Trump signs bipartisan CARES bill that includes retirement plan provisions

The Senate cleared the bipartisan Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), by a 96-to-0 vote late on March 25, 2020. The House voted also to pass the massive, $2 trillion tax and spending "phase three" COVID-19 emergency relief package on March 27, 2020. President Trump signed the measure on March 27, 2020, which includes retirement plan provisions.

Retirement plan provisions

Consistent with previous disaster-related relief, the provision waives the 10-percent early withdrawal penalty for distributions up to $100,000 from qualified retirement accounts for coronavirus-related purposes made on or after January 1, 2020 and before December 31, 2020. In addition, income attributable to such distributions is subject to tax over three years, and the taxpayer may recontribute the funds to an eligible retirement plan within three years without regard to that year's cap on contributions.

A coronavirus-related distribution is a one made to an individual: (1) who is diagnosed with COVID-19, (2) whose spouse or dependent is diagnosed with COVID-19, or (3) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Treasury Secretary.

Furthermore, the provision provides flexibility for loans from certain retirement plans for coronavirus-related relief. The relief applies to loans to a qualified individual made during the 180-day period beginning on the date of the enactment of the legislation for amounts up to $100,000. If the due date under paragraph (B) or (C) of Code Sec. 72(p)(2) for any repayment for the loan occurs during the period beginning on the date of the enactment of the bill and ending on December 31, 2020, the due date is delayed for one year. A qualified individual is defined above for coronavirus-related plan distributions.

The provision waives the minimum required distribution rules for certain defined contribution plans and IRAs for calendar year 2020. This provision provides relief to individuals who would otherwise be required to withdraw funds from such retirement accounts during the economic slowdown due to COVID-19.

The Department of Labor's authority under ERISA Sec. 518 to postpone certain plan-related deadlines is expanded to include a public health emergency declared by the Secretary of Health and Human Services pursuant to section 319 of the Public Health Service Act.

The bill provides a delay for any minimum required contribution (as determined under Code Sec. 430(a) and ERISA Sec. 303(a) due during calendar year 2020. The due date is January 1, 2021. However, the delayed payment includes accrued interest.

For purposes of Code Sec. 436 and ERISA Sec. 206(g), a plan sponsor is allowed to elect to treat the plan's adjusted funding target attainment percentage for the last plan year ending before January 1, 2020 as the adjusted funding target attainment percentage for plan years that includes calendar year 2020.