https://www.unionleader.com/news/business/money_sense/marc-a-heberts-money-ense-tapping-retirement-savings/article_8fcfd703-45b2-5b74-a2f0-ede7df2cd981.html

Marc A. Hebert's 'Money $ense': Tapping retirement savings

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In the wake of a sharp increase in COVID-19 cases in March, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to help individuals withstand the financial impact of the situation. One way this act helps is that it may enable access to money in retirement plans by temporarily waiving the 10% early-withdrawal penalty.

For some workers, the act also permits higher borrowing limits from retirement plans. By understanding the new rules, you may find some choices that could financially help you through this crisis.

One change is an exception to the 10% early-withdrawal penalty. With the CARES Act, certain retirement plan account owners can take distributions of up to $100,000 for a “coronavirus-related” reason without incurring the early withdrawal penalty. This change is for 2020. “Coronavirus-related” reasons could include quarantine, furlough, layoff, reduced work hours, and lack of child care that hampers the ability to work due to the virus.

Keep in mind that this isn’t the only early-withdrawal penalty exception. Others may include:

• Death of the account owner.

• Disability of the account owner.

• Medical expenses exceeding 7.5% of adjusted gross income (2020). These are expenses that have not been reimbursed by insurance.

• “Substantially equal periodic payments” lasting over your life expectancy or a joint life expectancy of you and your spouse.

• Birth or adoption of a child, subject to a $5,000 limit, per account owner.

• Some military reservists called to active duty.

For IRAs only, funds can also be withdrawn penalty-free for a first-time home purchase, higher-education costs and health insurance premiums if you get laid off. There is a limit of $10,000 over the account owner's lifetime on how much can be used for a home purchase.

Another provision to keep in mind is that for certain employer plans there is an exception for employees who left employment from the company after age 55 (age 50 if the employee was a qualified public safety employee).

We have been discussing the income tax penalty for withdrawing funds from your accounts early. Don't forget that this is related to penalties only. Generally, income taxes will be due on the amount withdrawn. The IRS will look for the distribution to be reported on your income tax return. While you're at it, be sure to check the state tax impact of your distribution.

The new rules allow the withdrawals that are coronavirus-related to be included in income over a three-year time frame. Essentially, you could spread the income tax impact over these years if you wanted to. Another new provision is that coronavirus-related withdrawals can be reinvested back into the account over a period of up to three years.

You may have considered making a withdrawal and decided it isn't for you. You may have another option. This is a loan from your employer-provided retirement plan. Your ability to do this depends on your plan provisions.

Under the old rules, you could borrow up to the lesser of 50% of your vested balance or $50,000. These loans had five-year repayment options, although if you used the money to buy your principal residence, it might be longer. The CARES Act changed these rules. Employers can increase the amount available to borrow up to the lesser of 100% of the vested balance or $100,000. This is for loans to individuals affected by the coronavirus. Be sure to understand the terms of your loan before using this strategy.

Remember, withdrawing retirement funds today may be a big help but could come at the expense of your retirement down the road. We suggest you consult a certified financial planner or a tax adviser to discuss the impact to your individual situation.

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