

# 401(K) Information During Coronavirus

## 401(K) 403(B) IRA WITHDRAWAL RULES DURING CORONAVIRUS

Using retirement funds for coronavirus related costs (if under 59 1/2):

- Income tax must be paid on distribution (if not repaid)
- No 10% penalty if distributed during 2020, amount is less than \$100,000 and is used by:
  - Individual diagnosed with SRS-COV-2 or coronavirus by a test approved by CDC.
    - Your spouse or dependent is diagnosed with one of the two diseases.
    - An individual who experiences adverse financial consequences as a result of being quarantined, furloughed or laid off or having work hours reduced, or being unable to work due to lack of childcare.
  - Additional benefits:
    - Taxpayer can spread the income recognition over a 3-year period beginning in 2020.
    - Taxpayer can avoid any income recognition by repaying the distribution to the retirement plan within three years of receiving it.
  - Required minimum distributions (RMD) are temporarily waived for 2020.
    - RMDs from defined contribution and IRAs (but not defined benefit plans) for 2020 since the RMDs were calculated based on account values at December 31, 2019.
    - RMDs for these participants will be made in 2021 based on account values at December 31, 2020.
    - For individuals who reached age 70 1/2 during 2019 and did not receive their first RMD by January 1, 2020, they will not need to take their first RMD until April 1, 2021, rather than April 1, 2020.
  - Secure Act made other changes to RMDs:
    - With respect to any participant who had not reached age 70 1/2 by December 31, 2019, delayed their required beginning RMD date from April 1 following the year in which they turn 70 1/2 until April 1 following the year in which they turn age 72; and,
    - Required faster distribution of RMDs to non-spouse, non-child beneficiaries of participants who die after December 31, 2019.

### Helpful Link:

[Thomas Reuters – Coronavirus Legislation Information](#)

## NEW 401(K) 403(B) LOAN RULES DURING CORONAVIRUS

Limit increased from max of \$50,000 to \$100,000

- New Rules for Qualified Retirement Plans including 401(k), 403(a), 403(b) and Government Plans
- The CARES Act allows plans to liberalize loan terms
- Check with your plan sponsor to see if your plan is adopting the new measures
- For new loans made between March 27, 2020 through September 21, 2020 (180 days after enactment), the maximum loan amount is the lesser of: (1) \$100,000 or (2) 100% of the account balance in the plan
- For outstanding loans as of March 27, 2020, as well as any new loans, the due date for all payments under that loan that would otherwise fall due



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between March 27, 2020 and December 31, 2020 will be extended for one year, even if that means the final payments would be made after the otherwise applicable maximum period for plan loans. Interest will continue to accrue.

## Who Qualifies for Higher Loan Limits and Payment Deferrals

- An individual who is diagnosed with coronavirus by a test approved by the CDC
- An individual whose spouse or dependent is diagnosed with coronavirus by a test approved by the CDC
- An individual who experiences adverse financial consequences due to coronavirus as a result of:
  - Being quarantined
  - Being furloughed or laid off or having work hours reduced
  - Being unable to work due to lack of childcare, or
  - Closing or reducing hours of a business owned or operated by the individual

## Additional Resources:

[USA Today - Should I Withdraw Money from My 401K?](#)

[401K Loan Limits Have Doubled](#)

[Fortune – What to Do With 401K Withdrawal](#)

[Loans from 401\(k\) - overview document \(pre-coronavirus\)](#)

