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### More Information About the CARES Act from ABA Retirement Funds Program – For Sponsors of Defined Contribution Plans

Dear Plan Administrator,

The \$2 trillion stimulus package, called the CARES Act, was signed by President Trump on March 27 and is now effective. The CARES Act contains provisions that help employees gain access to their retirement funds and alleviate some of the tax consequences relating to plan distributions. The ABA Retirement Funds Program (the “Program”) is working with its Partners to implement the changes made by the CARES Act and will provide communications to plan participants in the coming days on how they can take advantage of the changes. Below is a summary of the provisions of the CARES Act that relate to your defined contribution plan.

#### Tax-Favored Coronavirus-Related Plan Distributions

The CARES Act permits an individual impacted by the coronavirus (a “Qualified Individual”) to take a coronavirus-related distribution from his or her employer-sponsored plan in an amount not to exceed \$100,000. Qualified Individuals are individuals:

- who are diagnosed with SARS-CoV-2 or COVID-19;
- whose spouse or dependent is diagnosed with SARS-CoV-2 or COVID-19; or
- who experience adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to SARS-CoV-2 or COVID-19, being unable to work as a result of lack of child care due to SARS-CoV-2 or COVID-19, or closing or reducing hours of a business owned or operated by the individual due to SARS-CoV-2 or COVID-19 or other factors determined by the Secretary of the Treasury.

Plan administrators may rely on an employee’s self-certification that he or she is a Qualified Individual.

- 1. No 20% Withholding on the Distribution.** The 20% Federal tax withholding that applies to certain distributions from a defined contribution plan will not apply to a coronavirus-related distribution.
- 2. No 10% Penalty on the Distribution.** The 10% early withdrawal penalty that applies to distributions made to participants younger than age 59 1/2 will not apply to a coronavirus-related distribution.
- 3. Three-Year Period to Pay Taxes on the Distribution.** Unless an individual elects otherwise, an individual is permitted to include the income attributable to the coronavirus-related distribution in the individual’s gross income for Federal income tax purposes ratably over a three-year period beginning with the year of the distribution.
- 4. Ability to Repay the Distribution.** At any time during the three-year period beginning on the day after receiving the coronavirus-related distribution, an individual may repay the distribution in one or more contributions to an eligible retirement plan in which the individual is participating and that accepts rollover contributions, without regard to annual plan contribution limits. Any distributions that are repaid will be treated as having been transferred to the plan receiving the repayment in a tax-free rollover and, therefore, the individual will not owe taxes with respect to the amount repaid.

The rules described above apply to distributions made on or after January 1, 2020 and before December 31, 2020 that qualify as coronavirus-related distributions.

#### Increased Plan Loan Availability

For plans that permit participants to take loans, a higher plan loan limit applies for Qualified Individuals (defined above) who take a plan loan during the 180-day period beginning on March 27, 2020 and ending on September 23, 2020. The higher limit that applies during this period is the lesser of \$100,000 and 100% of the participant’s vested plan account (instead of the normal loan limits of the lesser of \$50,000 and 50% of a

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participant's vested plan account). The increase applies only to Qualified Individuals requesting a loan and will not apply to other plan participants requesting a loan. A plan that does not permit participant to take loans does not have to offer loans as a result of this change; however, a plan sponsor may elect to amend its plan to offer loans. If your plan does not currently allow for loans and you would like to amend your plan to offer loans, please call or email the Program to request a plan amendment. However, if your plan is on another provider's document, you will need to contact your provider.

### **Delay in Plan Loan Repayment**

The CARES Act delays, for one year, the due date for repayments of plan loans by a Qualified Individual (defined above) if the due date for repayment of the loan occurs during the period beginning on March 27, 2020 and ending on December 31, 2020. Interest will continue to accrue during the period of delay and subsequent loan repayments will be adjusted to reflect the delayed payments. The period of delay will not count toward the five-year maximum term that applies to plan loans other than home loans.

### **Waiver of Required Minimum Distributions for Defined Contribution Plans**

A temporary waiver is provided for required minimum distributions (RMDs) due in 2020 from defined contribution plans. This does not include required minimum distributions for an individual who turned age 70 1/2 in 2019 and who already received a required minimum distribution in 2019. Under the temporary relief, amounts distributed in 2020 that would have been required minimum distributions but for this change are eligible to be rolled over to an individual retirement account or another retirement plan that accepts rollover contributions, provided that the normal rules regarding rollover contributions are satisfied. The CARES Act waives certain requirements that otherwise would apply to distributions that are eligible to be rolled over, including the requirement that the plan administrator deliver to a participant a direct rollover notice and a written explanation of the right to rollover the distribution. In addition, the CARES Act provides that this distribution is not subject to the 20% Federal tax withholding (instead, the normal optional 10% Federal tax withholding will apply to any distributions that otherwise would have been required minimum distributions but for this change).

### **Plan Amendments**

Plans will have to be amended to reflect the changes above but the date for adopting those amendment is delayed until the last day of the first plan year beginning on or after January 1, 2022 (or such later date as the Secretary of the Treasury may prescribe). The Program intends to timely amend the Program's pre-approved plan for these changes.

The Program is preparing a special administrative form to allow Qualified Individuals to request a withdrawal or loan. As soon as it's available, the form will be distributed and posted on the Program website.

If you have any questions, please call our toll-free Plan Administrator Line at **800.752.6313** or email us at [contactus@abaretirement.com](mailto:contactus@abaretirement.com). Also, be sure to visit our '**COVID-19 and the Market Impact**' page at [abaretirement.com/covid-19-market-impact/](https://abaretirement.com/covid-19-market-impact/) on the Program website for regularly updated information.

Sincerely,

ABA Retirement Funds Program

### **For plan sponsor use only. Not for use with participants.**

*Please read the Program Annual Disclosure Document (April 2019) carefully before investing. The Annual Disclosure Document contains important information about the Program and investment options. For email inquiries, use: [contactus@abaretirement.com](mailto:contactus@abaretirement.com).*