

The CARES Act (“CARES”) waived required minimum distributions (RMDs) for participants and beneficiaries of defined contribution plans and IRAs in 2020. On June 23, 2020, Notice 2020-51 (the “Notice”) was released by the IRS to provide additional clarification and guidance on implementing this waiver.

CARES ACT RMD WAIVER

Any RMD that would otherwise be due from a defined contribution plan or IRA in 2020, or a participant’s first RMD that is due by April 1, 2021, is not required. As a result, any amount equal to what would have been the RMD amount is eligible for rollover treatment if distributed. The RMD waiver does not apply for defined benefit plan participants—RMDs from defined benefit plans, including cash balance plans, are still required as normal, even if the taxable portion of the distribution is calculated using account balance method.

RELIEF OF 60-DAY ROLLOVER LIMITATION

CARES was signed into law on March 27, 2020, but it waived the RMD requirement for 2020 altogether. As a result, some participants took their RMD only to find out later that it was not necessary. CARES included the ability to rollover amounts that would otherwise be treated as RMDs but neglected to address the 60-day rollover period, which might cause issue for those who took RMDs early in 2020. The Notice provides additional relief by extending the 60-day rollover period until August 31, 2020 for distributions of RMDs in the first half of 2020.

IMPACT ON BENEFICIARIES

Under the RMD rules prior to the SECURE Act (which would generally be applicable for 2020 RMDs) a beneficiary of a defined contribution plan or IRA must distribute the inherited account balance over their life expectancy, or distribute the full balance by the end of the year containing the fifth anniversary of the participant’s death. There are exceptions to these rules for spouse beneficiaries.

The RMD waiver under CARES applies to any amounts otherwise due to a beneficiary in 2020 if the participant died in 2019 or earlier. In addition, if the five-year rule is being followed, 2020 will not count in determining the deadline to distribute the account balance. Therefore, six years are allowed rather than five. The RMD waiver will not impact the options for the beneficiary of a participant who dies in 2020 or later.

“ONE ROLLOVER PER 12-MONTHS” RULE

The Notice clarifies that a rollover of a waived RMD will not count towards the “one rollover per 12-months” rule that typically applies to rollovers between IRAs. This rule never limits the ability to roll a distribution from a qualified plan to an IRA, but it does limit the number of rollovers an IRA owner can complete between IRAs.

SERIES OF SUBSTANTIALLY EQUAL PERIODIC PAYMENTS

The Notice provides guidance for participants and IRA owners who are taking distributions in the form of a “series of substantially equal periodic payments.” These payments are taken for a minimum of five years or until the participant has reached age 59½, whichever is later, to avoid a 10 percent early distribution penalty tax. Although these payments are in some cases calculated based on account balance (like an RMD), the waiver does not apply in this situation. If a payment is missed, a retroactive penalty will apply for all payments in the series.

PLAN AMENDMENTS

A plan amendment will be required, just as for other provisions of CARES that impact qualified plans. The amendment is due by the last day of the first plan year beginning on or after January 1, 2022. The IRS provided a sample amendment in the Notice specifically to address the RMD waiver and the ability to rollover amounts that would otherwise be required as RMDs in 2020. It is anticipated that plan document providers will incorporate this sample amendment language into their “good-faith” amendment for CARES.