

COVID-19 401k withdrawal option (also known as coronavirus-related distribution (CRD))

What does the new withdrawal option in the CARES Act allow?

If you decide to add this option to your plan, participants who meet certain criteria related to the coronavirus (COVID-19) are allowed to take penalty-free withdrawals of up to \$100,000. An eligible plan may include any 401(a), including 401(k), 403(b) or eligible deferred compensation plan under governmental 457(b).

Eligible participants for this withdrawal option include:

- those who have been diagnosed with virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention
- those who have a spouse or dependent (as defined in Section 152 of the Internal Revenue Code of 1986) diagnosed with the virus or disease by such a test
- those who have experienced adverse financial consequences resulting from a reduction in work hours, layoff, quarantine, furlough, or who are unable to work due to lack of childcare or business closing, all on account of the virus or disease; or based on other factors determined by the Treasury Secretary.
- Participants will self-certify that they meet the requirements.

Here is a brief summary of the new COVID-19 withdrawal option (if added to your plan):

- 10% penalty tax for early withdrawal is waived.
- Participants can take withdrawals up to \$100,000 (this is a cumulative limit which applies across all plans maintained by the employer and any member of any controlled group which includes the employer).
- Are not treated as eligible rollover distributions, so 402(f) notice is not required and mandatory 20% withholding would not apply. However, 10% federal withholding will be applied unless the participant elects to opt out.
- Withdrawals may be included in the participant's taxable income ratably over a three-year period, unless the participant elects to have it taxed in the year of distribution.
- Participant may be permitted to repay the withdrawn amount as an eligible rollover contribution if repayment(s) occurs within 3 years starting with date of distribution.
- This is available for qualified distributions between Jan. 1, 2020 and before Dec. 31, 2020.

401k Loan provision

What does the new loan provision in the CARES Act allow?

The same eligibility qualifications for the withdrawal option also apply to the participant loan provision (see above).

Here is a brief summary of what the loan provision allows (if added to your plan):

- IRS plan loan limits for eligible participants requesting new loans have been increased to 100% of vested account balance, up to \$100,000, for 180 days beginning March 27, 2020.
- Additional guidance from the Department of Labor regarding their separate 50% vested account balance limit on plan loans is expected.