Retirement Plan Relief in Consolidated Appropriations Act, 2021

FuturePlan by Ascensus

What You Need to Know

The Consolidated Appropriations Act, 2021 (CAA), signed into law on December 27, 2020, contains relief for various industries, small businesses, and individuals—including provisions that affect retirement plans. Additional details are provided below.

Qualified Disaster Relief: Distributions and Loans

CAA provides relief for those who have experienced an economic loss because of a "qualified disaster" and whose principal residence is located in a presidentially declared disaster area. This relief closely mirrors the coronavirus-related distribution (CRD) rules found in the CARES Act. However, this is not available for disaster declarations made solely due to COVID-19. As with CRDs, these disaster-related provisions are also optional for employer-sponsored retirement plans.

Qualified Disaster Distributions

- Individuals can distribute up to $100,000 for disasters where FEMA offered individual assistance (a list of the qualifying disasters can be found in Table 1 in the Form 8915-E instructions) that began on or after December 28, 2019, and ended on or before December 27, 2020. The disaster distribution must be taken by June 25, 2021.
- Qualified disaster distributions are not subject to the 10% early distribution penalty tax when participants file their income tax return.
- Qualified disaster distributions are taxed equally over 3 years (unless the taxpayer chooses taxation in the distribution year), and may be repaid within 3 years of the distribution date.
- Individuals can take distributions from IRAs and employer-sponsored retirement plans. Distributions from 401(k), 403(b), governmental 457(b), and money purchase plans are not subject to 20 percent withholding or to IRC Sec. 402(f) notification requirements.
- Individuals who have other distributable events may qualify for relief even if the plan does not add these disaster-related provisions.

Return of Withdrawals for Hardship Distributions or First-Time Homebuyer Purchases

Individuals who meet the following requirements may repay hardship distributions or first-time homebuyer distributions taken to purchase or construct a principal residence before June 25, 2021.

- The individual received the distribution 180 days before the disaster (defined by FEMA) to 30 days after the disaster ended.
- The principal residence is in the disaster area.
- The individual did not use the distribution because of the disaster.

Disaster-Related Plan Loan Relief

- Loans may be taken for up to $100,000 or the participant's vested account balance, whichever is less. This increased limit is available to eligible participants who take a loan within 180 days following December 27, 2020.
- Loan payments due on or after the first day of the disaster incident period and until 180 days after the end of the disaster incident period may also be suspended up to a year (or, if later, June 25, 2021) and the term of the loan extended for the time the payments were delayed, with the interest continuing to accrue during that time. This loan relief is similar to the loan provisions provided in the CARES Act.

Plan Amendment Deadline

Plan documents will need to contain language allowing for disaster relief. Some documents may already reference disaster relief found in the Internal Revenue Code and would not need to be amended. Other documents that may refer to disasters specifically, such as by name or date range, would need to be amended by the end of the plan year, beginning in 2022. Governmental plans have an additional two years to amend, so they must be amended by the end of the plan year, beginning in 2024.

NEW COVID-19-Related Relief

Partial Plan Termination Relief

CAA provides temporary relief from the partial plan termination rules for employers who laid off or furloughed portions of their workforce. If an active participant count as of March 31, 2021, is at least 80% of the active participant count at the time the coronavirus national emergency was declared (March 13, 2020), a plan will not be treated as having a partial plan termination.

Change to Medical Expense Penalty Exception

The annual amount of unreimbursed medical expenses that individuals must incur in order to claim an exception to the 10% early distribution penalty tax has been permanently reduced from 10% of adjusted gross income to 7.5%. This provision applies to taxable years beginning on or after January 1, 2021.

Qualified Future Transfer Elections

CAA provides relief for certain defined benefit plan excesses transferred to health benefit accounts. Employers have until December 31, 2021, to end an existing transfer period. If certain requirements are met, employers can make qualified future transfer elections and transfer excess pension assets to health benefit accounts.

Looking Ahead

FuturePlan will continue to monitor legislative activity pertaining to coronavirus relief. Visit futureplan.com for future updates

We're here for you.

Reach out to your FuturePlan Consultant for support and expert guidance. 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.