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CARES Act: Retirement Plan Relief Provisions



The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. This \$2 trillion emergency relief package represents a bipartisan effort to assist both individuals and businesses in the ongoing coronavirus pandemic and accompanying economic crisis. The CARES Act provisions for retirement plan relief for individuals under federal tax law are discussed here.

For those seeking access to their retirement funds, these include special provisions for coronavirus-related distributions and loans. For those seeking to preserve their retirement funds, certain required minimum distributions from retirement funds have been suspended.

Coronavirus-related distributions

A 10% penalty tax generally applies to distributions from an employer retirement plan or individual retirement account (IRA) before age 59½ unless an exception applies. Due to the coronavirus pandemic, the penalty tax will not apply to up to \$100,000 of coronavirus-related distributions to an individual during 2020. Additionally, income resulting from a coronavirus-related distribution is spread over a three-year period for tax purposes unless an individual elects otherwise. Coronavirus-related distributions can also be paid back to an eligible retirement plan within three years of the day after the distribution was received.

What does "coronavirus related" mean?

For purposes of the distribution and loan rules described here, "coronavirus related" applies to individuals diagnosed with the illness or who have a spouse or dependent diagnosed with the illness, as well as individuals who experience adverse financial consequences as a result of the pandemic. Adverse financial consequences could include quarantines, furloughs, and business closings.

Loans from qualified plans

Qualified plans such as a 401(k) can allow an employee to take out a loan. These loans can generally be repaid over a period of up to five years. They're also generally limited to the lesser of \$50,000 or 50% of the total benefit the employee has a right to receive under the plan. However, for a coronavirus-related loan made between March 27, 2020, and September 22, 2020, the loan limit is increased to \$100,000 or 100% of the amount the employee can rightfully receive under the plan (whichever amount is less). In the case of a loan outstanding after March 26, 2020, the due date for any repayment that would normally be due between March 27, 2020, and December 31, 2020, may be delayed by coronavirus-related qualifying individuals for one year, and the delay period is disregarded in determining the five-year period and the term of the loan.

Most required minimum distributions (RMDs) suspended for 2020

RMDs are generally required to start from an employer retirement plan or IRA by April 1 of the year after the plan participant or IRA owner reaches age 70½ (age 72 for those who reach age 70½ after 2019). If an employee continues working after age 70½ (age 72 for those who reach age 70½ after 2019), RMDs from an employer retirement plan maintained by the current employer can be deferred until April 1 of the year after retirement. (RMDs are not required from a Roth IRA during the lifetime of the IRA owner.) RMDs are also generally required to beneficiaries after the death of the plan participant or IRA owner. A 50% penalty applies to an RMD that is not made.

The CARES Act suspends RMDs from IRAs and defined contribution plans (other than Section 457 plans

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for nongovernmental tax-exempt organizations) for 2020. This waiver includes any RMDs for 2019 with an April 1, 2020, required beginning date that were not taken in 2019. This one-year suspension does not generally affect how post-2020 RMDs are determined.

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