Recent changes to the CARES Act
What you need to know
Today’s discussion

- Market Update
- Recap of CARES Act provisions/What’s changed?
- Expanded qualification criteria
- New rules for coronavirus distributions
- Q&A
Market Update
Perspective on market volatility

Our new employee education presentation helps put volatility into context and shows post-dip market resiliency.
Recap of key CARES Act provisions
The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. It allows “qualified individuals” to:

- Withdraw up to $100,000 from their employer-sponsored retirement plans or IRAs as a coronavirus-related distribution (CRD), with favorable tax and rollover treatment.

- Borrow double the normal limit from employer-sponsored retirement plans issued from March 27, 2020, through September 22, 2020, from the lesser of $50,000 or 50% of a vested account balance to the lesser of $100,000 or 100%.

- Delay plan loan repayments due on or after March 27, 2020, and on or before December 31, 2020, for one year, with a corresponding extension in the maximum permissible loan term.
On June 19, 2020, the Internal Revenue Service released Notice 2020-50, which:

- Expands the definition of a “qualified individual”
- Provides a model certification that affected participants can use to affirm that they meet at least one of the listed qualifications
- Clarifies which distributions can be considered “coronavirus-related”
- Provides additional details about repatriating a coronavirus-related distribution to the plan
- Offers plans a safe harbor for calculating loan repayments after the suspension period ends
Expanded qualification criteria for affected retirement plan participants
Original qualification criteria

The CARES Act originally covered individuals who are affected by one or more COVID-19-related circumstances, which include having:

- Been diagnosed with COVID-19
- A spouse or dependent who was diagnosed with COVID-19
- Experienced various adverse financial consequences because of:
  - Layoff, furlough or reduced work hours due to COVID-19
  - Inability to work owing to a lack of childcare due to COVID-19
  - The closing or reduced hours of a business owned or operated by the individual due to COVID-19
Expanded criteria

The CARES Act now covers individuals having a:

- Reduction in pay (including self-employment) due to COVID-19
- Job offer rescinded or the start date delayed due to COVID-19
- Spouse or a member of the household:
  - Being quarantined, furloughed or laid off due to COVID-19
  - Having work hours reduced due to COVID-19
  - Being unable to work owing to a lack of childcare due to COVID-19
  - Having a reduction in pay (including self-employment) due to COVID-19
  - Having a job offer rescinded or the start date delayed due to COVID-19
  - Experiencing the closing or reduced hours of a business owned or operated by the spouse or household member due to COVID-19

Here, a member of the household is anyone who shares the participant's principal residence.
Affected individuals can now self-certify

- Plan administrators can rely on participants’ representations that they are “qualified individuals.”

- Notice 2020-50 provides a model certification, which simply requires individuals to certify that they meet at least one of the listed qualifications.
New rules for coronavirus-related distributions
Taking coronavirus-related distributions (CRDs)

- Qualified participants can take up to $100,000 of their vested account balance as a CRD. It can be any distribution from the plan made between January 1, 2020, and December 31, 2020, without regard to the participant’s age or employment status.

- The normal 20% mandatory income tax withholding does not apply, the 10% excise tax on early distributions is waived and the 402(f) notice is not required.

- Participants will pay ordinary income tax on non-Roth CRDs and the income will be spread ratably over three years.

- The distribution can be used for any purpose.

- Any previously established periodic payments will continue as usual.

Plan sponsors are not required to allow CRDs. However, plan sponsors that do permit CRDs must monitor any plans they maintain to ensure that no more than $100,000 is distributed as a CRD to a qualified individual.
Exceptions: distributions *not* considered CRDs

These types of withdrawals, even if taken by otherwise qualified individuals, are not considered coronavirus-related distributions:

- Distributions to correct excess annual contributions
- Payouts of excess elective deferrals or because of actual deferral and actual contribution percentage test failures
- Distributions because of loan defaults
- Withdrawals requested by participants within 90 days of being automatically enrolled in an Eligible Automatic Contribution Arrangement
New rules for repatriating coronavirus-related distributions

- A qualified individual can, within three years of the date of the loan, repay the full amount, and these repayments will be treated as rollover contributions.
- The plan may treat the recontribution as an eligible rollover contribution and can rely on the individual’s self-certification that the recontribution is related to a CRD.
- Plans do not have to permit CRD recontributions or change their terms or procedures to accept them.
- Participants file an IRS Form 8915-E with the IRS when recontributing any portion of a CRD back into a qualified plan and to claim an exemption of any excise tax penalty for early withdrawal.
- Participants can elect to include income from the distribution in the current year or over a three-year period.
- If qualified individuals count the full CRD as income in the year of the distribution and make recontributions after filing that year’s tax return, they’ll need to file an amended tax return for the year of the distribution as well as a revised Form 8915-E in order to receive a refund of the tax paid.
Tax Reporting

The CARES Act permits individuals taking CRDs to:

- Spread the income tax ratably over three years (unless they elect to pay the entire tax amount in the first year the tax is due), and repay the distribution to the plan within three years.

- Treat a distribution as a CRD on their federal income tax returns, even if a distribution is not treated as a CRD under a plan (because either the plan does not permit CRDs or the plan sponsor otherwise denied the CRD request).

- Carry forward or carry backward excess contributions to reduce their gross income for the preceding or following tax year within the three-year period beginning with the year of the distribution.

A note on Mutual of America reporting

Mutual of America will report CRDs on IRS Form 1099-R.

This reporting is required even if the qualified individual recontributes the CRD to the same plan in the same year in which it was received.
No change to loan repayments or suspension

The CARES Act allows qualified individuals to:

- Request a one-year delay in repaying retirement plan loans; interest will continue to accrue
- After the delay, amortize the loan over the remaining term, plus one year
- Repay the loan in substantially level installments during the repayment period
Thank You
We’re here to help!

Your Mutual of America Group Account Representative is available to answer your questions and discuss any concerns you may have. We hope you won’t hesitate to get in touch anytime.

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Remember, we are in this together. And together, we will get through it.
This material is not intended to give legal or tax advice, and you should not rely on it for legal or tax advice.

You should consult your legal or tax adviser regarding retirement plan rules and regulations.
Useful resources

For additional information, visit these websites:

Mutual of America:
What You Should Know About the CARES Act

The Department of Labor:
Coronavirus Aid, Relief, and Economic Security (CARES) ACT