

## COVID-19 — Tax Planning Opportunity for Defined Benefit Participants?

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Much has been written about the new CARES Act distribution that allows impacted COVID-19 participants to access up to \$100,000 in their tax-qualified defined contribution plan penalty-free and with income taxes spread over three years. However, the CARES Act legislation applies to all “eligible retirement plans” as defined in Code Section 402. So technically the CARES Act also applies to defined benefit plans.

Consider, the following examples.

- A cash balance plan permits lump sum distributions to terminated participants. If this cash balance plan decides to add CARES Act distributions, and if its record keeper will administer the provisions, terminated participants who meet the CARES Act conditions can access their funds penalty-free and spread the income tax consequences over three years.
- In addition, if a plan will offer a lump sum window during 2020, then participants who qualify under the CARES Act distribution rules could elect a lump sum and use the favorable tax treatment for the applicable portion of the distribution, up to \$100,000.

Note that the \$100,000 limit applies across all plans, so a participant in both a defined contribution plan and a defined benefit plan will need to ensure that the limit is applied to all plans in which he or she participates.

Given all the difficulties that both employees and retirees are experiencing with COVID-19, a plan sponsor may want to explore all available COVID-19 distributions under the CARES Act, including options for its defined benefit plan with its actuaries, record keepers, and attorneys.

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