# Managing Through the Crisis: Evaluating Distribution and Loan Provisions under the CARES Act

May 8, 2020

# CARES ACT – DISTRIBUTION PROVISIONS

## Coronavirus-related plan distributions (§ 2202(a) of the CARES Act)

- **Defined contribution plans may permit coronavirus-related distributions in 2020 up to $100,000 (or 100% of the account balance, if less) to qualifying participants without the 10% early withdrawal penalty.**
- **Plan administrators may rely on a participant's certification that he or she is qualified.**
- **Participants can elect not to apply any withholding (the usual mandatory 20% withholding rule does not apply)**
- **Distributions are taxable ratably over three years unless the qualifying participant elects to be taxed immediately.**
- **Distributions also may be recontributed within three years to a rollover-eligible qualified defined contribution plan or IRA and would be treated as rollovers regardless of annual limits on contributions.**

# CARES Act –
# Loan Provisions

## Coronavirus-related plan loan provisions (§ 2202(b) of the CARES Act)

- **Defined contribution plans that permit participant loans may increase the maximum amount that may be taken as a plan loan by a qualifying participant from $50,000 to $100,000 (or 100% of the account balance, if less). Loans taking advantage of the increased limit must be initiated within 180 days of the enactment of the Act (i.e., before September 23, 2020).**

- **Defined contribution plans may permit qualifying participants to delay loan repayments scheduled in 2020 by one year, with interest but without penalty.  (IRS FAQs released 5/4/20 confirmed "may".)**

Separate from the CARES Act, IRS Notice 2020-23 gives plan participants the right to suspend outstanding loan payments for the period between April 1 and July 15, until July 15th.

# CARES Act –
# Distribution and Loan Provisions

## Qualifying Participant

**Any participant who (or whose spouse or dependent) is diagnosed with coronavirus or who faces adverse financial consequences because of coronavirus. These adverse financial consequences must result from:**

- being quarantined,
- being furloughed or laid off or having work hours reduced,
- being unable to work due to lack of childcare,
- closing or reducing hours of a business owned or operated by the participant, or
- other factors as determined by the U.S. Treasury.

**IRS FAQs released 5/4/20 did not provide guidance about the "other factors," although the IRS explicitly left the door open to providing such guidance at a later date.**

# TODAY'S SPEAKERS

**Melanie Walker**

**Segal Marco Advisors**

Senior Vice President

**Rennie Worsfold**

**Custodia Financial**

Executive Vice President

**Jodi Epstein**

*(Moderator)*

**Ivins, Phillips & Barker**

Employee Benefits Partner