CARES Act
Retirement Plan Withdrawals

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CARES ACT

Summary of Relevant Provisions for Advisors and their clients that work with SEI

On March 27, 2020, President Donald Trump signed into law a $2 trillion stimulus package titled the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act is intended to lessen the impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses, by providing various forms of emergency relief. The CARES Act is the third relief package in response to COVID-19 and the largest package in American history. The CARES Act covers a broad range of stimulus measures including:

- tax recovery rebates of up to $1200 per individual and an additional $500 per child, subject to limits;
- temporary expansion of unemployment benefits;
- changes to the rules governing employee benefit plans and IRAs, business income, losses and charitable contributions;
- various loan programs and grants for small businesses;
- employment-related tax credits and tax deferrals; and
- loans, grants and other forms of assistance to distressed industries.

This summary focuses on the relevant parts of the CARES Act that we believe are of interest to Advisors and their clients that work with SEI.

RETIREMENT PLAN WITHDRAWALS

Can I make a withdrawal from my IRA or 401(k) plan if I have been affected by COVID-19?

Maybe. The CARES Act permits IRAs and 401(k) plans (and certain other types of retirement plans) to make "coronavirus-related distributions." A coronavirus distribution is any distribution from an IRA or eligible retirement plan that is made in 2020 to an individual:

- who is diagnosed with COVID-19;
- whose spouse or dependent is diagnosed with COVID-19; or
- who has experienced adverse financial consequences as a result of

- being quarantined, furloughed or laid off due to COVID-19,
- having reduced work hours due to COVID-19,
- being unable to work due to lack of child care because of COVID-19, or
- if you are a business owner, the closing or reduction of hours of your business due to COVID-19.

Retirement plans are not required to offer coronavirus-related distributions. You should contact your plan administrator to find out whether your plan provides them.

How much can I withdraw from my IRA or 401(k) plan as a coronavirus distribution?

You can withdraw up to a total of $100,000 in 2020 from your IRA or eligible retirement plan as a coronavirus distribution. This amount can be withdrawn all at once from one plan or IRA or in multiple withdrawals from one or more plans or IRAs, provided the total amount for 2020 does not exceed $100,000.

What if I am still working full-time and neither I nor my spouse or dependents have COVID-19, but I have lost income due to the general business slow down. Is a coronavirus-related distribution available under those circumstances?

It is not clear whether a coronavirus-related distribution would be permitted in this situation. We expect that the IRS will issue addition guidance soon. Hopefully, it will address this situation.

If you cannot take a coronavirus-related distribution because you do not meet the criteria, you still may be able to take a distribution from your IRA or 401(k) plan if you meet other requirements. For example, if you are over age 59 ½ or experiencing a financial hardship, you may be able to take a distribution from your 401(k) plan. The standards for a hardship distribution are quite strict, however. You should check your summary plan description or plan document to see whether you are eligible for a distribution.

Do I have to pay tax on a coronavirus-related distribution?

Yes, but the CARES Act provides special favorable tax treatment for these distributions.

Generally, if you take a distribution from an IRA or 401(k) plan, the amount is included in income in the year of distribution and, if you are under age 59 ½, the amount is subject to an additional 10% tax on early withdrawals. Distributions from 401(k) plans are also generally subject to 20% withholding.

Coronavirus-related distributions are not subject to the 10% additional tax, are not subject to 20% withholding, and are includable in income ratably over 3 years, unless you elect to have the entire amount included in income in the year of distribution.

Can I repay a coronavirus-related distributions?

Yes. You are permitted to repay all or part of a coronavirus-related distribution at any time during the three years following the distribution. Repayments are treated like tax-free rollover contributions.

Can I take a loan from a 401(k) plan instead of a distribution?

Maybe. You can take a loan from your 401(k) plan if the plan permits loans and you meet the applicable requirements. If you meet the requirements for a coronavirus-related distribution, you may be able to borrow more than is normally permitted and postpone some of the loan repayments. To be eligible for these special loan provisions, you must:

- be diagnosed with COVID-19;
- have a spouse or dependent diagnosed with COVID-19; or
- have experienced adverse financial consequences as a result of
  - being quarantined, furloughed or laid off due to COVID-19,
  - having reduced work hours due to COVID-19,
  - being unable to work because of lack of child care due to COVID-19 or
  - if you are a business owner, the closing or reduction of hours of your business due to COVID-19.

Loans from IRAs are not permitted.

How much can I borrow from a plan?

If you are an eligible individual described above, you may be able to borrow up to the lesser of $100,000 or 100% of your vested account balance. This special rule applies to loans made in the 6 months following enactment of the CARES Act (up to approximately September 27, 2020). If you are not an eligible individual (or your plan does not adopt the higher loan limits), you may be able to borrow up to the lesser of $50,000 or 50% of your vested account balance.

How long can I take to repay a plan loan?

Generally, a retirement plan loan must be repaid within 5 years (except for a home loan), but, if you are an eligible individual described above, you can postpone for one year any loan payment that is otherwise due between March 27 and December 31, 2020, so that the five-year clock for repayment begins on January 1, 2021.

If I previously took a loan, can I also postpone my loan repayments?

Maybe. If you are an eligible individual described above, you may be able postpone for one year any plan loan payments otherwise due between March 27 and December 31, 2020, if your plan permits the deferral.

Does interest accrue on the loan payments that are suspended?

Yes. Interest still accrues on suspended payments. The remaining payments must be adjusted to reflect the accrued interest.

Are retirement plans required to allow coronavirus related distributions and loans?

No. Plans are not required to permit these distributions or loans, and some plan recordkeepers may not be able to program their systems immediately (or ever) to accommodate these new options.

Independent Advisor Solutions by SEI, a strategic business unit of SEI Investments Company (SEI).

For additional information regarding the CARES Act, please visit https://www.congress.gov/bill/116th-congress/house-bill/748/text

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