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Participant Perspectives

What the CARES Act Means for Retirement Plan Participants

The Coronavirus Aid, Relief, and Economic Security (CARES) Act offers about $2 trillion in funds to help the nation weather the pandemic. The portions of the law that are particularly relevant to individuals who participate in qualified retirement plans are highlighted in the questions and answers that follow.

Please be aware that the CARES Act does not require retirement plans to include the early distribution and loan provisions discussed below. Participants should check with their plan to determine which options, if any, are available to them.

May participants affected by the coronavirus take an early distribution from their retirement plan without incurring a penalty?

Possibly, if their plan provides for "coronavirus-related distributions" and they qualify for the distribution. Under the CARES Act, coronavirus-related distributions of up to $100,000 from a retirement plan or individual retirement account (IRA) made to a qualifying individual are not subject to the 10% additional tax that generally applies to distributions taken before age 59½.

What is the time frame for taking these penalty-free distributions?

Distributions may be taken on or after January 1, 2020, and before December 31, 2020.

Who qualifies for the distributions?

Individuals who are diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention qualify, as do individuals whose spouse or dependent is diagnosed with the virus or disease. Other qualifying individuals include those who experience adverse financial consequences as a result of:

- Being quarantined, furloughed, laid off, or having work hours reduced due to the SARS virus or COVID-19;
- Being unable to work due to lack of child care due to the virus or disease;
- Closing or reducing hours of a business they own or operate due to the virus or disease; or
- Other factors as determined by the Treasury Secretary.

How are coronavirus-related distributions taxed?

The taxable amount of a coronavirus-related distribution is included in gross income ratably over three tax years. Alternatively, taxpayers may elect to include the entire taxable amount in income in the year received.

May distributions be repaid to the plan or IRA?

Yes. Individuals may repay the amount distributed by making one or more contributions at any time during the three-year period following the date of distribution. These repayments would be treated as rollover contributions and would not be subject to income tax or to the retirement plan's contribution limits. Rollovers could be made to either the plan or another IRA.

Are plan loan limits increased by the CARES Act?

Yes. The law doubles the current retirement plan loan limits to the lesser of $100,000 or 100% of the participant's vested account balance in the plan. The increased loan limits are effective for the 180-day period beginning March 27, 2020 and ending on September 23, 2020. These increased loan limits are only applicable in retirement plans that have adopted them, and participants may take advantage of the higher limits and the loan repayment relief described next only if they qualify. The

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qualifying conditions are the same as those outlined above for coronavirus-related distributions.

Are plan loan repayments affected?

Yes. If their plan so provides, qualifying individuals with an outstanding loan (on or after March 27, 2020) can delay loan repayments due during the period from March 27, 2020 to December 31, 2020 for up to one year.

Are required minimum distributions (RMDs) affected by the CARES Act?

Yes. The law permits 2020 RMDs from defined contribution retirement plans (and 2019 RMDs that need to be taken by April 1, 2020) to be delayed for one year. Individuals who have already taken these RMDs may roll the amounts into their retirement plan if the plan allows.

Does this RMD relief only apply to 401(k) plans?

No. Other defined contribution plans, such as Section 403(b) plans, Section 457(b) plans, and IRAs, are included in the RMD waiver.

Does the CARES Act provide additional help for individuals?

Yes. Other important provisions include:

- **Recovery rebate for individuals.** Individuals will be eligible for a 2020 advance refundable tax credit of up to $1,200 ($2,400 for married couples filing a joint return), plus $500 for each child under 17 years old. This rebate will be reduced by 5% of adjusted gross income (AGI) in excess of $150,000 for a joint return, $112,500 for a head of household, and $75,000 for all others. Returns filed for 2019 will be used to determine AGI for rebate purposes. Alternatively, if a 2019 return hasn't been filed yet, the IRS will use a taxpayer's 2018 return (or if no 2018 return has been filed, the individual's Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement).
- **Charitable contributions.** For tax year 2020, taxpayers who do not itemize their deductions may deduct from gross income up to $300 of cash contributions to qualified charitable organizations.
- **Employer payments of student loans.** Employees may exclude from income student loan repayments made after March 27, 2020 and before January 1, 2021 under an employer's educational assistance program, subject to the overall annual limit of $5,250 that applies to these programs.

As always, you should consult with your retirement plan administrator for information about your plan's specific provisions and your tax advisor for guidance on how to best navigate this new law and what portions of it are most relevant to you and your financial situation.

Time Is Your Friend in Investing

The longer your money is invested in your retirement plan, the more you potentially benefit from compounding.

If an uncle died and left you $50,000 in his will, would you prefer to get your hands on that money today or wait a year to receive it? Most likely, your answer would be: "Now, please." You know instinctively that the sooner you receive the money, the sooner you can benefit from it.

It works much the same way with saving for retirement. The sooner you begin adding more to your retirement plan, the more time your extra contribution will have to grow and compound. Compounding is basically money making money. And time is a big part of the magic of compounding. The longer your money is invested, the more you potentially benefit from compounding.

The cumulative result after years of contributions and earnings may be the nest egg you'll need to see you through your retirement years. You can put time and compounding to work on your behalf right away by increasing your retirement plan contribution.

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Growing Your Savings	
An extra retirement plan contribution of $200 a month could potentially grow to:	
After 10 years	**$32,776**
After 20 years	**$92,408**
After 30 years	**$200,903**
After 40 years	**$398,298**

Source: SS&C Technologies, Inc.

This is a hypothetical example used for illustrative purposes only and is not representative of any particular investment vehicle. It assumes a 6% average annual total return compounded monthly. Your investment performance will differ.

2020 Retirement Plan Limits

The IRS has released retirement plan limitations for 2020. Noticeably, the dollar limits on contributions to employer-sponsored retirement plans and individual retirement accounts (IRAs) have increased from 2019 amounts. There are several other changes of note. The details can be found in the charts below.

Employer-Sponsored Plans	2020	2019
Elective Deferral Limits:		
401(k) plans, 403(b) plans, most 457 plans, Federal TSP		
Regular contributions	$19,500	$19,000
"Catch-up" contributions (individuals age 50 or older)	$6,500	$6,000
SIMPLE IRAs, SIMPLE 401(k)s		
Regular contributions	$13,500	$13,000
"Catch-up" contributions (individuals age 50 or older)	$3,000	$3,000
Annual addition limit: Defined Contribution Plans	$57,000	$56,000
Annual benefit dollar limit: Defined Benefit Plans	$230,000	$225,000
Limit on compensation that can be taken into account for most purposes	$285,000	$280,000
Key employee definition: compensation threshold	$185,000	$180,000
Highly compensated employee: compensation threshold	$130,000	$125,000
SEP plan: minimum compensation amount	$600	$600

Roth IRAs	2020	2019
Maximum regular contribution	$6,000	$6,000
"Catch-up" contribution (individuals age 50 or older)	$1,000	$1,000
Contribution phase-out range		
Single	$124,000–$139,000	$122,000–$137,000
Married filing jointly	$196,000–$206,000	$193,000–$203,000
Married filing separately	$0–$10,000	$0–$10,000

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Traditional IRAs		
	2020	**2019**
Maximum regular contribution	$6,000	$6,000
"Catch-up" contribution (individuals age 50 or older)	$1,000	$1,000
Deductibility phase-out range for those covered by an employer-sponsored retirement plan		
Single	$65,000–$75,000	$64,000–$74,000
Married filing jointly	$104,000–$124,000	$103,000–$123,000
Married filing separately	$0–$10,000	$0–$10,000
Deductibility phase-out range for individuals not covered by an employer-sponsored retirement plan but filing a joint return with a spouse who is covered by an employer-sponsored retirement plan	$196,000–$206,000	$193,000–$203,000

Contact Information

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