2020 CARES ACT FAQ

The Coronavirus, Aid, Relief, and Economic Security (CARES) Act is historic and sweeping legislation designed to provide economic assistance for both individuals and businesses who are adversely affected by COVID-19.

The CARES Act contains several key provisions designed to assist retirement plan participants and Individual Retirement Account (IRA) account holders who are struggling financially during these unprecedented times. Here are some frequently asked questions regarding these key provisions.

Q: Does the CARES Act affect hardship distributions?

Yes. For a qualified individual, the CARES Act waives the additional 10% penalty tax on early (pre-age 59 ½) withdrawals up to $100,000 from a retirement plan or IRA.

Q: What determines if an individual qualifies for the penalty exemption?

An individual qualifies for the exemption in the following circumstances:

- They are diagnosed with COVID-19 or SARS-CoV-2 by a test approved by CDC (Centers for Disease Control and Prevention).
- Their spouse or dependent is diagnosed with COVID-19 or SARS-CoV-2 by a test approved by CDC (Centers for Disease Control and Prevention).
- They are experiencing 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.

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Q: Are hardship distributions still subject to income taxes?

Yes. However, a coronavirus-related distribution under the Act can be included proportionally in the qualified individual's taxable income over a three-year period, unless the individual elects to have it taxed in the year of distribution. In addition, the distribution will not be treated as eligible rollover distributions, so the mandatory 20% withholding does not apply.

Q. Can the hardship distribution be paid back at some point to avoid income taxes?

Yes. The Act also allows a qualified individual who takes a coronavirus-related distribution to repay that amount tax-free back into the plan within three years of taking the distribution. Such repayment will be treated as a rollover contribution and not be subject to annual maximum contribution limits.

Q. Does the CARES Act affect retirement plan loans?

Yes. The CARES Act doubles the current retirement plan loan limits to the lesser of $100,000 or 100% of a qualified individual's vested account balance in the plan. This increased loan amount is available for loans made during the 180-day period beginning on the date of enactment. In addition, the Act extends the due date of any qualified individual's loan repayment that would otherwise be due during 2020 (but on or after the date of enactment) to one year after the otherwise applicable due date.

Q. What determines if an individual qualifies for the increased plan loan limits?

The qualification requirements for an increased loan limit distribution are the same as those for a hardship distribution penalty exemption. An individual qualifies for the increased loan limit in the following circumstances:

- They are diagnosed with COVID-19 or SARS-CoV-2 by a test approved by CDC (Centers for Disease Control and Prevention).
- Their spouse or dependent is diagnosed with COVID-19 or SARS-CoV-2 by a test approved by CDC (Centers for Disease Control and Prevention).
- They are experiencing 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.

Q: How do the coronavirus-related distribution and loan provisions affect retirement plan amendments?

Retirement plans may choose (but are not required) to adopt these new 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, 2022.

Q: Does the CARES Act affect Required Minimum Distributions (RMDs) that need to be taken in 2020?

Yes. Under current law, individuals generally at age 72 must take an RMD from their DC plans and IRAs. The Act 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.

Q: Does the CARES Act allow for any extensions to 2020 retirement plan filing deadlines?

The CARES Act expands the Department of Labor's authority to postpone certain deadlines under ERISA. On April 9, 2020, the IRS provided additional relief to retirement plan sponsors for certain retirement plan filing requirements.

Key extensions impacting retirement plans are detailed below.

- The due date for retirement plan loan repayments due on or after April 1, 2020, can be deferred until July 15, 2020. This applies to all borrowers, not just those affected by COVID-19. (COVID-19 loans can be extended well beyond this deadline.)
- The April 15 deadline for correcting a failed ADP or ACP test and the deadline to distribute excess contributions and excess aggregate contributions under a plan (compliance testing refunds) for calendar year 2019 is postponed until July 15, 2020.
- The 60-day window to roll over an eligible rollover distribution is extended so that a participant will have until the later of 60 days after receipt of the distribution or July 15, 2020 to complete the rollover.
- The deadline to file the Form 5500 (and other forms in the series) for filings due on or after April 1, 2020 and before July 14, 2020 is postponed until July 15, 2020. NOTE: There is no relief for calendar year plans with a regular due date of July 15, 2020.
- The 90-day deadline to withdraw from an eligible automatic contribution arrangement (EACA) after the date of the employee's first elective contribution under the EACA is extended until July 15.
- The deadline for permitting employees to be taxed on restricted stock at the time of grant is postponed until July 15, 2020.

Q: Does the CARES Act provide any relief to single-employer Defined Benefit Plan funding?

Yes. The Act provides 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 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.

Our team is here to help you navigate these changes.

Contact us at 800-872-3473.

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