The CARES Act and the SECURE Act – Changes to RMDs from Retirement Accounts

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The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a sweeping third-wave relief package in response to the COVID-19 pandemic, became law March 27. To read the full overview of the bill, click here.

The CARES Act provides relief and planning options for account owners and beneficiaries of retirement plans by suspending required minimum distributions for certain retirement accounts in 2020. Below are responses to commonly asked questions regarding this provision.

Which Retirement Accounts are Affected?

The CARES Act waives the Required Minimum Distribution (RMD) requirement for qualified defined contribution plans, like 403(b) and 457(b) plans, and Individual Retirement Accounts (IRA). For simplicity, this post focuses on IRAs, but the CARES Act similarly affects such defined contribution plans.

What is a Required Minimum Distribution?

Generally, IRA owners must begin annually withdrawing required minimum distributions (RMDs) from their IRAs once they reach a specified age. The Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act), which became effective in part on January 1, 2020, extended the age requirement to begin taking RMDs from certain retirement accounts from age 70½ to age 72. Following the SECURE Act, if an IRA owner reached age 70½ prior to January 1, 2020, or if not yet age 70½, once an IRA owner reaches age 72 after December 31, 2019, he or she must annually withdraw RMDs.

Note: Roth IRAs do not require minimum distributions during the account owner's lifetime.

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What are the Required Minimum Distributions for Inherited IRAs?

If an IRA owner died before January 1, 2020, a "designated beneficiary" of such inherited IRA generally withdraws required sums from the IRA over his or her life expectancy. Similarly, an "eligible designated beneficiary" of an inherited IRA from an account owner who died after December 31, 2019, may also stretch withdrawals from such IRA over his or her life expectancy. "Eligible designated beneficiaries" include the account owner's surviving spouse and minor children (until age of majority), disabled or chronically ill individuals, and beneficiaries who are less than 10 years younger than the account owner.

However, the SECURE Act eliminated required minimum distributions for many beneficiaries who inherit IRAs beginning in 2020. If an IRA owner died after December 31, 2019, a "designated beneficiary" of such inherited IRA must withdraw the entire account within ten (10) years following the year of the account owner's death. Similarly, a "non-designated beneficiary" of an inherited IRA, such as charities and the account owner's estate, must withdraw the entire account within five (5) years of the account owner's death if distributions had not begun prior to the account owner's death.

For more information on the SECURE Act and distinctions between eligible designated beneficiaries and designated beneficiaries, *click here*.

How does the CARES Act change Required Minimum Distributions for 2020?

Following the CARES Act, IRA owners do not have to withdraw an RMD in 2020. For a living account owner, this means that if he or she was age 70½ before January 1, 2020, he or she will not be required to withdraw an RMD in 2020. If an account owner turned 70½ in 2019 and did not take an RMD in 2019, the account owner does not have to take his or her first RMD (for 2019) by April 1, 2020, and also does not have to take his or her 2020 RMD by December 31, 2020.

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While the CARES Act does not specifically address inherited IRAs, beneficiaries of inherited IRAs from account owners who died before January 1, 2020 should not have to take an RMD in 2020. The 10-year period for non-eligible designated beneficiaries of inherited IRAs from account owners who died after December 31, 2019 does not begin until 2021. For non-designated beneficiaries of inherited IRAs who are receiving distributions over a 5-year period, like estates and charities, 2020 will not count as one of the five years.

Can I still withdraw from my retirement account?

Retirement account owners can still take withdrawals from their accounts in 2020. The CARES Act simply gives account owners flexibility to plan withdrawals based on their current situations. Account owners may still want to take withdrawals for support or for tax planning purposes. For example, if an account owner is in a low tax bracket for 2020, or wants to take advantage of low tax rates, he or she may want to consider withdrawing funds in 2020.

How do I prevent withdrawal of the RMD from my retirement account?

You should contact the custodian of your retirement account to request that they stop any automatic withdrawals for your 2020 required minimum distribution.

Can I return the RMD withdrawal that was already distributed in 2020?

Generally, you cannot return RMDs to your retirement account. However, since the distribution was not actually an RMD in 2020, if the distribution was made within the last 60 days, account owners may be able to roll it over to an IRA and avoid tax consequences.

For more information, please contact Audra E. Loomis or any attorney in Frost Brown Todd's Estate Planning & Administration Group.

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To provide guidance and support to clients as this global public-health crisis unfolds, Frost Brown Todd has created a Coronavirus Response Team. Our attorneys are on hand to answer your questions and provide guidance on how to proactively prepare for and manage any coronavirus-related threats to your business operations and workforce.

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