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Retirees Get Relief in Senate Coronavirus Stimulus Package

Provisions suspend required minimum distributions for 2020, give some people access to retirement savings penalty-free

Treasury Secretary Steven Mnuchin, left, accompanied by White House legislative affairs director Eric Ueland and acting White House chief of staff Mark Meadows, spoke Tuesday with reporters.

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By Anne Tergesen

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The Senate's $2 trillion coronavirus-relief bill that passed Wednesday night includes breaks for Americans whose retirement accounts have been battered by the stock-market meltdown.

The House of Representatives is expected to pass the package on Friday. Treasury Secretary Steven Mnuchin said President Trump would sign the package as it was written Wednesday.

Provisions in the Senate legislation raise the limits on 401(k) loans and loosen the rules on hardship distributions from retirement accounts. People affected by the coronavirus crisis would get access to up to $100,000 of their retirement savings without the 10% penalty that normally applies to money taken out before age 59½.

For retirees, the bill suspends for 2020 the minimum required distributions most must take from tax-deferred 401(k)s and individual retirement accounts. For 2009, Congress enacted a similar measure to give beaten-down retirement accounts time to rebound without requiring retirees to take money out when their balances were low.

As of Dec. 31, there was about $20 trillion in IRAs and 401(k)-style retirement plans, according to the Investment Company Institute, a trade association that represents the mutual-fund industry.

The financial-services industry pushed for the relief measures for retirement accounts, arguing that Congress should "provide plan participants and retirees the flexibility they need to weather this unprecedented public health and financial crisis," said Matt Petersen, executive director of National Association of Government Defined Contribution Administrators, Inc.

The $2 Trillion Stimulus Bill and Your Retirement Fund

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Some consumer advocates say, however, that the hardship provision may exacerbate savings shortfalls in the long run. Before the current market decline, the nonprofit Employee Benefit Research Institute estimated Americans between the ages of 35 and 64 faced a retirement savings shortfall of $3.83 trillion, with 41% of households projected to run short of money in later life.

The provisions that govern 401(k) loans and suspend required distributions "are quite sensible," said Shai Akabas, director of economic policy at the Bipartisan Policy Center in Washington, D.C. "But to have a blank check to take out $100,000 from a retirement account penalty-free sends the wrong message."

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Mark Iwry, a nonresident Senior Fellow at the Brookings Institution who oversaw national retirement policy while at the Treasury Department during the Clinton and Obama administrations said, "While some may have no choice but to take such withdrawals and while extensive relief is appropriate, this broad $100,000 provision might unfortunately invite millions of others to liquidate target-date funds or other stock investments before the market recovers."

Retirement plans can allow people to use the new hardship distribution and loan provisions immediately. Here are details.

Hardship distributions from IRAs and 401(k)s

The "hardship withdrawals" of up to $100,000 would still be taxable, but account owners can pay the income tax due on the withdrawal over three years, rather than in the first year. And those under age 59 ½ would be exempt from the 10% penalty that normally applies.

Alternatively, they can elect to put the money back into a 401(k)-type plan or an IRA within three years, and skip the tax payments, even if the amount they want to redeposit exceeds the annual contribution limit, which is currently $6,000 for an IRA (or $7,000 for those 50 or older) and $19,500 for a 401(k) (or $26,000 for those 50 or older.)

To qualify for the hardship distribution, the account owner or his or her spouse or dependent must have been diagnosed with the coronavirus or lost income due to a layoff, business closure, quarantine, reduction in hours, or inability to work due to a lack of child care.

The administrator of the account "may rely on an employee's certification that the employee satisfies the conditions," the bill says.

Loans from 401(k)s and similar plans

The bill doubles the amount 401(k) participants who have been diagnosed with the virus or affected by economic losses can take in loans for the next six months from a retirement account to the lower of $100,000 or 100% of the account balance. (IRAs don't permit loans.)

People with 401(k) loans—new or existing—can delay any repayment due in 2020 for a year. That extends the repayment deadline for these loans by a year.

Required minimum distributions from 401(k)s and IRAs

Those who contribute to tax-deferred retirement accounts, such as traditional IRAs and 401(k)s, don't pay income tax on the money they put into these accounts. But starting at either age 70 ½ (for those born before July 1, 1949) or at age 72 (for those born after June 30, 1949), the government requires them to start withdrawing a set percentage of the account balance, and paying income taxes.

Account holders can always withdraw more. But if they take less than the minimum required, they could be subject to a 50% penalty on the amount they should have withdrawn—except for 2020.

The one-year suspension of required distributions will help retirees, who would otherwise have been forced to base their minimum withdrawals for 2020 on their account balances as of Dec. 31, 2019, when the stock market was near record levels.

Under normal rules, a 75-year-old with a $500,000 IRA evenly split between stocks and bonds on Dec. 31 would have been required to withdraw about $22,000 this year on top of losses so far of about $49,000.

The reprieve also gives those who can afford to leave their nest eggs alone a better chance of recovering losses. The reason: they'll have more dollars working for them in the event of a stock-market rebound, says Ed Slott, an IRA consultant in Rockville Centre, N.Y.

People who have inherited 401(k)s, IRAs, or Roth IRAs can also suspend distributions in 2020.

IRA owners who were new to taking required distributions in 2019 and elected to delay their first distribution until April 1, 2020 don't have to take that withdrawal, even though it counts toward the required payout for 2019, Mr. Slott says.

Required distributions don't apply to account owners with Roth IRAs (although they do apply to people who inherit Roth accounts). In addition, those who are still working beyond the age at which required distributions normally begin may not have to take a distribution from their current employer's retirement plan until they retire, depending on the plan's rules.

—Richard Rubin contributed to this article.

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