How the CARES Act stimulus package can *benefit* participants through their retirement plans

What does it mean for you?

The U.S. federal government’s Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the largest emergency relief bill in American history, has just been passed into law. The CARES Act includes a new COVID-19 withdrawal option and relaxed loan rules, which may help you cover immediate financial needs resulting from the impact of coronavirus.

COVID-19 withdrawals

Your retirement plan likely offers a variety of distribution and withdrawal options. Under the CARES Act, retirement plans may allow qualified individuals—including those who have been diagnosed with COVID-19 and those who have experienced adverse financial consequences as a result of COVID-19—to take a COVID-19 withdrawal. If your plan allows it, you may withdraw up to $100,000 without facing an early withdrawal penalty regardless of whether you’re still employed. You may take a lump-sum payment or multiple payments, and you must make the withdrawal by December 30, 2020.

You’ll still have to pay taxes on the amount you withdraw, but you can spread the tax amount over three years. You may also limit the amount of taxes you pay on the withdrawal by repaying your retirement plan within three years of receiving it.

While the early withdrawal penalty waiver may be advantageous, consider this special withdrawal carefully. Taking money from your retirement plan account may affect your retirement savings goal.

Still have questions?

For specific questions around whether your retirement plan offers availability of plan withdrawals or loans under the new CARES Act provisions, please contact your plan administrator.
Increased loan amounts and loan repayment suspension

Some retirement plans allow you to take a loan from your retirement savings. But just like any other loan, you’ll have to pay it back, and the typical payback period is five years. As with most loans, you may incur costs such as:

- **Loan expenses**—Retirement plan loans may be subject to an initiation fee.
- **Potential penalties**—If you don’t pay off your loan on time, you’ll have to pay taxes and a 10% early withdrawal penalty if you’re under age 59½. And if you leave the company, most loans must be paid off in full within 60 to 90 days (or longer period permitted under the Internal Revenue Code) of your departure to avoid taxes and penalties.

The CARES Act has made some temporary changes to the loan rules available to retirement plans for “qualified individuals”—including people who have been diagnosed with COVID-19 (or their spouse or dependent has been diagnosed with COVID-19) or who have experienced adverse financial consequences as a result of COVID-19. Retirement plans may increase the maximum you can borrow from your retirement plan to $100,000 or 100% of your vested account balance, whichever is the lower amount. The normal maximums are $50,000 or 50% of your vested account balance (individual plans may have different parameters). The increased dollar limit, however, is still reduced by the amount of your other loans in the last 12 months under the existing loan rules. The increased loan limits apply only to loans taken by September 22, 2020.

With the CARES Act, qualified individuals may be able to delay for one year any loan repayments that are due on or after March 27, 2020, through December 31, 2020. The loan repayment period is then extended by the length of time that loan repayments were delayed. However, any interest accrued will start on the date the loan was requested.

2020 required minimum distributions (RMDs) suspended

RMDs may be suspended in 2020 for both employer retirement plans and individual retirement accounts. Those who would normally be subject to minimum distribution requirements may keep their money in place rather than having to take it out when market values may be lower due to the pandemic. The RMD suspension does not apply to defined benefit pension plans or 457(b) plans of tax-exempt organizations.

Not all CARES Act provisions may be available in your plan. Please check with your plan administrator for specific details.