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What you need to know: Impact of the CARES Act on 2020 retirement plan required minimum distributions

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On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, to address the economic fallout caused by the coronavirus (COVID-19) pandemic and to provide financial relief to those impacted by the health crisis. One element of the legislation targets retirement plans like IRAs, 401(k)s, and 403(b)s. **Specifically, with respect to those plan participants and beneficiaries, the CARES Act suspends required minimum distributions for 2020.**

So how might this impact you? If in 2020 you would otherwise be required to take an annual distribution from a retirement plan, that requirement is waived for this year. You do not need to take the distribution. Furthermore, for those lucky individuals who turned 70 ½ last year and chose to defer their first payment to April 1, 2020, they are no longer required to take that first payment this year or their regular 2020 distribution!

For those who have yet to take their 2020 required minimum distributions, this may be good news. But what if you already took some or all of your 2020 distribution? If you would have preferred to keep that money inside your plan, hope is not lost—at least so long as you are not dealing with an inherited retirement plan! If fewer than 60 days have passed since the distribution and you are the participant, you can likely roll the distribution back into the account it came from or another eligible retirement account, particularly if you have not previously rolled over a distribution and you did not take your 2020 distribution in installments. This rollover option essentially allows you to reverse the distribution and proceed as though you never received it (although this is slightly trickier if taxes were withheld on the initial distribution).

What if more than 60 days have passed since you took the distribution? The answer here is less clear. When required minimum distributions were last suspended in 2009, the IRS extended the 60-day rollover period, so there is hope that they will do so again this time around; however, to date the rollover period remains capped at 60 days. In the event that the IRS does not extend the eligible rollover period, there may be other options under the CARES Act for mitigating the tax impact of having received a distribution; however, those options depend on how the pandemic has personally impacted you and, as such, are very fact specific.

But what if the required distribution you already received came from an inherited IRA? With very few exceptions, which are available only to surviving spouses, under this scenario you are stuck with the distribution. There is no way it can be undone by rolling it back into a plan. That said, there is still some good news specific to those beneficiaries receiving distributions from an inherited plan. If your distributions are subject to the 5-year payout period (e.g., the deceased participant's plan paid to his or her estate), the CARES Act tacks an additional year on to the payout period. Now you have six years, rather than five, to withdraw all the retirement funds. Note, however, that this extended payout period will not apply to retirement accounts of individuals who pass away this year.

For those who can afford to do so, the CARES Act offers plan participants and beneficiaries a helpful reprieve from withdrawing retirement funds from accounts that have presumably been hard hit by the recent market volatility. By opting not to take their 2020 required minimum distributions, those individuals in turn have the added benefit of deferring the receipt of taxable income that would have otherwise been recognized. These individuals should be sure to confer with their plan administrators to ensure that appropriate steps are taken so as to avoid any inadvertent 2020 distributions. Those who have already received a 2020 distribution should consult with their legal, tax, and financial advisors to explore what options may be available to undo the distribution.

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