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

On Friday, March 27, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. A number of items in the legislation impact qualified retirement plans, as well as pre-tax benefit plans. Below is a brief summary.

QUALIFIED RETIREMENT PLAN CHANGES

Plans may permit in-service distributions without regard to normal restrictions.

- Limited to $100K per tax year.
- Not subject to the mandatory 20% withholding.
- The 10% early withdrawal penalty does not apply.
- It can be rolled into an IRA or employer plan within 3 years.
- Amounts not rolled are included in taxable income over a 3-year period, unless the participant elects otherwise.
- The request must qualify as a "coronavirus-related distribution". The Act defines this as a distribution made in 2020 to an individual that was either diagnosed with COVID-19 or has a spouse/dependent diagnosed with COVID-19, or that experiences adverse financial consequences as a result of COVID-19.

Impact on 401(k) Loans

- Plans may allow participants to take loans up to the lesser of $100K or 100% of their vested balance.
- If requested by an eligible participant, sponsors **must** suspend loan repayments for up to 12 months.

Waiver of 2020 Required Minimum Distribution (RMD)

- If a participant is required to take a required minimum distribution for 2020, that requirement has been waived.

***If an Employer chooses to allow for the expanded distribution and/or loan provisions, a plan amendment will be required and must be in place no later than the last day of the 2022 Plan Year.**

PRE-TAX BENEFIT PLAN CHANGES

The Act allows individuals enrolled in a pre-tax account (FSA, HSA, HRA) to pay for over-the-counter (OTC) drugs and medicines without a prescription. This change is permanent.