April 3, 2020

BREAKING DOWN THE CARES ACT: WHAT IT MEANS FOR YOU

Many Americans are worried about both their physical and financial health amidst the economic fallout of the COVID-19 pandemic, but relief is on the way for many. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (or CARES) Act, the largest economic aid package in modern American history, took effect. Now and in the coming months the CARES Act should ease some of the current hardships Americans at all income levels are facing.

One of the largest provisions of the CARES Act has set aside $269 billion in relief payments to taxpayers with an annual income of up to $75,000 ($150,000 for married couples); they will receive checks of up to $1,200 per person; $2,400 for married couples; plus $500 per dependent child. Additional relief will also come in the form of enhanced unemployment benefits, student loan forgiveness, and accessibility to retirement plan distributions, under certain conditions.

Under the legislation, investors may have access to higher-than-normal distributions and/or loan amounts from IRA and 401(k) accounts. If individuals have taken a loan from one of those retirement accounts, they can now receive extensions on repayment of that loan for up to one year. If you are an investor or small business owner who needs some liquidity due to hardship, the CARES Act may provide temporary relief.

For those of you with income levels above the $150,000 threshold, the CARES Act includes provisions that may allow you to access retirement savings if you are experiencing adverse financial consequences related to the corona virus outbreak. We provide an overview of these CARES Act provisions below, but note that corporate retirement plans, such as 401(k)s, are not required to adopt them. Each plan will differ, so check with your plan administrator or employee benefits manager to determine which options may be available through your company's plan. Note than many plan administrators are still assessing how to incorporate these options into their corporate plans.

We also encourage investors to carefully consider all other options before tapping into retirement savings. Keep in mind that retirement funds are set aside for a specific purpose and will be needed at a future date. Withdrawing retirement savings now may require liquidating investments at low values and potentially creates a tax obligation. Your B. Riley Wealth financial advisor is prepared to help you evaluate the options and repercussions with your overall financial well-being in mind.

ADDITIONAL TIME FOR IRA CONTRIBUTIONS (2019)

In case you haven't heard, Tax Day is now July 15, 2020; not April 15. What does that mean for your IRAs and Roth IRAs? You now have until July 15, 2020 to make 2019 contributions to those accounts. If you are dealing with hardship, you now have a little extra time to contribute to those accounts. However, if you are able to contribute the maximum amounts now, doing so earlier might allow your investment to grow more rapidly if markets improve in the coming quarter. Make sure you monitor any contributions you make to IRAs after April 15 and between July 15 and discuss them with your financial advisor, so they are credited to the correct year: 2019 and not 2020.

REQUIRED MINIMUM DISTRIBUTION (RMD) RULES SUSPENDED FOR 2020

Investors who turned 70 ½ by December 31, 2019, are normally required to start taking minimum distribution amounts out of their retirement plans, known as RMDs, or Required Minimum Distributions, every year. Under the CARES Act, this RMD is waived for 2020 for IRA, 401 (k), 403(b) and 457(b) plans.

This is important to note, because RMD amounts are calculated using the balance of one's retirement account on December 31 of the prior year. Since those values are based on the equity markets at that time, it means individuals would be required to take an RMD based on much higher account values. That would leave many investors taking out a higher percentage of their current IRA and paying a "disproportionate amount" of taxes, according to American Retirement Association.

Given the rapid decline in equity markets that has occurred between December 31, 2019 and March 27, 2020, the day the CARES Act was signed into law, it may make sense for to forgo your RMD in 2020 if you don't need liquidity now. Leaving the funds invested will allow time for the market to stabilize, and you can thus avoid taking an RMD at what would likely be a loss in 2020.

Broadly speaking, retirement plan participants can get a waiver on their RMD:

- If they have previously taken ongoing RMDs, they will not be required to receive an RMD in the year 2020;
- Investors who turned 70 ½ in 2019 but didn't take their first-ever RMD on or before January 1, 2020 can forfeit receiving their RMD's for both 2019 and 2020;
- Beneficiaries who are currently receiving life expectancy payments are not required to take a 2020 beneficiary RMD;
- If an individual has taken their RMD for 2020 **within the last 60 days**, they can now roll the amount back into the same plan with no penalty or income tax due on the distribution, as long as they have not made any IRA-to-IRA or Roth IRA-to-Roth IRA rollovers over the past 12 months.

Caveats on RMDs: The guidelines governing RMDs are quite complex, particularly with respect to the impacts of temporary relief provided under the CARES Act. You are encouraged to consult with your tax professional for additional guidance.

IRA BENEFICIARIES SUBJECT TO A FIVE-YEAR PAYOUT RULE

If you are a "non-designated" beneficiary of an IRA inherited in 2015 or later, you may be subject to a five-year payout rule if you inherited the account from someone who died before reaching age 70 ½. That means that by 2020, the balance remaining would have to be liquidated. Under the CARES Act, you have the option to extend the distribution for a full year, meaning, you wouldn't have to take a required distribution until December 31, 2021.

HARDSHIP DISTRIBUTIONS

If you are dealing with a major financial hardship at the moment, the CARES Act allows certain coronavirus-related distributions from retirement accounts like 401(k)s and IRAs until December 31, 2020. Dependent upon the provisions of your company's plan, you may be able to take a COVID hardship distribution of up to $100,000 and the tax liability can be spread over three years, if so desired.

These COVID hardship distributions are available to individuals age 59 ½ or younger under the following conditions:

- You, your spouse, or a dependent has been diagnosed with COVID-19;
- You have experienced adverse financial consequences as a result of being quarantined, laid off, furloughed, given reduced work hours, or are unable to work due to a lack of childcare;
- You are a business owner who has had to reduce operating hours or close your business;
- Possible additional factors as determined by the Treasury Secretary

Under normal circumstances, anyone under the age of 59 ½ would be penalized at a 10% early withdrawal penalty rate, but under the CARES Act, it is waived as long as a distribution is taken by December 31, 2020.

It's important to note that you will have three years to repay the amount withdrawn back into qualified retirement plans and IRAs without incurring income tax on the distribution, plus, the amount repaid will not be subject to contribution limits normally imposed. If you are unable to re-contribute the amount within that three-year period, you will owe income tax on it; however, the distribution can be reported as taxable income evenly over the years 2020, 2021, and 2022.

You should check with your retirement plan administrator or your employee benefits department to find out if your plan allows for hardship distributions for COVID-19 related reasons. Additionally, consider the tax liability that will occur if you are not able to repay the amount to your plan account.

LOANS FROM QUALIFIED RETIREMENT PLANS

Loans against a 401(k) or other qualified retirement plan are impacted, too. If you already have a **plan loan** outstanding with an amount due, you may be able to delay that loan repayment for up to one year through December 31, 2020. Also, if your retirement plan allows for loans, limits may have been increased to as much as $100,000 or the lesser amount of 100% of an individual's vested account balance as allowed under the CARES Act.

If you are an investor that needs liquidity, first check with your retirement plan administrator or your employee benefits department to determine whether a loan is an option for you. Then discuss the advantages and drawbacks of a plan loan vs. a hardship withdrawal with your financial advisor.

Need more information? Your financial advisor stands ready to assist you as you navigate these uncertain times. If you have any questions, please do not hesitate to call your B. Riley Wealth Management financial advisor.

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