State Treasurer Urges Caution to Those Making Withdrawals From Retirement Funds

The economic impact of the coronavirus pandemic has many Delawareans, and people around the country, rethinking their savings plans, including saving for retirement. While “staying the course” is typically the safest way to maintain your position in an unstable market, sometimes changes are essential.

Speaking to the Chartered Financial Analyst (CFA) Society of Philadelphia, Delaware Treasurer Colleen Davis said help is available with provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act allowing people who need cash to get it without typical fees and penalties.

The CARES Act allows for those affected by coronavirus who may need additional funds from their retirement plans to get disbursements of up to $100 thousand during the current calendar year (through December 30th, 2020).

“As people are going through these extremely difficult times, this is a little bit of a fail-safe for them, and it does make it so they’re able to access funds that would have been much more difficult to access,” Treasurer Davis said. “At the same time, these plans are meant for saving for the future and I caution that we’re not doing a knee jerk response and withdrawing funds that we think we’re going to need but don’t necessarily know for sure that we’ll need a large distribution. It’s important to work with your plan administrator to find the best options.”

Treasurer Davis noted the Internal Revenue Service (IRS) just announced the coronavirus-related distributions (CRDs) are not subject to the typical 10% penalty for withdrawals made prior to age 59 ½, and though they are still subject to income tax, those taxes can be paid over a three-year period, Additionally, taxpayers that take the CRDs will have three years to repay their plans.

The CARES Act defines a qualifying person as:

- Having tested positive and been diagnosed with COVID-19
- Having a dependent or spouse who has tested positive and been diagnosed with COVID-19
- Experiencing financial hardship due to them, their spouse or a member of their household:
  - Being quarantined, furloughed or laid off or having reduced work hours
  - Being unable to work due to lack of childcare
  - Closing or reducing hours of a business that they own or operate
  - Having pay or self-employment income reduced
  - Having a job offer rescinded or start date for a job delayed

“While I want people to save for the future and to continue to invest in themselves and for their retirement, I also understand how critical it can be for so many families to make these withdrawals,” Davis said.