Coronavirus Stimulus Law Changes Retirement Plan Distribution Rules

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On March 27, 2020, the "Coronavirus Aid, Relief, and Economic Security Act" or the "CARES Act" was signed into law. Among its provisions, the CARES Act:

- Suspends required minimum distributions from retirement plans and IRAs for 2020;
- Waives the 10% penalty on early retirement plan distributions for "coronavirus-related distributions"; and
- Increases the amount that may be borrowed from a retirement plan.

More information about each of these changes follows.

Temporary Suspension of Required Minimum Distributions

Required Minimum Distributions or "RMDs" are forced yearly distributions from certain types of retirement plans and retirement accounts. RMDs generally begin after the plan participant or owner of the account attains the age of 72 (prior to 2020, the RMD age had been 70½ years old). The amount of the mandatory distribution depends on the account balance at the end of the prior year and the account owner's or plan participant's life expectancy. Because of the likelihood that current retirement account balances are significantly lower than on December 31, 2019, RMDs ordinarily made in 2020 will consume a greater percentage of the retirement account.

The suspension applies to RMDs made from IRA, 457, and 403(b) accounts and from employer-sponsored retirement plans (e.g., 401k plans) occurring in 2020. The suspension also applies to distributions made to plan participants and account owners who turned 70½ years old in 2019, but who have yet to take their RMD in 2020.

Additionally, owners of inherited IRAs that otherwise must be fully distributed within five years can skip the required distribution for 2020. This effectively allows the owner to withdraw funds from the account over six years, rather than five years.

For 2020 RMDs already received, the amount must be included in the recipient's gross income. Recipients of RMDs have up to 60 days, however, to return a distribution to an IRA or deposit it in another qualified retirement plan account to avoid the income tax consequences this year.

If you wish to forgo your 2020 RMD, contact the account administrator or plan administrator.

Waiver of Penalty on Early Distributions

The CARES Act also allows qualified individuals under the age of 59½ the ability to withdraw up to $100,000 from a traditional IRA or other retirement plans to pay for coronavirus-related hardships without incurring the 10% early withdrawal penalty. To qualify as a penalty-free distribution, the distribution must be made to an individual:

- Who is diagnosed with COVID-19 or whose spouse or dependent is diagnosed with COVID-19; or
- Experiences negative financial consequences as a result of:
    - being quarantined;
    - being furloughed or laid off or having work hours reduced due to COVID-19;
    - being unable to work due to lack of child care due to COVID-19; or
    - closing or reducing hours of a business owned or operated by the individual due to COVID-19.

Early distributions are penalty-free but may be taxed as ordinary income. If the distributed funds are repaid to an eligible retirement plan within three years, the distribution will be treated as a non-taxable rollover distribution. If the funds are not repaid within three years, the taxes can be spread out over three years beginning in 2020.

Increase to Maximum Amount Borrowed from Retirement Plan

For approximately six months, and subject to provisions of the plan, the amount that a qualified individual will be able to borrow from her or his retirement plan will increase to the lesser of $100,000 or 100% of the vested account balance. Borrowed funds must be repaid within five years.

For loans previously made from a retirement plan that have repayment deadlines falling between March 27, 2020 and December 31, 2020, the CARES Act extends the repayment period by one year.

If you have any questions about these changes, please contact your Moss & Barnett attorney.

Practice Areas

Estate Planning and Wealth Preservation