



# THE CARES ACT OF 2020: HOW ARE RETIREMENT PLANS AFFECTED?

The Coronavirus Aid, Relief, and Economic Security, or “CARES Act”—the third emergency bill that Congress has passed in response to the novel coronavirus (COVID-19) pandemic—was signed into law on Friday, March 27, 2020. The CARES Act contains certain relief provisions for qualified retirement plans and IRAs.

## **PENALTY FREE DISTRIBUTIONS FROM IRAS AND CERTAIN RETIREMENT PLANS**

The bill waives the 10% early distribution penalty tax for “coronavirus-related distributions” (CRD) made any time in 2020 that would otherwise apply to most distributions made before turning age 59½. Thus, “qualifying individuals” can withdraw up to \$100,000 for a CRD from an IRA as well as employer workplace plans including 401(k), 403(b), and governmental 457(b) plans.

- Taken between 1/1/2020 and 12/31/2020
- Exempt from the 10% additional tax for early distributions
- Not subject to the 20% withholding requirements for qualified retirement plans
- Taxation can be over 3 years or all paid in year received
- Have 3 years from the day after the distribution to rollover to a qualified plan

These provisions apply to qualified individuals, defined as people who:

- Are diagnosed with COVID-19 or SARS-CoV-2 by a test approved by the Centers for Disease Control and Prevention;
- Have a spouse or dependent that was diagnosed with COVID-19 or SARS-CoV-2;
- Are unable to work due to lack of child care due to such virus or disease
- Experienced an adverse financial consequence as a result of being quarantined, furloughed or laid off, or having work hours reduced due to COVID-19 or SARS-CoV-2; or
- Any other factors determined by IRS/Treasury.

## TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTION (RMDs) RULES (SECTION 2203) FOR DEFINED CONTRIBUTION PLANS, INCLUDING 401(K), 403(B), 457, AS WELL AS IRAs

For 401(a), 401(k) 403(a), 403 (b) and governmental 457(b) plans and IRAs, temporary suspension of:

- Annual RMDs due in 2020
  - If first RMD was due 4/1/2020 and was NOT taken before 1/1/2020, it is waived
- Beneficiaries of Inherited IRAs and retirement plans
  - The 5 year rule is extended by one year

Also, please see an additional list of the CARES Act's important provisions to help investors better understand its potential ramifications:

- **DEATH DISTRIBUTIONS:**
  - 1 year extension on Death Distributions – 2020 distribution requirement waived, now you have 6 years to take distributions
- **401K LOANS:**
  - Loan limit increased to the lesser of \$100,000 or all of vested account balance
  - Loan payments are due dates between the date of CARES enactment (3/27/2020) and year-end
  - Participants self-certify that they are impacted
- **TAX FILING:**
  - Filing extended to 7/15/2020
  - Contribution deadlines extended to 7/15/2020
  - Corrections of excesses extended to 7/15/2020



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