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Correspondence Memorandum

Date: May 18, 2020

To: Deferred Compensation Board

From: Tarna Hunter, Director of Government Relations and Strategic
Engagement
Office of the Secretary

Shelly Schueller, Director
Wisconsin Deferred Compensation Program

Subject: Federal Legislation Update: SECURE Act and CARES Act

This memo is for informational purposes only. No action is required.

The federal "Setting Every Community Up for Retirement Enhancement Act" (SECURE Act) and Bipartisan American Miners Act of 2019 became law on December 20, 2019. The Coronavirus Aid, Relief and Economic Security Act or "CARES Act" became law on March 25, 2020. There are several provisions in the legislation that impact s. 457 plans, including the Wisconsin Deferred Compensation Program (WDC). Staff is requesting direction from the Board regarding whether to pursue the optional items explained below. Many of these changes will likely come to the Board in the future as Plan and Trust amendments after the Internal Revenue Service and Treasury Department provide further guidance.

SECURE Act

- Required Minimum Distributions (RMDs): increases the age for RMDs from 70½ to age 72. This provision is mandatory and is effective for participants who turn age 70½ on or after January 1, 2020.
- Inherited Account Assets: modifies required minimum distribution rules by requiring distribution of inherited account assets within ten years of the death of the participant (account owner). Essentially, this rule "limits the ability of beneficiaries to a defined contribution account or IRA to draw down the account balance over their lifetime. Currently, beneficiaries may elect to receive such payments over their lifetime. Under SECURE they must receive the entire balance within 10 years. There are exceptions for a surviving spouse, minor children, disabled individuals and beneficiaries less than 10 years younger than the original account owner." This provision is mandatory, and effective for deaths occurring on and after January 1, 2022.

Reviewed and approved by Pamela Henning, Assistant Deputy
Secretary

Pamela L Henning

Electronically Signed 5/18/20

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- **Withdrawals for Individuals in Case of Birth or Adoption:** permits penalty-free withdrawals of up to \$5,000 if the withdrawal is made during a one-year period beginning on the date of birth of the participant's child or the date the participant finalized an adoption (excluding the adoption of a child of the participant's spouse). Under this provision, participants may also repay these withdrawals to their plan. This provision is optional, beginning on or after January 1, 2020.
- **Portability of Lifetime Income Options:** allows qualified plans to make direct trustee-to-trustee transfers of a lifetime income investment option in the form of a qualified plan distribution annuity, if such an option is no longer authorized to be held as an investment option under the plan. Note: Although this is permitted for s. 457 plans under the SECURE Act, this rule does not directly impact the WDC at this time as the WDC does not currently offer lifetime income options. This provision is optional, beginning on or after January 1, 2020.

Bipartisan American Miners Act

- **In-service Distributions:** permits in-service distributions from s. 457 plans at age 59½ instead of the previous age of 70½. This rule is optional, beginning on or after January 1, 2020.

CARES Act

- **COVID-19 Related Emergency Distributions:** permits penalty-free withdrawals of up to \$100,000 for COVID-19 related financial emergencies from January 1, 2020 through December 31, 2020. These distributions may be repaid within three years and regular income taxes on the distributions may be spread over three years. This provision is optional and plan sponsors that adopt these provisions may set a lower limit.
- **Waiver of 2020 Required Minimum Distributions:** Waives all required minimum distributions (RMDs) during calendar year 2020. This waiver also applies to RMDs that are due by April 1, 2020 for individuals who turned age 70½ in 2019, unless those payments were already made in 2019.
- **Increased Loan Limits and Extension of Repayment Period:** Increases the maximum loan amount from \$50,000 or 50% of the vested account balance to \$100,000 or 100% of the vested balance during the 180-day period following the enactment date of the CARES Act. Delays payments by one year for any person meeting the requirements for a COVID-19 related distribution who (1) has an outstanding loan balance on or after March 27, 2020, and (2) has loan payments due from March 27, 2020 through December 31, 2020. This provision is optional.

Staff will be available at the meeting to answer questions.