CARES Act Retirement Provisions FAQ

I need to withdraw money from my retirement account to cover expenses related to the health emergency. Am I eligible? Generally, if the account is in an eligible retirement plan, the plan may permit you to take a coronavirus-related distribution if:

- You, your spouse or dependent has been diagnosed with the coronavirus (i.e., SARS-CoV-2 or COVID-19),
- You have experienced adverse financial consequences because you have been quarantined, furloughed, laid off or have had work hours reduced due to the coronavirus,
- You are unable to work because of a lack of childcare due to the coronavirus,
- You own or operate a business and have had to close or reduce hours due to the coronavirus, or
- You have experienced an adverse financial consequence due to other factors as provided in guidance issued by the Internal Revenue Service.

Is there a cap on how much can I withdraw? Yes. During 2020, you may withdraw up to a total of $100,000 in coronavirus-related distributions from accounts in eligible retirement plans.

What types of retirement accounts are covered by the special withdrawal rules? The special withdrawal rules apply to eligible retirement plans, which include individual retirement accounts and annuities (IRAs), qualified pension, profit-sharing, or stock bonus plans (including 401(k) plans), qualified 403(a) annuity plans, 403(b) annuity contracts and custodial accounts and governmental section 457 deferred compensation plans.

Will I have to pay the 10-percent early withdrawal penalty if I take a coronavirus-related distribution? No. The 10-percent tax penalty that generally applies to early withdrawals from a retirement account if you are younger than 59½ does not apply to coronavirus-related distributions under the CARES Act.

When can I receive coronavirus-related distributions? Coronavirus distributions are available throughout 2020. The CARES Act retroactively waived the 10-percent early withdrawal tax penalty for coronavirus-related distributions made on or after January 1, 2020 and before December 31, 2020.

Do I have to pay tax on these distributions? Yes. However, the tax associated with the distributions may be paid ratably over three years, beginning with the taxable year 2020.

Can I recontribute the withdrawn funds to my retirement account? Generally, yes. The CARES Act allows you to recontribute the funds you withdrew to an eligible retirement plan (to which you can make a rollover contribution) in one or more payments within three years. The recontributed amounts will not count toward the maximum contribution limit in the year that the funds are recontributed to a tax-deferred retirement account.

Are there any changes regarding loans from retirement plans? Yes. For loans taken from an eligible retirement plan within six months of enactment of the CARES Act, limits on loans from such retirement plans are doubled, from $50,000 to $100,000, and are capped at 100 percent of the vested account balance (rather than 50 percent) in the plan. Plans are not required to increase these limits, but the CARES Act provides the flexibility for plans to do so.

Also, for qualifying individuals (see answer 1) who have an outstanding loan on or after March 27, 2020 (the date of enactment of the CARES Act) from an eligible retirement plan, any repayment of the loan due between March 27, 2020, and December 31, 2020, may be delayed for one year (with any subsequent repayments (and interest) adjusted to reflect such delay in repayment).

Am I required to take a required minimum distribution (RMD) from my retirement account this year? No. Provided that your account is an IRA, 401(k) plan, 403(b) plan or other defined contribution plan, all required minimum distributions for these plans have been waived for 2020.

I turned 70½ last year and am supposed to take my first RMD on April 1, 2020. Am I still required to take this distribution? No. All required minimum distributions for defined contribution plans have been waived for 2020, including your first RMD (provided you had not already taken the distribution before January 1, 2020).

I already have two small loans on my 401(k), which is my plan limit. Will I be able to take an additional loan out with the new law? Whether a retirement-plan participant with an existing loan from their plan can take another will depend on their individual plan's rules, experts say.

The relief act doubles the current retirement plan loan limit to the lesser of $100,000 or 100% of the participant's vested account balance, but that change applies only to qualified individuals who have had an adverse financial impact due to the coronavirus pandemic and who borrow from a qualified retirement plan, such as a 401(k) or 403(b).

But those retirement plans may—and often do—limit the number of loans that may be outstanding at any time, and the Cares Act won't automatically change such a limitation.

"If a plan allows for only one loan outstanding at a time, and a participant currently has one $20,000 loan outstanding, he or she is not able to get another loan for the additional $80,000 that is available under the Cares Act unless the plan sponsor decides to amend the plan to allow for more than one loan," Pinheiro says. However, Pinheiro says that a few employer clients of his firm are considering increasing the number of loans available under their plans so that participants can take advantage of the relaxed loan rules under the Cares Act.

If I took a $75,000 distribution from my retirement account on Feb. 2, is that eligible for the Cares Act waiver of a 10% penalty so long as I meet the appropriate hardship requirements? In other words, when does the program officially start? Coronavirus-related distributions include those made from qualifying retirement plans and individual retirement accounts on or after Jan. 1, 2020, says Pinheiro.

"So, if the individual otherwise satisfies the requirements of a qualified individual, a distribution in February 2020 could qualify as a coronavirus-related distribution," he says.

The Cares Act says 401(k) savers can take a penalty-free withdrawal if it is paid back in three years. It also says savers can take a loan without paying interest or taxes if it is paid back within five years. These options both sound like loans: How are they different? A withdrawal is distinct from a loan. If a qualified 401(k) plan participant withdraws money from their plan, under the Cares Act, they won't have to pay the 10% penalty that those who are under the age of 59½ normally pay. Also, if they replace the money within three years, they will be able to recover the federal and state income taxes that apply to the withdrawal, according to the American Retirement Association. To receive this tax-favored treatment, the distribution must be made any time in 2020, it says.

It’s important to note, too, that under what’s known as “the rule of 55,” 401(k) or 403(b) participants who leave their employer for any reason in or after the year they turn 55 are always free to pull money from their plan without paying the 10% penalty.

As for loans, the Cares Act doubles the amount a 401(k) participant who has been affected by the virus can borrow to the lesser of $100,000 or 100% of the participant’s vested account balance. To qualify, the loan must be made within 180 days after the enactment of the Cares Act. The participant won’t owe income tax on the amount borrowed from the 401(k) if it’s paid back within five years, according to the American Retirement Association.

Qualifying individuals under the Cares Act who already have a 401(k) loan may delay repayments due in 2020 for a year, although interest will continue to accrue on those deferred payments.

Participants should check with their plan because these new provisions under the act are optional. Your plan doesn’t have to permit them even if they already offer hardship withdrawals or loans.

Do individual retirement accounts allow loans? Individual retirement accounts do not allow loans.