



## *memorandum*

Innovative Design and

Administration of Retirement Plans

### RMDs AFTER IRS NOTICE 2020-51

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Issue Date: June 25, 2020

Rules governing Required Minimum Distributions (RMDs) were substantially modified under the CARES Act. The IRS issued Notice 2020-51 on June 23, 2020 expanding the relief provided under the CARES Act. This memorandum summarizes the new rules.

We have posted to our website ([danaconsulting.com](http://danaconsulting.com)) various firm memoranda about the Coronavirus and Qualified Retirement Plans. See the **Education Center** tab. We are updating those memoranda periodically for changes and developments.

#### Background

President Trump signed into law on March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) that changed several rules governing retirement plans. One of those changes affected RMDs from defined contribution plans (DC plans) and IRAs.

The CARES Act generally waived RMDs from DC plans (such as 401(k) and profit sharing plans) and IRAs for 2020, including 2019 RMDs that were required to be paid by April 1, 2020.

The CARES Act did NOT waive RMDs from defined benefit and cash balance plans.

If a plan (or IRA) paid a RMD in 2020, the participant (or IRA owner) could roll the RMD over within 60 days to avoid taxation. This presented a problem for participants and IRA owners whose 60-day roll over period expired before enactment of the CARES Act.

Now we have the IRS to the rescue with Notice 2020-51.

#### Notice 2020-51

The IRS issued Notice 2020-51 on March 23<sup>rd</sup>. [You can Google Notice 2020-51 to get a copy from the IRS website.]

The notice provides additional relief and answers several questions about the RMD changes under the CARES Act.

First and most important, individuals who received an RMD anytime during 2020 (including a 2019 RMD taken in 2020) can roll it over up to and including August 31, 2020. The normal 60-day roll over period is extended to August 31. Non-spouse beneficiaries who receive a 2020 RMD can also roll it over by August 31.

This rule only applies to distributions that constituted RMDs. Amounts taken over and above an RMD are not covered by this delayed rollover date.

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Example: John took a \$50,000 distribution from his IRA in January 2020, of which \$30,000 was his 2020 RMD. John can rollover any part of the \$30,000 distribution by August 31. The remaining \$20,000 needed to be rolled over within 60 days. HOWEVER, if John is a Qualified Individual under the CARES Act, he has three years to rollover some or all of the \$20,000 distribution.

Normally, an IRA owner can make one IRA-to-IRA rollover in any 12-month period. This rule is waived for rollovers of RMDs that occur through August 31.

A plan paying a 2020 RMD does not treat the distribution as an “eligible rollover distribution.” What this means is that regular 20% mandatory withholding does not apply but 10% voluntary withholding does apply. The IRS stresses in the notice that these withholding rules are mandatory.

## Plan Amendments

Qualified plans are not required to implement the RMD waiver rules for 2020. Plans have three (3) options for the new RMD rules:

1. The plan will make RMDs under the pre-CARES Act rules. [Participants can still rollover those distributions as explained above.]
2. The plan can default to no RMD being paid but each participant can make an individual election to take their RMD.
3. The plan can default to paying all RMDs but each participant can make an election to waive their RMD.

If a plan elects Option 2 or 3 above, the plan must be amended by the end of the 2022 plan year.

Notice 2020-51 requires this amendment to be adopted by the plan sponsor, NOT the vendor who furnished the IRS-approved documents. This is a departure from normal rules and may be a trap for the unwary.

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We urge our clients to call us before making any decisions. There may be options outside of the company's 401(k) plan for helping employees through these trying times.

America is a great country and we will get through all this. Common sense and a little planning will go a long way. If you have any questions, please call your DCG administrator or Lee T. Jennings directly at (630) 802-7644.

***Please visit our website at [www.danaconsulting.com](http://www.danaconsulting.com).***