

The CARES Act



Bold action to support the U.S. economy has arrived in the form of the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act. This roughly \$2 trillion stimulus, which was signed into law on March 27, is the largest economic relief effort in American history.

The wide-ranging law includes provisions intended to support the health care system's fight against the coronavirus, as well as direct payments to individuals, expanded unemployment insurance, loans to small and large businesses, and support for state and local governments.

Flexibility for retirement savers

- **Waiver of early withdrawal penalty:** Retirement savers will have more options for coping with the economic impact of the coronavirus. The act waives the 10% early withdrawal penalty for distributions up to \$100,000 from qualified retirement accounts for those affected by the virus. Further, the income tax due on those distributions can be spread over three years, and investors have three years to return the funds to their accounts. The limits on loans from qualified plans also have been increased, to the lesser of \$100,000 or the full vested balance of the account.
- **Temporary waiver for RMDs:** The CARES Act also will help retirees keep their savings in their retirement accounts. It includes a temporary waiver for required minimum distributions (RMDs), which applies to both 2020 RMDs and RMDs due by April 1 for individuals who turned 70½ last year.
- **Relief for plan sponsors:** Retirement plan sponsors may also see relief, as the act authorizes the Department of Labor to postpone certain filing deadlines of the Employee Retirement Income Security Act of 1974 (ERISA) for up to a year because of a public health emergency. Companies offering pensions will have more time to meet their funding obligations, with the due date for 2020 contributions delayed until 2021.

Helping individuals navigate the troubled economic waters

- **Direct support to individuals:** Many Americans will receive a direct infusion of cash through payments of \$1,200 for individuals earning up to \$75,000 (or \$150,000 for couples), plus \$500 for each child. These payments will be phased out for higher-income earners. Unemployment insurance will increase by \$600 per week for up to four months.

- **Temporary prohibition of foreclosures and evictions:** The act will help those struggling with housing costs by prohibiting foreclosures on all federally backed mortgages for 60 days and allowing homeowners to request up to 180 days of forbearance. For renters, the act includes a 120-day moratorium on evictions for certain rental properties.
- **Incentives for charitable giving:** Taxpayers will be able to deduct up to \$300 of cash contributions regardless of whether they itemize deductions, and the limits on charitable deductions for those who do itemize will be increased.
- **Support for working students:** For those pursuing further education while working, employers will be able to offer tax-free student loan repayment benefits of up to \$5,250 in 2020.

Helping businesses stay afloat

- **Loans to small businesses:** The Paycheck Protection Program will provide about \$350 billion for loans to small businesses; loans can be forgiven for businesses that maintain employees and wages. The act also permits a deferral of payroll taxes and provides a refundable payroll tax credit for 50% of wages for business affected by the coronavirus.
- **Lending for corporations, states, and municipalities:** The CARES Act provides for roughly \$500 billion in loans to large corporations, states, and municipalities, primarily through the Federal Reserve's lending facilities. These loans will require businesses to retain their workforce and will include restrictions on stock buybacks, payment of dividends, executive compensation, outsourcing of jobs, and labor negotiations.
- **Oversight and governance:** An inspector general for pandemic recovery will be appointed by the president and a five-member congressional oversight commission. The act includes \$150 billion in aid to state governments and additional protections for money market mutual funds.

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Diversification does not ensure a profit or protect against a loss.

Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

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