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CARES ACT – Retirement Provisions

The COVID-19 pandemic is affecting all aspects of finances, including retirement savings. The CARES Act contains provisions affecting these plans that will remain in effect for 2020. They include the following:

- The act specifically aligned the due date for contributions to IRAs and retirement plans with the extended due date for individual tax returns. Accordingly, the due date for these contributions has been extended to July 15, 2020.
- Relief from the 10% early distribution penalty may be available to individuals who withdraw an aggregate of $100,000 or less from these accounts if (1) they, their spouse or a dependent was diagnosed with COVID-19 or (2) they were quarantined, furloughed, laid off, had their work hours reduced, were unable to work due to lack of child care or closure of their employer's business, or were affected in other specified ways.
- While there is no penalty on these early distributions, they still are subject to income tax. The act offers some relief by allowing recipients to spread the income tax on the distributions evenly over three years. Alternatively, the distribution may be repaid to an eligible retirement plan within a three-year period. In some cases, loan repayment may be delayed for one year.
- Required minimum distributions are suspended for certain defined contribution plans and IRAs. The waiver applies to 2019 RMDs required to be made by April 1, 2020 and to 2020 RMDs required to be made by April 1, 2021.
- Loan repayments for affected participants may be delayed for one year.

These changes are intended to help mitigate the effect of the volatility of the stock market during the worldwide pandemic. The hope is that the market will gain stability as the pandemic eases, restoring value to retirement portfolios.

Before taking a loan, taxpayers need to be clear about their options. For example, their plan may offer more beneficial withdrawal options, or they might be better off selling securities outside the plan at a loss and using that loss to offset future gains. In addition, there still are provisions that need to be clarified and further guidance will be forthcoming.

Speaking with their financial advisor before taking any action is the best path for taxpayers who are thinking of withdrawing funds from their retirement plans