

CARES Act

Frequently Asked Questions



What is the CARES Act?

The Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. While most of the Act is focused on economic stimulus, it includes a few new provisions that affect RMDs, in-service distributions and loans.

How does it affect RMDs?

All required minimum distributions (RMDs) are waived for the 2020 tax year. This waiver includes 2020 RMDs from inherited IRAs. For clients who turned 70 ½ in 2019, the waiver also includes RMDs that were due by April 1, 2020 and not taken in 2019.

Clients receiving RMDs through systematic payments will receive their 2020 RMD as planned, unless they request otherwise. They will receive a letter with this information.

If your clients already received their RMD for 2020, they may return it to us by April 30, and we will reverse the withdrawal. However, unless the IRS announces a more generous rule in the future, we cannot accept back an RMD from an inherited IRA.

How does the Act provide relief to clients affected by COVID-19?

The Act includes the following provisions for coronavirus-related distributions taken from an employer plan or IRA.

- 10% tax penalty for taking a distribution before age 59 ½ is waived.
- 20% mandatory federal income tax withholding for employer plans is waived.
- Income tax on the distribution may be paid over a three-year period. Note the full distribution amount will be reported on 1099s for 2020.
- Distributions may be rolled back into the employer plan or IRA within three years. Please note, the annuity contract's purchase payment requirements/restrictions will apply.
- Employer plans may be amended to add an exception to the distribution restrictions to allow such withdrawals.
- Early withdrawal charges and market value adjustments will apply.

The provisions do not apply to non-qualified contracts or inherited non-qualified contracts.

What qualifies as a coronavirus-related distribution?

A coronavirus-related distribution is a distribution made from an employer retirement plan or IRA to a person who is diagnosed with the coronavirus, or who has a spouse or dependent diagnosed with the coronavirus, or who has lost income due to being quarantined, being laid off, having reduced hours, being unable to work because of lack of childcare, or due to business closure or reduced hours on account of the coronavirus.

Distributions are limit to an aggregate amount of \$100,000.

How are loans affected by the act?

From now through September 23, 2020, an employer plan may be amended to increase the maximum loan to a qualified borrower to the lesser of \$100,000 or 100% of the vested account value. Additionally, an employer plan may be amended to allow for a one-year delay for any loan payments by a qualified borrower due between March 27 and December 31, 2020.

A qualified borrower is a plan participant who: is diagnosed with the virus, has a spouse or dependent diagnosed with the virus or has lost income on account of the virus.

Please note, the annuity contract loan limits will continue to apply. Not all contracts allow loans. When permitted, a loan from a fixed and fixed-indexed contract is generally limited to the surrender value reduced by \$500 and loan interest for the coming year. A loan from a variable contract is generally limited to 90% of the surrender value.