CLIENT ALERTS & INSIGHTS

# Benesch COVID-19 Resource Center: Impact of CARES Act on Retirement Plans

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On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. In addition to providing stimulus to businesses and individuals, the CARES Act makes several changes to retirement plans (including 401(k) plans). The CARES Act makes significant changes to the distribution and loan requirements.

*Coronavirus-related distribution*: Qualified individuals may receive up to $100,000 in distributions from a 401(k) plan as coronavirus-related distributions from January 1, 2020 through December 30, 2020. Among other things, coronavirus-related distributions are:

- Eligible for repayment within three years from the date of the distribution without being subject to the annual plan contribution limit;
- Not subject to the 10% early distribution penalty;
- Not eligible for rollover and not subject to a mandatory 20% federal tax withholding; and
- Ratably taxed as income over a three-year period, unless the qualified individual elects otherwise.

A qualified individual is an individual (1) who is diagnosed with the virus SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention; (2) whose spouse or dependent (as defined in the Internal Revenue Code (the "Code")) is diagnosed with such virus or disease by such a test; or (3) who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

A participant is responsible for determining if he or she is a qualified individual under CARES Act. Plan sponsors or vendors will not be liable for designating the participant as a qualified individual based on the participant's certification that he or she is a qualified individual.

*Increased Loan Limits & Delay of Repayment*: Loan limits to qualified individuals has been increased from $50,000, or 50% of a participant's account balance, to $100,000 or 100% of the participant's vested account balance. This change applies to loans taken within 180 days of March 27, 2020. Should a qualified individual have an outstanding loan between March 27, 2020 and December 31, 2020, repayments due during this period can be delayed for a year.

*Waiver of 2020 Required Minimum Distributions(RMDs)*: RMDs for calendar year 2020 can be waived. Individuals who are already receiving RMDs do not have to receive 2020 RMDs. Additionally, individuals who delayed 2019 RMDs until April 1, 2020 do not have to receive 2019 RMDs.

Plan sponsors should work with their recordkeepers to adopt the necessary plan amendments. Plan amendments must be adopted by the end of 2022 plan year (or end of 2024 plan year for governmental plans).

**For more information on this subject, contact a member of Benesch's Executive Compensation & Benefits Group.**

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***Please note that this information is current as of the date of this Client Alert, based on the available data. However, because COVID-19's status and updates related to the same are ongoing, we recommend real-time review of guidance distributed by the CDC and local officials.***

