Client Update
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Retirement Plan Relief Under The CARES Act

The recently-enacted Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") contains several provisions allowing individuals to gain access to their retirement plan funds as well as short-term funding relief for sponsors of defined benefit pension plans. The key retirement plan provisions are outlined below.

Tax-Favored Withdrawals From Retirement Plans

The CARES Act waives the 10% additional tax under Section 72(t) of the Internal Revenue Code ("IRC") on early distributions from tax-qualified retirement plans for certain "coronavirus-related distributions". In general, this allows participants affected by COVID-19 or the resulting economic downturn to gain access to some of their retirement savings without additional penalties.

To qualify for this tax-favored treatment, the distribution must be made on or after January 1, 2020, and before December 31, 2020, and cannot exceed $100,000 (including all plans maintained by members of the same controlled group). "Coronavirus-related distribution" means a distribution to:

- An individual who tests positive for SARS-CoV-2 or COVID-19;
- An individual whose spouse or dependent tests positive for SARS-CoV-2 or COVID-19; or
- An individual who experiences adverse financial consequences as a result of being quarantined, furloughed or laid off or having work hours reduced, or being unable to work due to lack of child care, or closing or reducing hours of a business owned or operated by the individual, all due to the virus or disease.

The participant's certification that one of these conditions is satisfied is sufficient for the withdrawal.

In addition, the CARES Act allows a participant to repay the distributed amount within a three-year period beginning on the day after the date on which such distribution was received if the individual is a plan participant and the plan accepts rollover distributions, and if not repaid, allows the participant to pay income tax on the distribution ratably over such three-year period.

Loans

The CARES Act also temporarily doubles the limit on loans from qualified plans for participants eligible to take a coronavirus distribution, increasing the limit from the lesser of $50,000 or 50% of the participant's vested account under the plan to the lesser of $100,000 or 100% of the participant's vested account under the plan. This temporary increase applies to loans made within 180 days of enactment of the CARES Act -- March 27, 2020. The CARES Act also provides that for any participants with outstanding loans from qualified plans, repayments with respect to such loan that are due before December 31, 2020 will be delayed for one-year (with interest). The one-year delay does not count toward the maximum five-year repayment period.

Temporary Waiver of Required Minimum Distribution Rules

The CARES Act temporarily waives minimum distribution requirements for defined contributions plans and IRAs for calendar year 2020 (including distributions required to be made by April 1). This provision may be implemented immediately.

Defined Benefit Funding Rules

The CARES Act provides certain funding relief for single-employer plans subject to the minimum funding requirements by granting additional time for employers to meet funding obligations. The CARES Act delays payment of a minimum required contribution that would otherwise be due (both quarterly contributions and year-end contributions) during calendar year 2020 until January 1, 2021. The minimum required contribution will be increased by interest for the period between the original due date and the actual payment date, with interest based on the effective rate of interest for the plan year that includes the payment date.

Benefit Restrictions

The CARES Act provides relief to the benefit restrictions under IRC Section 436, which restricts certain lump-sum payments, plan amendments and benefit accruals if a plan is significantly underfunded. The restrictions apply depending on the plan's adjusted funding target attainment percentage ("AFTAP"). Under the CARES Act, a plan sponsor can elect to treat the plan's AFTAP for the last plan year ending before January 1, 2020, as the AFTAP for plan years that include calendar year 2020. This relief can help plan sponsors avoid the restrictions to benefits under Section 436 if the funded status of the plan changes significantly due to the current COVID-19-related economic environment.

Contact Us

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