal Revenue Code Section 72(t) on early withdrawals up to $100,000 from a retirement plan or IRA for an individual who:

- is diagnosed with COVID-19;
- whose spouse or dependent is diagnosed with COVID-19;
- who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19; or
- other factors as determined by the Treasury Secretary.

The legislation also permits those individuals to pay tax on the income from the distribution ratably over a three-year period and allows individuals to repay that amount tax-free back into the plan over the next three years. Those repayments would not be subject to the retirement plan contribution limits.

**Plan Loans (Section 2202):** H.R. 748 also doubles the current retirement plan loan limits to the lesser of $100,000 or 100% of the participant's vested account balance in the plan. Individuals with an outstanding loan from their plan with a repayment due from the date of enactment of the CARES Act through Dec. 31, 2020, can delay their loan repayment(s) for up to one year.

**Plan Amendments (Section 2202):** 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 Jan. 1, 2020, or later if prescribed by the Treasury Secretary.

**Temporary Waiver of Required Minimum Distribution Rules (Section 2203):** H.R. 748 waives RMDs for calendar year 2020 for DC plans, including 401(k), 403(b), 457(b) and IRA plans, allowing individuals to keep funds in their retirement plans. Under current law, individuals generally at age 72 must take an RMD from their DC 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 DB Plan Funding Rules (Section 3608):** New to the bill is a provision to provide single-employer defined benefit plan 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 Jan. 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 Dec. 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 Jan. 1, 2020, as the adjusted funding target attainment percentage for plan years which include calendar year 2020.

**Expansion of DOL Authority to Postpone Certain Deadlines (Section 3607):** The legislation provides the Department of Labor 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.

**For more information, contact Chad O'Connell at coconnell@dopkins.com or your existing Dopkins contact.**

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