



IRS Issues Further Guidance on Recent Required Minimum Distribution Changes

Two recent pieces of legislation, the Setting Every Community Up for Retirement Enhancement (SECURE) Act and the Coronavirus Aid, Relief and Economic Security (CARES) Act, made changes to the rules for required minimum distributions (RMDs) in defined contribution plans and IRAs. On June 23, 2020, the Internal Revenue Service (IRS) released Notice 2020-51 (the Notice), addressing open questions relating to those changes. In particular, the Notice:

- Provides transition relief for plan administrators and payors in connection with implementing the SECURE and CARES Acts changes to the RMD rules.
- Permits the rollover of waived RMDs (and certain related payments), including an extension of the 60-day rollover period for certain distributions to August 31, 2020.
- Addresses questions relating to the waiver of 2020 RMDs.
- Includes a sample plan amendment providing participants the choice as to whether to receive 2020 RMDs and certain related payments and addressing the ability of participants to roll back into the plan amounts distributed as RMDs.

Transition Relief

Required Beginning Date

The SECURE Act changed the required beginning date for an individual receiving RMDs to age 72, from age 70½; this change applies to individuals who had not attained age 70½ as of December 31, 2019. However, many individuals began receiving distributions in early 2020, pursuant to the old rule. The Notice provides relief for those payments, explaining that neither payors nor plan administrators will be out of compliance for having failed to stop those distributions.

Direct Rollovers

In response to the sharp market downturn in early 2020, the CARES Act included a provision waiving RMDs due in 2020 from defined contribution plans, including 2019 calendar year RMDs not paid in 2019 and due by April 1, 2020. The Notice grants relief to individuals who received (or will continue to receive) distributions in 2020, but would like to take advantage of the waiver. The Notice provides that the following types of distributions from defined contribution plans may be rolled over, and categorized as direct rollovers, to an eligible retirement plan or IRA:

- Distributions to a plan participant paid in 2020 or in 2021 for a 2020 calendar year RMD if the participant's required beginning date would be April 1, 2021, equal to the amount of the 2020 RMD.
- Distributions in 2020 that are part of a series of substantially equal periodic payments made over the life of the participant, or the joint lives of the participant and a designated beneficiary, or for a period of at least 10 years.

To allow participants to take advantage of this relief, the Notice extends the standard 60-day rollover period for indirect rollovers to August 31, 2020. Thus, any distribution described above made on or after January 1, 2020 may be rolled in to an eligible retirement plan no later than August 31, 2020; if not rolled over, the distribution

will be subject to applicable taxation. The distributed amounts may be returned to the plan that distributed the funds, provided that the plan permits incoming rollover contributions. Distributions from an IRA are eligible for similar treatment, so long as the distributed amounts are returned no later than August 31, 2020, and will not be treated as a rollover for the purpose of the one rollover per 12-month period limitation, or the restriction on rollovers for nonspousal beneficiaries.

Additional Guidance for RMD Waivers

If a participant requests a distribution in the amount of their waived 2020 RMD, the 20% mandatory federal income tax withholding will not apply to that amount, but any applicable spousal consent requirements will continue to apply. In addition, the waiver does not apply to distributions that meet the definition of “substantially equal periodic payments,” although the 2020 installment may be eligible for an indirect rollover to a plan as described above. Finally, the waiver does not extend any other deadlines or modify other rollover methods. For example, if a participant or beneficiary dies in 2020, there is no extension of the 10-year period required for distributions.

For participants who died in 2019, the deadline for their beneficiaries to elect and receive distributions over their life expectancies (the life expectancy rule) is extended from December 31, 2020 to December 31, 2021.

Required Plan Amendments

Defined contributions plans must be amended to conform to these new requirements. The Notice provides a sample amendment for use by plan sponsors with pre-approved documents that addresses both the treatment of 2020 RMDs and the availability of rollovers with respect to RMDs paid in 2020.

Treatment of 2020 RMDs

The sample amendment provides two options, without regard to current plan document language, for the treatment of 2020 RMDs:

- Absent a participant or beneficiary election to the contrary, the plan will pay out to participants the equivalent amount of their waived 2020 RMDs.
- Absent a participant or beneficiary election to the contrary, the plan will suspend payment of the waived 2020 RMDs. Note that this is the position that Transamerica will take for the amendment to its pre-approved plan documents.

Availability of Direct Rollovers

The sample amendment allows plan sponsors to elect if, or which, waived 2020 RMDs will be treated as eligible rollover distributions for purposes of the direct rollover rules if the 2020 waived RMD equivalent is distributed to a participant. A plan sponsor may amend the plan to:

1. Accept rollovers of only pre-CARES Act eligible rollover distributions (i.e., a direct rollover option is not offered for 2020 RMDs or for amounts that may be rolled over solely due to the rollover guidance provided in the Notice); or
2. Accept rollovers of pre-CARES Act eligible rollover distributions and:
 - a. all 2020 RMDs;
 - b. all 2020 RMDs and the 2020 installments of any series of substantially equal periodic payments; or
 - c. 2020 RMDs, but only if included in a distribution with an amount that is otherwise eligible for direct rollover.

Timing of Amendment

Plans must adopt these amendments no later than the last day of the first plan year beginning on or after January 1, 2022 (i.e., December 31, 2022 for calendar year plans), or the last day of the first plan year beginning on or after January 1, 2024 for governmental plans, and the amendment must reflect the plan's operations as of the plan sponsor's chosen effective date.

Coronavirus Related Distributions and Plan Loans

The Notice does not address the CARES Act coronavirus-related distribution rules, or participant loan relief. The IRS released Notice 2020-50 on June 19, 2020 addressing these issues. Please review our separate Breaking News article on these topics.

Further updates will be provided as they become available. Please contact your Transamerica representative if you have any questions about this topic.

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