The CARES Act and Its Impact on You

The Coronavirus Aid, Relief and Economic Security (CARES) Act provides financial relief for both businesses and individuals impacted by COVID-19, including important changes that impact retirement plans.

How does the CARES Act Impact Retirement Plans?

You can take a coronavirus-related withdrawal of up to $100,000 without penalty

- The 10% early distribution penalty is waived on coronavirus-related withdrawals of up to $100,000.
- The withdrawal must be made before December 31, 2020.
- Since these distributions are not considered rollover eligible, the 20% mandatory Federal income tax withholding does not apply. The standard 10% federal tax withholding does apply unless a different amount of withholding is selected.
- Withdrawn amounts are taxable over three years.
- You can repay these distributions at any time over a three-year period that begins the day after the distribution.
- You may make more than one repayment and may repay any plan to which you contribute, including IRAs.
- If you decide to repay the distribution, you may file an amended return to recover taxes paid on income reported in earlier years.
- Repayments will not affect the annual retirement account limits.

You can take a coronavirus-related plan loan of up to 100% of your vested account balance, not to exceed $100,000

- Increases plan loan limits for coronavirus-related loans to $100,000 or 100% of your vested account balance.
- This applies to loans taken through September 22, 2020 (180 days after the enactment of the CARES Act).The Act also extends repayment periods up to one year for both new and existing loans.
- If you already have an outstanding loan, you may delay repayments for one year.
- Delayed repayments require loans to be adjusted for interest that accrues during the delayed period.

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Who qualifies for relief under the CARES Act?

- Any individual diagnosed with COVID-19 by a test approved by CDC (Centers for Disease Control and Prevention) qualifies for relief.
- You also qualify if your spouse or dependent is diagnosed with COVID-19 by a test approved by CDC.
- You qualify if you experience adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care, or closing or reducing hours of a business owned or operated by the individuals due to the virus.
- You may "self-certify" that you have met these conditions.

You don't need to take a Required Minimum Distribution in 2020.

- The Act temporarily waives Required Minimum Distributions (RMDs) for calendar year 2020.
- This will allow you to keep your funds in your retirement plan if you are age 70 1/2 or older.

You may be eligible for additional financial and tax relief.

- The CARES Act provides a direct payment of $1,200 to individuals with incomes of up to $75,000, phasing out at a rate of 5 percent for every $1,000 in income above $75,000.
- This means that the payment does not apply to individuals making $99,000 or more.
- Married couples with combined incomes up to $150,000 would receive $2,400 using the same phaseout rules that apply to individuals.
- This means that the payment does not apply to couples making $198,000 or more.
- The Act also provides a payment of an additional $500 per child, subject to the same phaseout rules.
- Eligibility and benefit levels are based on 2018 or 2019 income tax filings subject to final adjustment when 2020 tax returns are filed.
- The income tax filing deadline is now extended from April 15, 2020 to July 15, 2020.

Tip: Be sure to consult with a tax professional when taking a distribution or loan from your retirement plan and for more details on how this may impact your individual financial circumstances.

Pentegra can help you understand how the CARES Act impacts you.

We're here to help. Feel free to contact our team at 866-633-4015 or email us at customerservice@pentegra.com.

Follow our conversation.