

THE CARES ACT & YOU

financial fitness

By Erik Ford

In response to the Coronavirus pandemic, Congress passed, and the President signed on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020. The Act addresses a wide range of areas to help support the U.S. economy and offset the impact of the virus shutdown. The bill provides more than \$2 billion in economic stimulus. This will only be a portion of the legislation designed to support the domestic economy while we fight this disease. An additional half-billion dollars were added in late April.



The Act includes various provisions to deal with economic distress and increased unemployment. The Act included increased unemployment benefits, including provisions for contract workers and the self-employed. The Act provided for per person and per child individual payments to those earning less than \$75,000 or \$150,000 for a couple. A large portion of the funding was targeted for small business payroll protection loans that may ultimately be forgiven if used to maintain payroll. The focus of this piece will be on provisions in the Act related to retirement plans and student loans.

In anticipation that the sharp and sudden increase in unemployment may put financial stress on families, for 2020 the normal 10 percent penalty for taking an early withdrawal (before age 59 ½) from a 401(k), 403(b) or IRA is waived for withdrawals of up to \$100,000. This waiver is available for those affected physically or financially by the virus. The tax liability for these withdrawals may be spread over three years. Anyone taking such a withdrawal may also replace the funds within three years and avoid the income tax altogether.

Similarly, the ability to borrow from a 401(k) plan is temporarily expanded to allow for loans up to \$100,000 or 100 percent of the balance (whichever is smaller). This is an expansion from the existing limit of \$50,000 or 50 percent of the vested account balance. To access this expanded loan availability, the loan must be taken within 180 days of the passage of the act. The Act also provides for a delay of the payments on existing 401(k) loans through the end of 2020.

Another provision related to retirement accounts is the waiver of the requirement to take a required minimum distribution (RMD) for the year 2020. If you were already taking an annual RMD prior to 2020, or you were required to begin taking an RMD in 2020, you do not need to take that RMD in 2020 and can leave the funds in your account and save the tax liability. Note that the age for taking an RMD changed for 2020 from 70 ½ to 72 as a result of the previous law change (SECURE Act).

The CARE Act also provides relief for student loan borrowers. Employers may now make tax-free assistance for student loan repayments for up to \$5250 through the end of the year. Federal student loan borrowers are also eligible to have loan payments

suspended until September 30, 2020. While suspended, these loans will not accrue interest. Note that this relief does not apply to private loans.

These are only a few of the key provisions of the CARES Act as they apply to individuals. There are various specific rules and criteria that will be important to research before utilizing any of these provisions. Further, careful consideration should be made before taking either a withdrawal or loan from a retirement account.

The COVID-19 outbreak is affecting all of us to some degree. The financial impact from the declining economic activity may be devastating on some of us. The CARES Act is part of the ongoing effort by the Federal government to address the pandemic. As we all go through this together, we need to consider our neighbors and fellow citizens. Keep our local small businesses in mind and shop local.

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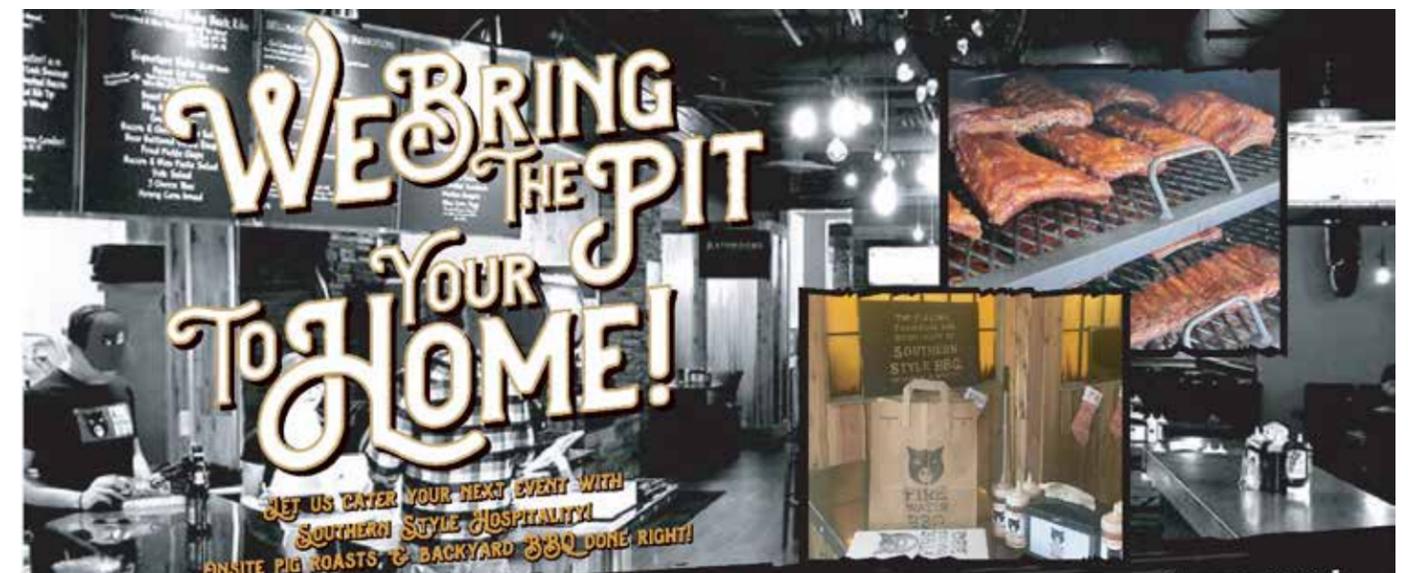
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