

RMD WAIVER (AND CONFUSION) IN 2020 (PART I)

The Coronavirus Aid, Relief, and Economic Security (CARES) Act waives required minimum distributions (RMDs) from defined contribution plans and IRAs in 2020. The relief applies to both account owners and beneficiaries.

Owner RMDs and the SECURE Act

The Setting Every Community Up for Retirement Enhancement (SECURE) Act increased up the age that triggers required distributions for retirement-plan account owners from age 70½ to age 72. This change applies only to owners reaching age 70½ in 2020 or later. For owners who reached age 70½ in 2019 or earlier, it was supposed to be business as usual. Enter the CARES Act.

As noted, the CARES Act waives RMDs for owners of retirement plans (other than defined benefit plans) in 2020. Here's a breakdown of this relief.

- **Waiting-to-Takers.** Owners who are required to take a distribution in 2020 and are still waiting to do it are off the hook. The law waives the requirement to take a distribution this year.
- **Procrastinators** (that is, folks who reached age 70½ in 2019 but did NOT take their first required distribution in 2019). Owners who reached age 70½ in 2019 had until April 1, 2020, to take their age 70½ (or first year) required distribution. This April 1 date is known as the owner's required beginning date (RBD).

For tax or other reasons, some owners may not have taken the first-year distribution in 2019. Instead, they planned to take it sometime before April 1, 2020. When waiting to take a first-year required distribution until April 1 of the following year, a second distribution is normally due for that year as well (by 12/31 of that second year). The CARES Act waives both the first- and second-year RMDs in such circumstances. So much for the early bird gets the worm.

Here's an example. Joe reached age 70½ on 12/31/19. Under the SECURE Act, he is still required to take an RMD for 2019, his first distribution year. This distribution would ordinarily have a deadline of 4/1/20 (Joe's RBD). A second distribution for 2020 (Joe's second distribution year) would also ordinarily be due. Its deadline would have been 12/31/20. On 3/27/20, the date of enactment for the CARES Act, Joe had not taken either RMD. Thanks to the CARES Act, both of these distributions are waived for Joe. If Joe had taken his first-year distribution during the first few months of 2020, he may be able to roll it over (as explained below).

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- **Go-Getters.** Owners who have already taken some or all of the required distribution due in 2020 may have some options. If it is still within 60 days of receipt of the distribution, they may roll it over to an IRA or other eligible retirement plan. If doing a 60-day IRA-to-IRA rollover, remember the one-per-year limitation. Alternatively, if they have accounted for the distribution in their tax planning for the year, they may roll it over to a Roth IRA. Under this scenario, they will still owe tax on the distribution, but they will avoid the need to take future required distributions from the Roth IRA¹.
 - **Age-70½-Reachers in 2020.** As a reminder, owners reaching age 70½ in 2020 are not required to take any distributions thanks to the SECURE Act. For them, the trigger age for such payments has been bumped up to age 72. They will have until April 1 of the year following the year they reach that age to take their first required distribution.

Putting It All Together

2020 is likely to be a confusing time for retirement-plan account owners for lots of reasons, including RMDs. We hope the information in this post helps.

Additional Information and Links

The CARES Act, Section 2203

www.documentcloud.org/documents/6819239-FINAL-FINAL-CARES-ACT.html

IRS Notice 2009-82

www.irs.gov/pub/irs-drop/n-09-82.pdf

For additional information about the
SECURE Act or the CARES Act, please contact
the Retirement Strategies Group at (800) 722-2333, ext. 3939,
or email RSG@PacificLife.com.
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¹The IRS may provide specific relief for the 60-day deadline for rollovers at some point during the year, as it did during the 2009 RMD waiver. It has already provided relief for many deadlines in IRS Notice 2020-23. This IRS Notice provides an extension to July 15, 2020, of the 60-day deadline, but only for those who took an unwanted “non-RMD RMD” between February 1 and May 15, 2020. No relief yet for those taking these payments in January, 2020, so stay tuned for additional guidance.

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