



# WRIGHT LINDSEY JENNINGS

## COVID-19 CLIENT ALERT: THE CARES ACT AND RETIREMENT PLAN RELIEF

APRIL 6, 2020

The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law on Friday, March 27, 2020, in response to the Coronavirus (COVID-19) pandemic. The CARES Act specifically addresses relief that may be available to plan participants through retirement plan administration. This relief comes in the form of relaxed distribution measures, loan relief, and waiver of the required minimum distributions for 2020. These specific changes are outlined below.

### **Coronavirus-related Distributions:**

Under the CARES Act, a plan may allow its participants to receive “Coronavirus-related distributions” that do not exceed the aggregate of \$100,000 from all plans maintained by the company. These Coronavirus-related distributions are subject to the following requirements:

1. Limited to \$100,000 per tax year;
2. Made by an “eligible” participant.

Participants who are “eligible” to take Coronavirus-related distributions:

1. Are diagnosed with a Coronavirus (COVID-19 or SARS-CoV-2) illness (must have been diagnosed with a test approved by the Centers for Disease Control and Prevention);
2. Have a spouse or dependent diagnosed with a Coronavirus illness (must have been diagnosed with a test approved by the Centers for Disease Control and Prevention);
3. Experience “adverse financial consequences” as a result of a quarantine, furlough, lay-off, reduction in work hours, business closure, the lack of child care, or other factors determined by the IRS due to the coronavirus emergency (additional guidance from the IRS if forthcoming).

In permitting the Coronavirus-related distributions, a plan administrator may rely on the certification from the participant regarding the above information.

The participant may include the amount of any Coronavirus-related distributions ratably over the three-year period beginning with the taxable year the distribution is received. The participant may also elect to include all amounts in a single tax year. A participant may also repay the distribution (or any portion thereof) by making one or more contributions to their company’s plan or any other eligible retirement plan of which the individual is a beneficiary that accepts eligible rollover contributions. If repaid within three (3) years of the date of the distribution, such distributions are treated as eligible rollover distributions.

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## **Loan Relief**

“Eligible” participants (as defined above) may also take plan loans up to the lesser of \$100,000 or 100% of a participant’s vested account balance. These loans may be taken during the 180-day period following the date of enactment of the CARES Act (March 27, 2020).

Upon the request of an eligible participant, loan repayments due on outstanding loans may be delayed for a period of up to 12 months. This relief is available between March 27, 2020 and December 31, 2020.

## **Waiver of Required Minimum Distributions for 2020**

The CARES Act permits a waiver of requirement minimum distributions (RMDs) for 2020 for qualified 401(a), 401(k), 403(b), and governmental 457(b) plans. This waiver includes participants who turned 70 ½ prior to 2019 and are receiving ongoing RMDs, participants who turned 70 ½ in 2019 and who did not receive their first RMD for 2019 on or before January 1, 2020, beneficiaries receiving life expectancy payments, and beneficiaries who have an account balance in a plan subject to the five-year distribution rule.

If a 2020 RMD is distributed to any of the parties listed in the previous paragraph, such distribution may be rolled over to an IRA or employer plan.

## **Overview**

It is important to note that the Coronavirus-related distribution and increased loan limit provisions are optional to plan sponsors. If a plan chooses to implement either or both of these relief provisions, the plan sponsor will have to affirmatively choose to add them to the plan. If a plan sponsor has not furloughed, laid off, or reduced hours for its employees and if its employees and their families remain healthy, it may find it prudent to do nothing at this time.

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