Your Comprehensive Guide to the CARES Act

Americans who are struggling to pay the bills amid the COVID-19 pandemic may take advantage of relief granted by the Coronavirus Aid, Relief and Economic Security (CARES) Act that was signed into law on March 27, 2020. This newly enacted emergency stimulus package seeks to assist workers impacted by COVID-19 by increasing access to retirement plan account savings.

Before taking advantage of the package's retirement plan provisions, it's important to consider the effects short-term moves will have on portfolios in the long-term. This guide is designed to help you learn about the provisions of this historic legislation, understand who is eligible and how to take advantage of them if you need to.

In many cases, it may be wise to consult a financial professional to help you make decisions that make the most sense for your circumstances.

Penalty-free retirement plan withdrawals

Normally, anyone who withdraws money from their qualified retirement account before age 59-1/2 is assessed a 10 percent penalty on that amount. The CARES Act will allow you, regardless of your age, a "coronavirus-related distribution" to take up to $100,000 from your retirement account in 2020 without incurring the early withdrawal penalty if you've been diagnosed with COVID-19 or had certain other COVID-19 related impacts. If you take advantage of this provision, you will still owe ordinary income tax on the amount withdrawn, which could be paid over three years, but that tax can be avoided if the withdrawn amount is replaced within three years.

If distributions are rolled back into your account using this option, you will have to file an amended tax return to claim a refund of any tax paid attributable to the rolled over amount.

You may want to tread with caution and treat an early withdrawal as a last resort. Why? It can seriously compromise your long-term financial security and could increase the risk that you will outlive your savings in retirement. By selling in a depressed market, you could be locking in your losses.

For example, if you were to take, say, a $30,000 distribution from a $100,000 account and did not repay it, you would lose the opportunity for compounded growth on that distribution, which adds up over time.

Consider that a pre-tax retirement account worth $100,000 would grow by $62,000 to $162,000 in 10 years assuming a 5 percent annual return. By comparison, an account worth $70,000 growing at the same 5 percent rate per year would grow by $44,000 to $114,000 in 10 years.

Retirement plan loans

The CARES Act also temporarily raises the limit on retirement account loans to the lesser of $100,000 (from $50,000), and 100 percent of the vested account balance. With a workplace retirement plan loan, you repay the loan with interest to yourself. The interest rate is typically far lower than you would pay to a bank or other lender.

Be aware, however, that if you fail to repay your loan on time, the amount borrowed will be treated and taxed as an early distribution. If you are younger than age 59-1/2, you would also be hit with a 10 percent penalty. And here again, you forfeit any investment gains you might otherwise have earned while the money is out of your account.

Suspended loan payments for 2020

Under certain circumstances, some participants who have already taken out loans against their workplace retirement plans will also be permitted to suspend their loan payments that were scheduled to occur between the effective date of the Act and December 31, 2020. Those repayments may be suspended for one year.

When payments resume, the loan must be re-amortized to reflect the interest that accrued during the suspension period. All subsequent loan repayments will also be "backed up" a year so that participants will not be simultaneously paying the regularly-scheduled payment and a payment that was postponed under the stimulus package.

Waived distributions

The CARES Act waives required minimum distributions (RMDs) from retirement savings accounts for 2020, so seniors age 70-1/2 and older who can afford to skip their 2020 distribution don't have to take money from their pre-tax retirement portfolios when the market is down. That gives their account balances time to recover. If you will turn 70-1/2 in 2020 or later (born after June 30, 1949), you will not need to begin taking RMDs until after you reach age 72, the new age for RMDs imposed by the SECURE Act. If you were born before July 1, 1949, you are still subject to the old rule of age 70-1/2.

Normally, retirees pay a hefty 50 percent tax penalty on any amount of their annual RMD not withdrawn. RMDs are based on account balances at the end of the prior year, so a 2020 distribution would have been based upon much higher portfolio values as of Dec. 31, 2019.

Who can access these benefits?

In order to qualify for any of these provisions, you must be an "eligible participant." You are an "eligible participant" if you are an individual:

- Diagnosed with SARS-CoV-2 or COVID-19 by a test approved by the Centers for Disease Control and Prevention; OR
- Whose spouse or dependent is so diagnosed by such a test; OR
- Who experiences adverse financial consequences as a result of
  - Being quarantined; OR
  - Being laid off or furloughed or having work hours reduced due to the virus; OR
  - Being unable to work due to lack of child care due to the virus; OR
  - Closing or reducing hours of a business owned or operated by the individual due to the virus; OR
  - Other factors as determined by the Secretary of the Treasury

How are these new provisions activated?

All participants who want to take advantage of these new options must either complete a paper form or must call in to MassMutual's Participant Information Center (PIC). MassMutual will be waiving or crediting fees for all COVID-19 loans and distributions as well as any hardship distributions until further notice.

If you have not been directly affected by the COVID-19 issues as described above, remember you have access to your account if your employment has terminated, for whatever reason. You may also be able to borrow from your account under the normal loan rules of the plan; or you may be able to receive a hardship distribution for financial hardship not related to COVID-19.