Brinker Capital

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Your retirement and the Coronavirus Aid, Relief, and Security Act

Our republic has never faced anything like the COVID-19 pandemic in its history, and to contain the health and economic damage, three policy responses have been enacted, with the Coronavirus Aid, Relief, and Security (CARES) Act signed into law on March 29, 2020. At about $2 trillion, it is the largest economic rescue package since the Great Depression. Broadly, the CARES Act includes several provisions that have far-reaching effects for Americans (see backside), but there are certain elements to the package directly affecting an individual's retirement accounts.

Required minimum distributions (RMD)

The CARES Act waives the requirement for any RMD to be paid in 2020, including an individual's first RMD, which is attributable to 2019 (not paid by January 1, 2020). This provision includes anyone with a RMD due from a company plan—401(k), 403(b), or IRA—and those who turned 70½ in 2019. If a RMD has already been received during 2020, the participant may roll it over and defer paying taxes, including rolling back into the plan.

For example, if a participant turned 70½ in 2019 and has a Required Beginning Date of April 1, 2020:

- But has not yet taken the distribution—then no distribution is required in 2020 (for the 2019 distribution year).
- And has a distribution taken after December 31, 2019, it is subject to the waiver for 2020 and the amount can be rolled over.
- And the distribution was taken in 2019, no relief is available.

This provision was included because of how the RMD is calculated—using the balance of an individual retirement account on December 31 of the year prior to the date it must be distributed to a participant. The Dow Jones Industrial Average closed at 28,538 on December 31, 2019. On March 27, 2020, the Dow Jones closed at 21,636.78—a significant decrease. A RMD calculated based on a December 31, 2019 value could lead to a disproportionate RMD relative to today's account values, forcing a disproportionately large taxable distribution.

A comprehensive report is available for all eligible clients and can be accessed by visiting the reports tab from your My Brinker dashboard.

Aggregate distributions

Under the CARES Act provisions, aggregate distributions can be taken out of workplace retirement plans and/or IRAs up to $100,000 without incurring the normal 10% early withdrawal penalty. However, to be eligible, the participant or IRA owner (including spouses and dependents) either need to be diagnosed with COVID-19 or experiencing financial consequences resulting from the pandemic, such as:

- Being quarantined
- Furloughed
- Laid off
- Working reduced hours
- Unable to find childcare due to the pandemic
- Business closing or reduced business hours (for the self-employed)

Additionally, the income tax on the aggregate distribution may be spread evenly over three years, or the distribution may be repaid over a three-year period. This provision will be in effect for all of 2020.

Retirement plan loans

The provisions of the CARES Act have also raised the maximum amount that can be taken as a loan from employer sponsored plans, from $50,000 to $100,000. The 10% penalty has been waived when taking out such a loan. The employee then must repay the loan over a three-year period, and if they cannot do so, then can pay the taxes over the three years.

A breakdown of the CARES Act provisions

- The deadline for filing and payment of 2019 federal income taxes has been pushed back to July 15, 2020
- $600 billion in payroll and individual checks
  - Checks will be sent to every American—$1200 per adult and $500 per minor—phasing out after $75K in annual income.
  - $300 billion in payroll relief whereby employers can delay tax payments.
- $500 billion in industry relief
  - Rescue packages for the hardest hit industries. Airlines, cargo, and the national securities industries will receive a combined total of $75 billion, with some of it structured as grants and with specific conditions, such as no employee furloughs.
  - $425 billion has been allocated for other affected industries, which can be leveraged up with the Federal Reserve's 13(3) program, which can add $4 trillion in scope, but the amount will depend on the risk of investments. This provision also comes with oversight, including that the government can take equity stakes and no share purchases are allowed while loans are outstanding.
- $337 billion in small business relief
  - Loans will be made available to cover payroll, rent, mortgages, utilities, and a portion that can be forgiven if used in this way. The amount forgiven also depends on the number of employees laid off.
- $250 billion in expanding unemployment benefits
  - Unemployment insurance expanded.
- Paid sick and family leave made available to more workers
  - This applies to business with 500 employees or fewer. Businesses with 50 employees or fewer may be exempt.
  - Eligible employees must be allowed two weeks (80 hours) of paid sick time.
- $150 billion for state and local governments
- $130 billion for hospitals and medical facilities
- Federal student loan repayments and interest suspended for six months

As fiscal and monetary policy engage in combatting the health and economic damage caused by the COVID-19 pandemic, Brinker Capital will continue to provide the most up-to-date insights to advisors and their clients.

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Index definitions: Dow Jones Industrial Average (DJIA) - An index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange and the NASDAQ. Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.