Coronavirus-Related Distributions (CRDs), RMDs, and Loans:

What You Need to Know

FuturePlan
by Ascensus

In response to the economic effects of the coronavirus (COVID-19), Congress passed the largest relief package in our nation's history: the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act created a new distribution event for retirement plans called a "Coronavirus-Related Distribution" or CRD, along with expanded loan and RMD options for plan sponsors and participants during this challenging time. We address these changes below.

Qualified Individuals May Self-Certify and Take a CRD if They Meet Any of These Requirements:

- They are diagnosed with the SARS-CoV-2 virus or COVID19 disease in a test approved by the Centers for Disease Control and Prevention (CDC).
- Their spouse or dependent is diagnosed with the SARS-COV-2 virus or COVID-19 disease in a test approved by the CDC.
- They have experienced adverse financial consequences due to such virus or disease as a result of themselves, their spouse, or a member of the individual's household*
    - 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 individual, their spouse, or a member of the individual's household
    - having a reduction in pay (or self-employment income)
    - having a job offer rescinded or start date for a job delayed
- Other factors as determined by the Secretary of the Treasury (visit **here** for the latest guidance)

**A member of an individual's household is someone who shares the individual's principal residence.*

Plan Sponsors Have the Option to Allow CRDs, Subject to Additional Qualifications and Regulations.

- Whether an individual can take advantage of the tax benefits of the CRD provision depends on the type of plan. Defined benefit plans and money purchase pension plans would have to have an existing distribution triggering event (such as a termination of employment or an in-service distribution at age 59 1/2). A defined contribution plan, however, may add the CRD as a new distribution reason and be amended later.
- Must be requested and distributed before December 15, 2020 (to ensure processing by December 30).
- **Cannot be more than $100,000 in total, which includes distributions from all eligible retirement plans or IRAs.**
- Not subject to 20% mandatory withholding or 10% early distribution penalty (participant may waive the applicable 10% withholding).
- **For personal income taxes, CRDs can be taxed ratably over a 3-year period instead of all in 2020.**
- To be eligible, the plan must be a ***qualified*** retirement plan (e.g., a 401(k) plan, 403(b) plan, governmental 457(b) plan, defined benefit/cash balance plan, or an IRA). An employer that allows CRDs must comply with the new rules and amend the plan for this provision by the end of 2022 (2024 for governmental plans).
- Individuals may make one or more CRD repayments of the amount distributed over three years, which they can recontribute to any eligible retirement plan or IRA. The CRDs that are recontributed within the three-year period, beginning the day after the individual receives the distribution, will be treated as having satisfied the general 60-day rollover requirement.

- Even if a plan does not allow CRDs, a qualified individual may treat an allowable distribution as a CRD if it meets the CRD requirements and if it is reported on the individual's tax return.
- Defined Benefit and Money Purchase Plans: The CARES Act permits tax-favored Coronavirus-related distributions (CRDs) for qualified individuals affected by the coronavirus if they take distributions between January 1, 2020 and December 31, 2020. For defined benefit and money purchase pension plans, an existing distributable event (such as an in-service withdrawal) must be available in order for an individual to qualify for CRD tax benefits. A qualified individual may treat a distributable event as a CRD if all CRD requirements met and it is reported on the individual's tax return.

Plan Sponsors Have the Option to Allow Loan Repayment Relief and Loan Expansion.

- **Qualified individuals may take a loan for an amount up to the lesser of $100,000 or 100 percent of the vested benefit (e.g. account balance).** This increased amount applies to loans made during the 180-day period beginning on March 27, 2020.
- **Loan repayment may be delayed up to a year for any amounts due from March 27, 2020 through December 31, 2020.** A plan sponsor that does not currently offer plan loans needs to amend its plan by the end of the plan year beginning on or after January 1, 2022. Plan sponsors that have plans with existing loan provisions and who wish to add these provisions must operationally comply with the new rules until they retroactively amend their plans.
- The plan document must allow for loans in a DB plan (may amend later). We suggest exhausting the participant loans first from their DC plan whenever possible to reduce the loan administration burden in the DB plan.

Required Minimum Distribution (RMD) Waiver and Legislative Updates

- **Due to the CARES Act, Plan participants, IRA owners, and beneficiaries do not need to withdraw their 2020 required minimum distributions (RMDs).** This waiver also applies to individuals who turned 70½ in 2019 but who did not take their first RMD before January 1, 2020. The SECURE Act increased the RMD age to 72 beginning in 2020.
- The legislation does not change an individual's required beginning date for RMDs. For example, the RMD deadline for individuals whose required beginning date is April 1, 2020 (for their 2019 RMD), is not extended to April 1, 2021; rather, they can waive their 2020 RMD, but they must take their 2021 RMD by December 31, 2021.
- For beneficiaries taking distributions over a five-year period, 2020 is disregarded and one year is added to the remaining period. For example, for deaths occurring in 2019, the five-year period in which the inherited assets must be distributed will end on December 31, 2025, instead of on December 31, 2024.
- A distribution that is taken in 2020—but that is not treated as an RMD because of the waiver—may be rolled over to another eligible retirement plan or to an IRA within 60 days of the distribution. (This assumes that the individual is otherwise eligible to roll over the distribution.)

Hardship Distributions

Based on current guidance, hardship withdrawal availability has not changed due to COVID-19. However, more individuals may be eligible to take a hardship withdrawal due to the disaster declarations made.

We're here for you.

Reach out to your FuturePlan TPA consultant for support and expert guidance throughout this difficult time. We're ready to help you answer client questions and make informed decisions, connecting you with ERISA experts and providing any other expert advice you may need.