The CARES Act
and
Retirement Accounts

(Coronavirus Aid Relief & Economic Security)

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Retirement Account Related Provisions

The $2 Trillion package contains 4 provisions to help retirement savers affected by COVID-19.

1. Early Withdrawals from IRAs and Retirement Plans
2. Rules for workplace retirement plan loans have been relaxed
3. Retirement Plan loan payment deferrals
4. Required Minimum Distributions are waived

Early withdrawals from IRAs and Retirement Plans

- Under normal circumstances, withdrawals prior to age 59 ½ trigger a 10% penalty tax. (unless one of several exceptions apply)
- In 2020, qualified individuals may withdraw up to $100,000 from their accounts without paying the penalty tax.
- It is important to note that regular income tax will still apply.
- Income can be spread over three years to potentially ease the annual tax burden.
- Account owners may choose to repay amounts withdrawn over a three year period.

Rules for workplace retirement plan loans have been relaxed

- Qualified plan participants may be able to borrow up to 100% of their vested balance or $100,000 whichever is less.
- Loans must have been taken between March 27th and September 22nd, 2020.
- Employers are not required to adopt the withdrawal and loan provisions, so check with your plan administrator.

Retirement Plan Loan Payment Deferrals

- Participants with outstanding loans held after March 26^{th}, 2020 may delay payments due between March 27^{th} and December 31^{st}, 2020 by one year.
- To be eligible account owners must meet at least one of these specific corona virus affected qualifications:
  - ➢Diagnosed with COVID-19
  - ➢Spouse or dependent diagnosed with COVID-19
  - ➢Unable to work for lack of child care
  - ➢Have incurred adverse financial consequences due to quarantines, furloughs or business closings

  (Also applies to spouse or other household member)

Required Minimum Distributions are Waived

- The requirement to take required minimum distributions from IRA’s and most retirement plans has been waived for 2020.
- Normally individuals age 72 and older are required to take required minimum distributions from their IRAs and retirement plans on an annual basis.

Other options to consider first

- Reach out to lenders to see if they are offering payment extensions.

-You will have to make these payments eventually, but this will buy you some time.

- Look into our low-cost signature loan or consider a home equity line of credit to help you weather the crisis.

-You will have a new payment to make, but this would give you access to funds you may need now.

- Check the credit limit and interest rate on your current credit card.

-If you have room on your limit and the interest rate is not too high, using you credit card could buy you some time. Be sure and develop a plan to pay off the balance as soon as possible.

Items to consider

- Taking money from your retirement accounts can have a lasting adverse effect on your retirement.

-If you withdraw $50,000 at the age of 40, your retirement account balance would be almost $250,000 smaller at age 65 than if you had left the money in your account (assuming an average 7% annual return).

- If you do make a withdrawal from your retirement account, develop a plan to get the money put back in.

-The CARES Act allows you to return the money to your eligible retirement account within three years without affecting the eligibility for future contributions. If you can do that, you also won't owe taxes on the distribution.

Conclusion

- Please consult your tax advisor and a financial consultant to review your individual circumstances before making any loans or distributions from your retirement accounts.