CARES Act May Offer Welcome Relief to Retirement Account Owners — Video Transcript

The Coronavirus Aid, Relief, and Economic Security Act – or CARES Act – was signed into law in March 2020. The $2 trillion package contains four provisions designed to help retirement account owners affected by COVID-19 manage the financial challenges they may face this year.

In order to be eligible, account owners must meet at least one of the specific coronavirus-affected qualifications shown on screen here.

The first provision applies to early withdrawals from IRAS and retirement plans.

Under normal circumstances, withdrawals from these accounts prior to age 59½ would trigger a 10% penalty tax unless one of several exceptions applies. Thanks to the CARES Act, in 2020, IRA owners and retirement plan participants affected by COVID-19 may be able to withdraw up to $100,000 from their accounts without having to pay the penalty tax.

Regular income taxes will still apply, but individuals can choose to spread the income from a coronavirus-related distribution over a three-year period, which should help ease the annual tax burden.

In addition, individuals may choose to repay the amounts withdrawn over a three-year period.

Second, rules for workplace retirement plan loans have been relaxed so that work-based plan participants affected by the virus may be able to borrow up to 100% of their vested account balance or $100,000, whichever is less. Loans must be taken between March 27 and September 22, 2020.

Third, in the case of any retirement plan loan that is outstanding after March 26, 2020, payments due between March 27 and December 31, 2020, may be delayed by one year.

Note that employers are not required to adopt the withdrawal and loan provisions in their plans, so check with your plan administrator to see what options might be available to you.

Fourth and finally, all IRA owners and plan participants who were facing the requirement to take minimum distributions from their accounts this year may be relieved to learn that they will not have to do so, as so-called "RMDs" have been waived for 2020.

For more information about how any of these provisions may affect your specific financial situation, speak with a tax or financial professional.

There is no assurance that working with a financial professional will improve investment results.