FAQ: CARES Act

Participant Relief Amid COVID-19 Crisis

During past disasters, Congress has enacted special laws and relief to assist employers and employees during difficult times. The Coronavirus, Aid, Relief and Economic Security (CARES) Act, just signed into law on March 27,2020, includes several key provisions that provide relief and support of retirement plan participants. The American Retirement Association published the following FAQs to help highlight retirement plan participant relief measures.

Are plan participants impacted by COVID-19 able to access their retirement funds?
Yes, if allowed by the plan, certain participants may withdraw, penalty free, up to $100,000 between January 1, 2020 and December 31, 2020. The 20% mandatory federal withholding is optional.

Who is eligible for these withdrawals?
To be eligible to make such a withdrawal, the individual participant, or his or her spouse or dependent, must have been diagnosed with COVID-19, or the individual suffered adverse financial consequences due to COVID-19 (e.g., furlough, reduction in hours, unable to work due to childcare, loss of business, etc.).

Have participant loan limits been adjusted?
Yes. If allowed by the plan, the loan limit can be increased to the lesser of $100,000 or 100% of the participant's vested account balance. This only applies to loans made on or before September 23, 2020 (180 days following enactment of CARES) and is only for individuals that meet the same conditions outlined for the withdrawals noted above.

What about outstanding loans?
Subject to plan approval, scheduled participant loan repayments due from March 27, 2020 (the enactment of CARES) through December 31, 2020, may be delayed for up to one year for qualifying employees. Interest continues to accrue during the period and the plan can extend the term of the loan for up to one year.

Can a participant who receives a COVID-19 distribution repay the amount into a qualified retirement plan?
Yes, the participant has three years from the day after the distribution was received to repay the amount into a qualified retirement plan (or any other plan or IRA that can accept rollovers). The distribution will be taxable if it's not repaid, but it can be repaid over a three-year period, unless otherwise elected.

Does the plan sponsor need to verify whether an individual qualifies for a COVID-19 withdrawal or loan?
No, the plan sponsor may rely on participant's certification for eligibility.

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Have there been adjustments made for Required Minimum Distributions (RMDs)?
Yes. The CARES Act waives the requirement for any RMD that is required to be paid in 2020. This includes an individual's first RMD which is attributable to 2019 (not paid by January 1, 2020). If an RMD has already been received during 2020, then the participant may roll it over and defer paying taxes, including rolling back into the plan. We expect the IRS to extend the 60-day rollover period. Note that as a practical matter this applies only to individual account plans.

- For example, if a participant turned 70½ in 2019 and has a Required Beginning Date of 4/1/20:
- But has not yet taken the distribution – then no distribution is required in 2020 (for the 2019 distribution year).
- And has a distribution taken after 12/31/19, it is subject to the waiver for 2020 and the amount can be rolled over.
- And the distribution was taken in 2019, no relief is available.

Why does this matter?
An RMD is calculated using the balance of an individual retirement account on December 31st of the year prior to the date it must be distributed to a participant. The Dow Jones closed at 28,538 on December 31, 2019. On March 27, 2020, the Dow Jones closed at 21,636.78 – a significant decrease. An RMD calculated based on a December 31, 2019 value could lead to a disproportionate RMD relative to today's account values, forcing a disproportionately large taxable distribution.

Is there any help for student loan debt?
Yes. Section 2206 of the CARES Act extends Code Section 127 (which currently allows for tuition reimbursement up to $5,250/year) to apply to student loan repayments for employees, with no tax implications.

Are there any changes for health savings accounts (HSAs)?
Yes. All telehealth and other remote care services can be covered pre-deductible without violating federal rules for high deductible health plans paired with an HSA (this is only permitted for plan years that begin on or before 12/31/2021). Additionally, for expenses incurred after December 31, 2019, the CARES Act eliminates the rule that limits the use of HSAs to prescribed medicines or drugs.

Individuals may make contributions to HSA or Archer MSA for 2019 at any time up to July 15, 2020.