Retirement Planning in 2020

No plan, personal or financial, should ever be written in stone. Plans should be adjusted as circumstances change and events alter the big picture. This is particularly true when it comes to planning for one's future retirement security. The recent economic shocks to the financial system brought on by the advent of COVID-19 will invariably force all those who are planning their retirement to reassess the soundness of their strategies. Additionally, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, federal legislation enacted in response the crisis, could impact how we think about taking distributions, loans, and required minimum distributions from our retirement plans.

What follows are some issues you should consider when it comes to your retirement planning in light of the economic downturn and the passage of the CARES Act.

Take Your Temperature for Investment Risk

The steep declines in the major stock indices during the first few months of 2020 are reason to revisit your capacity to handle investment risk. If up and down movements in the prices of stock investments kept you awake at night, then you may not be as able to go far out on the risk scale as you once thought. It may be time to take another look at how you have divided up your assets in your plan account and take on less investment risk.

Reexamine Your Contribution Levels

If you can afford to contribute more of your salary to your retirement plan, you should consider doing so. Effective retirement planning is in many ways about deferred gratification-- you make small sacrifices in the present for the opportunity to have a better future. See where you can reduce your current expenses so that you can have more money available to contribute to your retirement plan.

Rethink Your Retirement Timetable

If you are close to the time you expected to retire but are still capable of working in your present job, you might want to rethink your planned retirement date. When you work an additional year or two, you may be able to delay withdrawals and add more money to your retirement savings. Moreover, if you delay your retirement just one year past your full retirement age (FRA)-- the age at which you become eligible for full Social Security retirement benefits-- your benefit increases by 8%.

Understand the CARES Act's Retirement Provisions

The CARES Act allows eligible individuals to take what are called "coronavirus-related distributions" of up to $100,000 in 2020 from their retirement plans. However, retirement plans have discretion whether or not to offer this option. These distributions are not subject to the 10% additional tax that generally applies to distributions taken before age 59½. Coronavirus-related distributions from an individual retirement account (IRA) are also penalty free.

If your plan provides for coronavirus-related distributions and you wish to take an early distribution, you will have to certify that you qualify. Under the CARES Act, you can qualify if:

- You are diagnosed with the virus SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention;
- Your spouse or dependent is diagnosed with the virus or disease; or
- You experience adverse financial consequences as a result of:
    - o Being quarantined, furloughed, laid off, or having work hours reduced due to the SARS virus or coronavirus disease;
    - o Being unable to work due to a lack of child care due to the virus or disease;
    - o Closing or reducing hours of a business you own or operate due to the virus or disease; or
    - o Other factors as determined by the Treasury Secretary.

The taxable amount of a coronavirus-related distribution is included in income ratably over three tax years or you may elect to include the entire amount in income in the year received. To help keep savings intact for retirement, repayment is allowed at any time during the three-year period following the date of distribution.

If your plan offers participant loans, it may allow you to borrow more from your plan account to help during the coronavirus crisis. The CARES Act doubles the current retirement plan loan limits to the lesser of $100,000 or 100% of a 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 22, 2020. The qualifying conditions are the same as those outlined above for coronavirus-related distributions.

In addition, the Act allows borrowers to delay loan repayments due from March 27, 2020, to December 31, 2020, for up to one year. This one-year delay applies to loans outstanding on or after March 27, 2020. Note, however, that plans are not required to implement the increased loan limits or the extended loan repayment periods.

Know Your RMD Options

The CARES Act waives RMDs due for 2020 from IRAs and other defined contribution plans, such as 401(k), 403(b), and 457(b) plans. The suspension includes 2020 RMDs and initial RMDs that were due by April 1, 2020, for individuals who turned 70½ in 2019.

Retirement planning is an ongoing process, one that requires thought and flexibility on your part. You might benefit from the insights that an experienced financial professional can bring.

Required Attribution (on page 4)

RETIREMENT PLAN CONSULTANTS

RPC NEWS

Special Edition

COVID-19 Newsletter

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 coronavirus disease;
- 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 22, 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 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 professional for guidance on how to best navigate this new law and what portions of it are most relevant to you and your financial situation.

Required Attribution (on page 4)

What Plan Sponsors Need to Know About the CARES Act

The recently enacted CARES Act provides relief for individuals who have suffered financially from the ravages of the COVID-19 virus. The Coronavirus Aid, Relief, and Economic Security Act, which the President signed into law on March 27, 2020, includes measures designed to allow increased access to retirement accounts and potential tax relief for related withdrawals.

Retirement plan sponsors should review the CARES Act provisions and assess how they may impact their plans and participants. Following is a general outline of the new law.

What can I expect as a plan sponsor?

The Act includes relaxed rules on plan distributions and loans. If you intend to adopt these provisions, you will want to make sure you have the systems in place to handle them. You will also have to be prepared to deal with a potential uptick in the number of participants in your retirement plan seeking information on how they can access some of the money in their plan accounts.

How does the CARES Act change the rules on plan distributions?

The Act permits eligible retirement plans to allow qualified individuals to take in-service distributions of up to $100,000 from their plan accounts-- including distributions of 401(k) deferrals-- without incurring the 10% additional tax on early distributions that would otherwise generally apply to distributions made prior to age 59½. These "coronavirus-related distributions" may only be made to a "qualified individual" on or after January 1, 2020, and before December 31, 2020. Penalty-free coronavirus-related withdrawals may also be taken from individual retirement accounts.

Who is a "qualified individual" for purposes of coronavirus-related distributions?

The category includes any individual who has been diagnosed with the SARS-CoV-2 virus or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention or whose spouse or dependent has been diagnosed. It also includes individuals who experience adverse financial consequences as a result of:

- Being quarantined, furloughed, laid off, or having work hours reduced due to SARS-CoV-2 or COVID-19;
- Being unable to work on account of a lack of childcare due to the virus or disease;
- Closing or reducing hours of a business owned or operated by the individual due to the virus or disease; or
- Other factors as determined by the Treasury Secretary.

How do we determine that an employee satisfies the conditions?

The law provides that the plan administrator of an eligible retirement plan may rely on an employee's certification that the employee satisfies the conditions.

How are the 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.

Do the plan distributions have to be repaid?

No. However, a plan may allow individuals to repay the amount distributed by making one or more contributions at any time during the three-year period following the date of distribution. The repayments would be treated as rollover contributions to the retirement plan and would not be subject to income tax or to the plan's contribution limits.

How does the CARES Act relax the rules on plan loans?

The Act temporarily doubles the maximum amount that a qualified individual may borrow from his or her plan account from $50,000 to $100,000 and increases the percentage limit from 50% to 100% of the vested account balance. These loan limits are effective for the 180-day period beginning March 27, 2020 and ending on September 22, 2020.

Additionally, qualified individuals with an outstanding loan (on or after March 27, 2020) may delay loan repayments due during the period from March 27, 2020 to December 31, 2020 for up to one year. The extension of loan due dates may present plan sponsors with some difficulties since it is likely to require communications with employees as well as the updating of loan procedures.

Plans that allow loans may-- but are not required to-- incorporate the increased loan limits and delayed repayment provisions.

(continued on next page)

What Plan Sponsors Need to Know About the CARES Act

(continued from previous page)

Would participants have to satisfy any conditions for the loan relief?

Only "qualified individuals" may take advantage of the higher loan limits or delayed loan repayments. The same rules that apply for coronavirus-related distributions (outlined above) are used to determine if an individual qualifies.

Are there changes regarding required minimum distributions (RMDs)?

Yes. The Act waives 2020 RMDs from defined contribution retirement plans (and IRAs). The suspension also applies to participants who turned 70½ in 2019 and did not receive their first RMD before January 1, 2020. Individuals who have already taken these RMDs may roll the amounts into the retirement plan if the plan so allows.

Amounts distributed in 2020 that would have been required minimum distributions except for the Act are not treated as eligible rollover distributions and would not require employers to provide the special tax notice under 402(f) of the Internal Revenue Code.

Am I required to offer these reforms in my plan?

No, the provisions are optional. Plan sponsors will need to choose which options, if any, they may wish to add to their plan. These changes will, however, require a plan amendment.

When will our plan need to be amended?

Amendments to reflect the CARES Act must be made by the last day of the first plan year beginning on or after January 1, 2022 (e.g., by December 31, 2022 for a calendar-year plan).

Required Attribution

Retirement Planning in 2020

(page 1)

Required Attribution

What the CARES Act Means for Retirement Plan Participants

(page 2)

Required Attribution