



CARES (CORONAVIRUS AID, RELIEF AND ECONOMIC SECURITY) ACT

Retirement plan provisions of the largest fiscal stimulus package in US history

The \$2 trillion-plus federal CARES Act is a massive unprecedented fiscal injection, and twice the size of the emergency stimulus package (Troubled Asset Relief Program/TARP) used to combat the Great Recession of 2008-09. It features \$500 billion in loans and aid to businesses, and even more to hospitals and state and local governments. But its wide reach also includes incentives to ease up retirement plan rules and other employer incentives to get cash to Americans as quick as possible.

How does the CARES Act impact retirement plan distributions?

It offers plan participants an emergency retirement plan withdrawal option called the “coronavirus related distribution” (CRD). It can be taken from an employer-sponsored retirement plan or from an IRA. The Act waives the 10% penalty on qualified plan distributions up to \$100,000 to those under 59 ½ years old, if taken for COVID-19-related hardships ([see below](#)). Income from the distributions may be reported over three years and can be re-paid or exchanged “trust-to-trust” to another plan, over three years to minimize taxes.

What do plan participants need to know about loans?

They can take more loan money within the first six months, because caps are higher—\$100,000 or 100% of the plan value, whichever is smaller, compared to \$50,000 or 50% before. Note: whether this is mandatory or optional for plan sponsors isn’t certain yet.

Are plan sponsor contributions impacted?

Yes. Sponsors can breathe a little easier with a one-year extension to make ERISA-required minimum contributions. All funding, including quarterly contributions, will be extended and re-amortized to January 1, 2021, at which time all amounts will be due plus applicable interest. Sponsors may use their 2019 funded ratio to determine their plan’s adjusted funding target attainment percentage (AFTAP) for the 2020 plan year.

What about Required Minimum Distributions (RMD)?

The Act suspends the 50% RMD tax penalty for now, which is especially helpful for those who turned 70 ½ in 2019 and whose calculation would be based on significantly higher balances than they have now (as of 2020, the RMD start age is 72). This break will allow them to hold off on their RMDs penalty-free, keep saving and, hopefully, recover some losses in their tax-deferred accounts before taking RMDs down the road.

The Act includes direct payments starting at \$1,200 to qualifying individuals (\$2,400 for married couples). Are they also paying those who are receiving social security benefits?

Yes, as long as their total income does not exceed the income eligibility limits of up to \$75,000 (individuals) and \$150,000 (couples). Payment eligibility stops at \$99,000 for individuals and \$198,000 for married couples. Roughly 125 million people will receive a check, or about 83% of tax filers. Payments are set to begin April 6, 2020.

What about tax credits and other aid to employers?

Those will help too. A **retention tax credit** will go to owners and workers at businesses forced to close, while airlines and other industries impacted by the crisis will get direct financial aid to stay open. A separate **payroll tax credit** reimburses employers with 500 or fewer workers for the cost of medical leave for employees who get sick or need to care for others. All these are designed for the broader goal to help small- and medium-sized businesses stay afloat.

What are the changes to unemployment benefits?

First, the Act extends unemployment benefits from 26 weeks to 39 weeks for full-time employees and expands them to now include freelance (hair stylists, etc.) and gig-economy workers (Uber drivers, etc.). It also supplements their eligible weekly benefit by \$600 (compared to \$25 in 2008), which would bring many workers to 100% wage replacement—and some even *more*. It also incentivizes states to waive the one-week waiting period for new filers.

What else is in the package?

- **Broadband Program**—Allocates \$125 million for additional rural broadband buildout program, to widen internet bandwidth in underserved regions.
- **Arts and Humanities Grants**—\$150 million for arts and humanities grants to bring cultural programming to millions of Americans now stuck at home.
- **Domestic Violence Funding**—Increased funding for domestic violence shelters and crises hotlines.
- **Mental Health and Substance Funding**—\$425 million to support networks that help with mental health and substance abuse disorders related to the pandemic.
- **Election Process Protection**—\$400 million for states to protect the 2020 election cycle through their expanded mail-in and early voting efforts.

For additional information please visit the [IRS Corona Virus website](#) or the [Small Business Association Corona Virus website](#).

* COVID-19 related hardships are any distribution from a tax-qualified retirement plan made on or after January 1, 2020, and before December 31, 2020, to an individual:

- Who is diagnosed with a disease designated as coronavirus by a test approved by the Centers for Disease Control and Prevention;
- Whose spouse or dependent is so diagnosed; or
- Who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to the coronavirus, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

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