

Coronavirus, Aid, Relief and Economic Security (CARES) Act

The Coronavirus, Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. The following provides some highlights regarding the legislation.

“Coronavirus-related” Distributions

Section 2202 of the CARES Act provides individuals with expanded opportunities, if allowed by the plan, to make withdrawals or take loans from their qualified retirement plan due to a “Coronavirus-related” event between January 1, 2020 and December 31, 2020.

Who is eligible for a “Coronavirus-related” Distribution?

Qualified eligible individuals are those who:

- Have been diagnosed with COVID-19, or whose spouse or dependent has been diagnosed with COVID-19
- Experienced adverse financial consequences due to being quarantined, laid-off, furloughed or experiencing a work reduction due to a COVID-19 related closure or work reduction or child-care facility closure.

What type of withdrawal can be made?

If allowed by the plan, participants can withdraw up to \$100,000, and the 10% early withdrawal penalty (for distributions made before age 59½) is waived. The participant has three years from the date of the distribution to repay the amount into a qualified retirement plan or IRA. If it is not repaid, the distribution is taxable, but the taxes can be repaid over a three-year period.

How have loans changed?

If allowed by the plan, loan amounts will increase from \$50,000 to the lesser of \$100,000 or 100% of the participant’s vested account balance. This will apply to loans initiated on or before September 23, 2020 (i.e. 180 days following date law was passed). This loan option is only for individuals that meet the same eligibility conditions outlined above for “Coronavirus-related” distributions.

Have adjustments been made to outstanding loans?

Yes. If the plan requires repayment of the loan from March 27, 2020 to December 30, 2020, then repayment may be delayed for a year for qualifying employees. Interest will continue to accrue, and the plan can extend the term of the loan for up to one year.

Is the plan sponsor required to verify whether an individual qualifies for a “Coronavirus-related” Distribution?

No, the plan sponsor may rely on participant’s direction for eligibility.

What changes have been made to Required Minimum Distributions (RMDs)?

RMD's are waived for the 2020 calendar year. This includes ongoing RMDs for participants who take minimum distributions annually as well as for participants whose Required Beginning Date is April 1, 2020 for the 2019 calendar year. If a RMD has already been received during 2020, the participant may roll it over and defer paying taxes, including rolling back into the plan.

Do I need to amend my plan for the new provisions to withdrawals, loans, and RMDs?

Yes. You can begin applying any of these new provisions immediately, but the plan must be formally amended to allow for those new options generally no later than the last day of the first plan year beginning on or after January 1, 2022.

Is there funding relief for defined benefit plans*?

Yes. For defined-benefit and money purchase pension plans, the minimum required contributions due during 2020 can be delayed to January 1, 2021. If contributions are delayed, the employer must pay interest from the original due date to payment date, using the effective rate of interest for the plan for the plan year that includes the payment date.

Please know, we are here to help. If you have any further questions, please do not hesitate to reach out to your Mutual of Omaha Representative.

*Please note, 401(k) plans are defined contribution plans; this paragraph pertains only to defined benefit plans. For plan sponsor and producer use only. Not for use with any participant.

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