
The CARES Act

Relevant Provisions for Qualified 401(k) Plans

On March 27, 2020, the CARES Act (the Coronavirus Aid, Relief, and Economic Security Act) was enacted to provide financial relief and assistance to those impacted by the pandemic. Provisions related to qualified defined contribution retirement plans are summarized below. Not all provisions are clear yet, and more clarification by the IRS and Department of Labor will be needed. Note that the distribution and loan changes are optional provisions which may be adopted, but are not required.

Coronavirus-Related Distributions (“CRDs”)

A CRD is a distribution up to \$100,000 taken in 2020 from a qualified defined contribution retirement plan by someone impacted by the coronavirus. The dollar limit applies to all CRDs combined.

Those allowed to take a CRD are individuals:

- diagnosed with coronavirus (confirmed by a CDC-approved test)
- whose spouse or dependent are diagnosed with coronavirus,
- experiencing financial stress from the pandemic due to:
 - being quarantined
 - being furloughed or laid off
 - having work hours reduced
 - being unable to work due to lack of childcare
 - reduced hours or closing of a business the participant owns
 - other factors determined by the Secretary of the Treasury

The plan sponsor may rely on the participant’s certification that he qualifies for the distribution.

Special tax treatment for CRDs:

- in-service distributions usually not allowed before attaining age 59.5 are now permissible
- the distribution is not subject to the IRS 10% early distribution penalty
- tax withholding is optional, not required. The distribution is still considered taxable income to the participant.
- the participant can reflect the CRD as taxable in the year of distribution, or elect to reflect it as taxable spread over 3 years. The election must apply to all CRDs taken.
- the distribution may be repaid. The repayment would be to a retirement plan that accepts rollover contributions. More clarification is needed. It is generally anticipated that amounts paid back would reduce the taxable amount. If a return was filed and included a taxable amount, the return would have to be amended to adjust for the repayment.

Plan Loans

The same persons described above may make use of relaxed loan provisions. The existing loan rules reflect the amount available for a plan loan as: 50% of the participant's vested account balance up to \$50,000. The CARES Act increases this to 100% of the participant's vested account balance up to \$100,000 for any loan made during the 180 days after the March 27, 2020 enactment date.

Loans outstanding from March 27, 2020 through December 31, 2020 may have loan repayments extended for 1 year. Loan interest will continue to accrue during this time. The 5 year repayment period is also extended by 1 year.

RMDs for 2020 are Waived

The CARES Act waives all required minimum distributions due in 2020. This is for everyone, regardless of how they were impacted by the coronavirus.

Plan Amendment is Required

The distribution and loan changes are optional provisions which may be adopted by a defined contribution retirement plan, but are not required. A retirement plan must be amended to adopt any of these changes. The adoption date is not until the end of the first plan year beginning on or after January 1, 2022, or a later date specified by the Secretary of the Treasury. Plan sponsors may administer the plan according to the changes immediately, however.

Please contact Administrative Retirement Services, Inc. if you want to discuss any of the information provided herein.

Special Note

We are continuing to provide full service to all the plans we administer. All of us have been working from home, in respect of the Illinois Stay-At-Home order and to protect our staff, their families and the community. We will respond to voice mail and email messages as quickly as possible. Our standards for response remain high, as always, as we all learn to adapt within the limits we may be experiencing during this new work environment.

We look forward to continuing our work with all of you. Please stay safe and well.

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