RETIREMENT PLAN RELIEF ACT

The Coronavirus, Aid, Relief, and Economic Security (CARES) Act includes several provisions pertaining to qualified retirement plans and individual retirement accounts (IRAs). These provisions 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 final bill also adds funding relief for single- employer defined benefit plans.

Below are the key provisions affecting qualified retirement plans and IRAs:

Hardship Distributions Made Between January 1, 2020 and December 31, 2020

Currently, plan participants under the age of 59½ who receive hardship distributions are subject to a 10% tax on this early withdrawal. The CARES Act waives this 10% tax on early withdrawals up to $100,000 from a qualified retirement plan (and IRA) for anyone 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 CARES Act further permits those plan participants to pay the associated taxes on the income from the distribution ratably over a three-year period; and also allows them to repay that amount, tax-free, back into the plan over the next three years. These repayments, if made, are essentially treated as rollover contributions and would not be subject to the retirement plan contribution limits.

Employee certification of the need for the Hardship Distribution is all that is required. In other words, plan administrators are not required to request or review evidence or documentation to determine qualification for the distribution.

Employees who participate in a **457(b) plan** may qualify for an “unforeseen emergency” distribution, if permitted under the plan, in the case of a severe financial hardship of the participant or beneficiary resulting from an illness, including the need to pay for medical expenses. A distribution for an unforeseen emergency may be made only to the extent the emergency cannot be relieved through reimbursement or compensation from insurance or otherwise, or by liquidation of the participant’s assets, unless the liquidation of assets would itself cause severe financial hardship. Like hardship distributions, unforeseen emergency distributions **are taxed in the year taken, cannot be repaid to the plan, and are limited to the amount necessary to meet the financial need.**

Plan Loans

Currently, retirement plan loans are limited to the lesser of $50,000 or 100% of the participant's vested account balance. The CARES Act doubles the current retirement plan loan limits, for a period of 180 days following the date of enactment of the CARES Act, to the lesser of $100,000 or 100% of the participant's vested account balance in the plan. Additionally, participants with outstanding plan loans with a repayment amount due during the period beginning on the date of enactment of the CARES Act through December 31, 2020 can delay their loan repayment(s) for up to one year. Consequently, the 5-year maximum limitation that normally applies to participant loans may also be extended for a period of up to one year.

NOTE: Even if the plan does not currently allow for hardship distributions or loans, retirement plans can adopt these rules immediately, provided the plan is amended on or before the last day of the first plan year beginning on or after January 1, 2022, or later, if prescribed by the Treasury Secretary.

Temporary Waiver of Required Minimum Distribution Rules

The Act waives Required Minimum Distributions (RMD) for the calendar year 2020 for defined contribution plans, including 401(k), 403(b), 457(b), and IRAs. Currently, with the passage of the SECURE Act, individuals generally must take an RMD upon attaining age 72 from their retirement plans and/or IRAs. This waiver also applies to those individuals who turned 70 ½ (the age required to start taking RMDs prior to the effective date of the SECURE Act) by December 31, 2019 and elected to postpone their first RMD until April 1, 2020.

As always, we are here to provide any necessary support and answer in questions you may have at this time. We will continue to monitor and report any changes legislation approves as it relates to retirement plans. We thank you for being a valued customer, and we are proud to serve you.

Best regards,

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