

Waiver of required minimum distributions for 2020

Generally, required minimum distributions (RMDs) must begin to be made from retirement plans no later than April 1 of the calendar year following the calendar year in which a participant reaches required minimum distribution age (i.e., age 70½ for participants born before July 1, 1949, age 72 for participants born after June 30, 1949). The CARES Act provides 2020 RMD relief for participants and beneficiaries in individual retirement accounts or annuities (IRAs) and defined contribution plans (including 401(a) plans, 403(b) plans, and governmental 457(b) plans). As a result, RMDs that were required to be made in 2020, both for persons who attained age 70½ in 2019 and those who attained 70½ in earlier years, are not required.

For example, a participant who attained age 70½ in 2019 normally would have a “required beginning date” no later than April 1, 2020. With the waiver provided by the CARES Act, such a participant would not be required to receive an RMD in 2020. However, if the participant received an RMD in 2019, the RMD characterization of the 2019 distribution cannot be changed.

The 2020 RMD relief also applies to the five-year rule applicable to beneficiaries of a participant that dies before their required beginning date if the death occurred before January 1, 2020. As a result, beneficiaries will receive an extra year to receive total payouts of their account balances if the payment deadline was December 31, 2020, or later. For example, for an account of an individual who died in 2018, the five-year period ends in 2024 instead of 2023.

In addition, the CARES Act permits plans to allow participants and beneficiaries to make direct rollovers to other plans or IRAs of amounts that but for the RMD waiver provided by the CARES Act would have been 2020 RMDs. However, those distributions are not subject to the 402(f) notice requirements and will not be subject to the 20% mandatory federal income tax withholding. As a result, if the portion that would otherwise be the 2020 RMD is paid as a cash distribution, that portion is subject to 10% federal income tax withholding, unless the participant elects out of withholding.

If a plan does not allow participants and beneficiaries to make direct rollovers of amounts that would otherwise be RMDs for 2020, these individuals will still be able to indirectly roll over the portion that would be considered an RMD within 60 days after receipt of the payment.

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