Relief Act: Benefits for Retirement Accounts

COVID-19 Relief Package Includes Benefits for Retirement Account Holders

As part of recent U.S. legislation providing economic relief in the wake of the COVID-19 pandemic, people who need emergency access to their retirement funds can withdraw up to $100,000 without penalty through Sept. 23, 2020. Congress' $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act also creates some attractive ways to grow your retirement savings and reduce your tax liability this year.

We've summarized the highlights below for retirees and those who are saving for retirement. You can also replay this presentation along with our other CARES Act webinars found in the Mercer Advisors Resource Center.

Please note that the CARES Act programs are evolving quickly and adjusting to the current situation. The information in this guide is accurate as of April 10. The information that is provided in it is for information purposes and is not intended to replace tax or legal advice specific to your situation.

Overview

The CARES Act temporarily eases key restrictions on early withdrawals from IRA and 401(k) accounts as a means of easing the financial repercussions of COVID-19. In addition, the law allows current retirees and beneficiaries of an inherited retirement account to forgo their required minimum distribution (RMD) this year. For anyone age 70 ½ or older, the RMD waiver also makes 2020 an ideal time to think about moving funds from a traditional IRA into a Roth IRA as a means of reducing your tax burden and increasing your long-term retirement income.

Access To Retirement Funds	
I'm not eligible to start drawing from my IRA yet. What options does the CARES Act give me this year?	Even if you're under age 59 ½, you can take a distribution of up to $100,000 from a qualifying IRA plan without incurring the usual 10% early-withdrawal penalty. The distributed funds will not be subject to mandatory tax withholding, which is normally 20%. The penalty and withholding waivers apply through 2020.

Are there restrictions on who can do this?	You need to self-certify that you, your spouse, or a dependent have either been diagnosed with COVID-19 or experienced a direct financial impact due to the pandemic. Check with your IRA provider to confirm any other plan-specific requirements or restrictions.
What are the tax implications?	The amount you withdraw will be counted as income on your 2020 tax returns. However, the CARES Act allows you to spread the total tax liability for your early distribution over the 2020, 2021, and 2022 tax years. Or, you can avoid some or all of that related tax liability if you recontribute funds back into your IRA between now and the end of 2022. Your recontributed funds would be treated as a rollover, meaning they are not subject to normal IRA contribution limits.
What are the options for tapping my 401(k)?	You can borrow up to $100,000 or 100% of your vested 401(k) account balance, whichever is less—up from the previous limit of $50,000 or 50% of the vested balance. Under the CARES Act, any loan repayments that would have been due between March 27, 2020 and December 31, 2020 can be deferred for one year. Check with your 401(k) administrator to confirm any other plan-specific requirements or restrictions.
RMD Waiver	
What are the advantages of not taking my RMD in 2020?	Here are two reasons to waive this year's RMD, if possible: ▪ You can keep that money growing for the future and avoid paying taxes on it as earned income in 2020. ▪ The RMD amount is based on the ending balance in your IRA, 401(k), or other qualifying retirement account on Dec. 31, 2019. If your account balance has declined since then—which is likely true because of COVID-19-driven losses in the stock and bond markets—taking the RMD would remove a disproportionately higher percentage of your total IRA funds. If you need money that would otherwise come from an RMD, consider withdrawing from one of your taxable accounts instead. As always, check with your tax and financial planning consultants if you're unsure what decision is best for your overall situation.

If I already took my RMD for 2020, can I put the funds back?	Yes, you can roll back the RMD within 60 days. RMDs received more than 60 days ago might still be returnable if you can show you were affected by COVID-19. In either case, you are only allowed to roll back an RMD once every 365 days.
I turned 70 ½ in 2019 but deferred my RMD until April 1, 2020. Do I still need to take it now?	No, the waiver also applies in your situation. You don't need to take either the 2019 or 2020 RMD this year.
Roth Conversion Strategies	
Why is now a particularly good time for a Roth conversion if I'm 70 ½ or older?	In general, a Roth IRA provides some significant advantages such as: ▪ Tax-free growth ▪ No RMD obligation ▪ No taxes on distributed funds The trade-off is that you pay taxes on Roth contributions up front. Thanks to the CARES Act, whatever RMD amount you normally would have taken from your retirement account this year can be converted to a Roth IRA with the same tax impact if you had received the usual RMD. By swapping the RMD for a Roth conversion, you can put more of your money toward retirement. Also, since the financial markets are currently lower than they were at the end of 2019, the benefit of doing a Roth conversion now instead of taking an RMD is greater still.
Is there a way to offset the taxes resulting from a Roth conversion this year?	Yes. You can offset the Roth conversion taxes with charitable donation deductions. Under the CARES Act, for any cash donations you make to 501(c)(3) public charities this year, you will be able to deduct the full amount—up to 100% of your adjusted gross income (AGI)—on your 2020 tax return. Previously, the deduction limit had been 60% of AGI. This creates an opportunity for a large donation deduction to offset the tax liability of your Roth IRA contribution, potentially reducing it to zero.

What To Do Next

Your financial advisor and tax preparer can help you better understand how to take advantage of these and other specific CARES Act provisions. You can also replay all of our webinars at the Mercer Advisors "Insights for Navigating Recent Events" **Resource Center**.

Visit this site often for updates on the CARES Act and other COVID-19-related developments affecting the global financial markets.

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