



# The CARES Act



## ITS IMPACT ON RETIREMENT SAVINGS PLANS

The Coronavirus Aid, Relief and Economic Security (CARES) Act of 2020 is a \$2.5 trillion stimulus package passed on March 27, 2020, aimed at providing some financial relief to small businesses and their employees amid the coronavirus pandemic. This is the third round of government support in the wake of this public health crisis and includes assistance for small businesses, impacted employees, hospitals and state and local governments. The act also includes legislation that impacts employer-sponsored retirement plans.

## Penalty-free coronavirus related distributions in 2020

- The Act allows affected retirement plan participants to take distributions in 2020 of up to \$100,000 from a retirement plan or IRA and these withdrawals are not subject to mandatory 20% withholding and do not incur the 10% early distribution tax that normally applies to payments made prior to age 59½.
- Employers can rely on a 'self-certification' from an 'impacted' employee<sup>1</sup> and is eligible. The distribution needs to be made between January 1 and December 31, 2020.
- The income taxes due on the distribution amount are optionally includable over a three-year period.
- The distribution may be repaid to an eligible retirement plan or IRA within three years of taking the distribution

1. An impacted employee is an individual (including spouses or dependents) who have been diagnosed with the virus, or who experiences adverse consequences as a result of the crisis, including being quarantined, furloughed, laid off or unable to work due to lack of child care due to Covid-19.

### → WHAT THIS MEANS

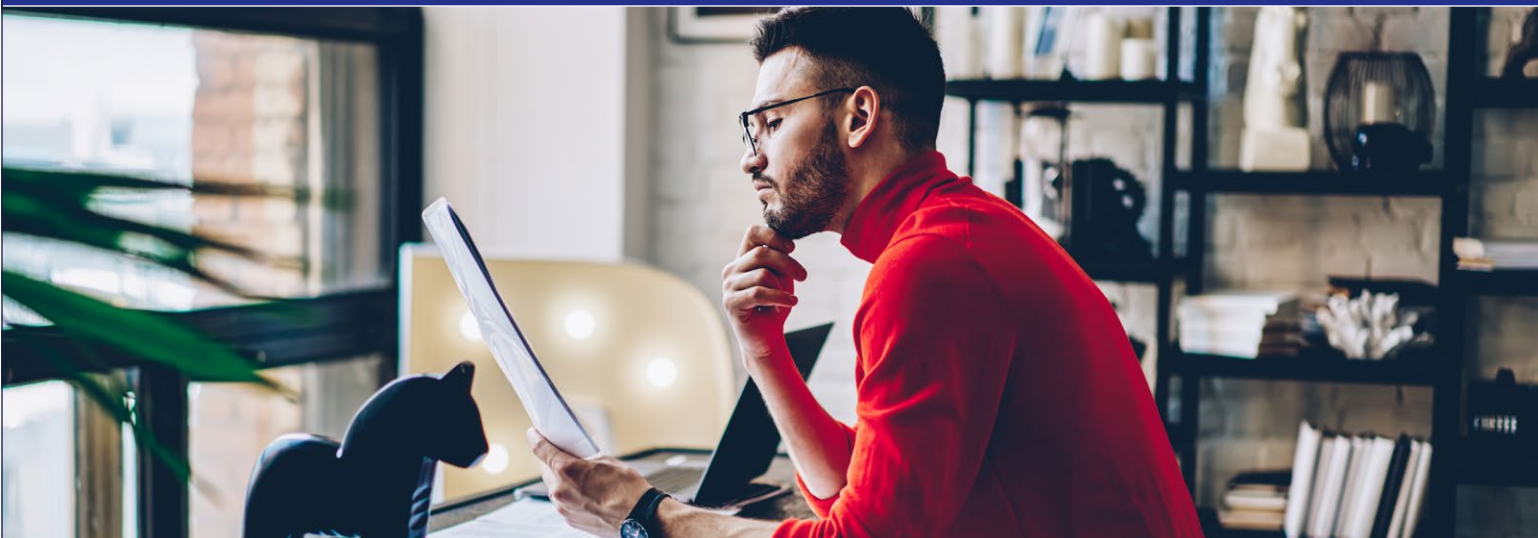
If a participant finds themselves in a hardship situation due to the coronavirus, the early distribution penalty is waived. And unlike hardship withdrawals under the current rule, participants will have the option of repaying the money back to their retirement plan allowing them to make up some of the financial ground they may have otherwise lost.

## Temporary waiver of Required Minimum Distribution (RMD) rules

- The CARES Act allows plans to suspend making RMD in 2020 and will also apply to participants who turned age 70½ in 2019 and have not yet received their 2019 distribution.
- This would be a required provision for retirement plans.

### → WHAT THIS MEANS

Participants who have or are required to take a minimum distribution in 2020 based on the value of their December 31, 2019 account balance now have the option to suspend their distribution. Those who have seen a decline in their retirement accounts in 2020 can now opt to take their distribution at a later time when their account balance has potentially stabilized.



## Loan dollar limits increased temporarily

- The maximum loan amount that an impacted individual may borrow from their retirement plans is temporarily increased from 50% to 100% of their total vested account balance, up to \$100,000 (from \$50,000) .
- Impacted employees may also have their loan repayments suspended for up to 12 months for repayment due dates between the date of enactment through December 31, 2020.



### WHAT THIS MEANS

An increase in the amount participants can borrow from their retirement plans will help to give them some financial relief during this difficult economic time.





The goal of the CARES Act is to assist Americans and small businesses during this unprecedented public health crisis. Within the Act there are several provisions that positively impact participants in retirement savings plans, the most significant of which provides them more access to their retirement money in the event of an emergency. This is an opportune time for business owners and individuals alike to review their retirement plan options and ensure they are offering and utilizing the benefits that are suitable during these trying times

## Let's Talk.

For more information on The CARES Act and how it affects your business, please contact your ADP Client Services Team.

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