COVID-19 and 401(k) Plan FAQs

Are 401(k) plan participants impacted by COVID-19 able to access their 401(k) funds?

Yes. If you experience a financial loss due to COVID-19 you may withdraw, penalty free, up to $100,000 between January 1, 2020 and December 31, 2020.

Who is eligible for these 401(k) withdrawals?

To be eligible to make such a withdrawal, you, our spouse or dependent must have been diagnosed with COVID-19, or the individual suffered adverse financial consequences due to COVID-19 (e.g., furlough, reduction in hours, unable to work due to childcare, loss of business, etc.).

What about outstanding 401(k) loans?

Loan payments can be deferred until 12/31/2020 but loan payments will still start again for all CARES Act deferred loans on 1/1/2021. The CARES Act does include language about loan payments being deferred for up to one year but the IRS has since clarified that loan payments must resume on 1/1/2021 (unless there is a subsequent event to delay the loan payment, such as an LOA).

Can a participant who receives a COVID-19 distribution repay the amount into the 401(k) Plan?

You would have three years from the day after the distribution was received to repay the amount into the 401(k) Plan. The distribution will be taxable if it's not repaid, but it can be repaid over a three-year period, unless otherwise elected. One-third of any outstanding withdrawal would be taxable in the current tax year. You have 3 years to repay the amount of the distribution that is taken out of the plan, the taxes start to apply in the first year. For example, if $100,000 is withdrawn in 2020 and nothing repaid in 2020, $33,333 would be taxable as of 4/15/2021. If $50,000 is repaid in 2021, the individual would owe taxes on the next $33,333 but could also claim a credit of $50,000 on their taxes for 2021, which are required to be filed by 4/15/2022.

Does Fidelity (the 401(k) recordkeeper) need to verify whether an individual qualifies for a COVID-19 401(k) withdrawal or loan?

No, Fidelity may rely on participant's certification for eligibility.

What happens to my loan if I am furloughed or terminated?

If you are furloughed or terminated prior to 12/31/2020 and have a loan, you could consider taking a distribution under the CARES Act. If you take a distribution under the CARES Act you could use this money to repay your 401(k) loan. This would help you to avoid the 10% early withdrawal penalty on a defaulted loan (assuming you would not continue making loan payments after you have been furloughed or terminated). By doing this, you would have 3 years to repay the CARES Act distribution. If you are furloughed and have a loan, you can defer your loan payments. You will need to contact Fidelity at 800-835-5095 to request to have your payments deferred until you return to work. Once you do, your loan will be re-amortized and your loan terms will be extended by the amount of time you deferred your payments.