

What plan sponsors need to know about the CARES Act

The recently enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act is a \$2 trillion fiscal stimulus bill intended to provide broad relief to address the impact of COVID-19.

The law provides wide-ranging support to individuals, businesses, and state and local governments. It includes several Individual Retirement Account (IRA) and retirement plan provisions, which are summarized below.

1. Coronavirus-related distribution

- a. **Optional provision.**
- b. A new distribution from a plan or IRA called a "coronavirus-related distribution" (CRD) is available.
- c. A CRD is a 2020 distribution to an "affected individual" (1) diagnosed with COVID-19, (2) whose spouse or dependent was diagnosed, or (3) who experiences adverse financial consequences due to quarantine, being furloughed or laid off, or having work hours reduced due to such virus, being unable to work due to lack of child care due to such virus, closing or reducing hours of a business owned or operated by the individual due to such virus, or (4) other factors as determined by the Secretary of Treasury.
- d. The plan administrator may rely on an employee's certification that they satisfy the conditions as an affected individual.
- e. The CRD must be made on or after January 1, 2020 and before December 31, 2020. The maximum amount for an individual is \$100,000 which is aggregated across retirement plans and IRAs.
- f. CRDs are not subject to the 10% penalty that otherwise would be applicable for distributions taken before age 59½.
- g. Taxation of the CRD may be spread over three (3) years by the participant.
- h. CRDs can be repaid to an IRA or retirement plan (treated as a rollover) within three (3) years after the distribution.

2. Participant loan limits and repayments

- a. **Optional provision for plan sponsors to increase the loan limits.**
- b. To be eligible for the loan relief, a participant must meet the same eligibility criteria for affected individuals listed above relative to a CRD.
- c. For a period from March 27, 2020 until September 23, 2020, affected individuals can take plan loans up to a lesser of \$100,000 or 100% of their vested plan account balance.
- d. An affected individual with an existing loan can also delay loan repayments otherwise due for the rest of 2020 by a year and reamortize payments.

The decision to delay a loan repayment is available to participants regardless of whether their employer adopts the change in loan limits listed above.

3. Required minimum distributions (RMDs) waived for 2020

- a. **Mandatory provision.**
- b. RMDs are waived for all types of defined contribution plans, which include 401(k) plans, 403(b), 457(b) plans (maintained by a state or local government), and IRAs. No RMD waiver is available for defined benefit plans.
- c. The RMD waiver applies to IRA owners, plan participants, and beneficiaries taking RMDs under the life expectancy rules.
- d. For beneficiaries required to take RMDs under the five-year rule, 2020 is not counted as part of the five year period.

4. Plan amendments

Plans have until at least the end of the 2022 plan year (or later as the Department of Treasury may provide) to adopt amendments related to the CARES Act.

5. Next steps

Vanguard is gearing up to handle requests from plan participants seeking to take advantage of the greater access to their accounts as provided by the CARES Act.

To add CRDs and increase plan loan limits, Vanguard is developing processes for plan sponsors to implement these provisions. Your relationship manager will contact you with additional details.

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We recommend that you consult a tax or financial advisor about your individual situation.

All investing is subject to risk, including the possible loss of the money you invest.

