

Qualified Birth or Adoption Distributions

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, signed on December 20, 2019, permits penalty-free distributions for birth or adoption-related expenses of up to a maximum of \$5,000 from defined contribution plans, including IRAs, without the 10% penalty that normally might apply to an early distribution.

These distributions are available to each parent for a period of up to one year following the birth or finalization of the legal adoption of a child.

The recipient of the distribution will be allowed to later recontribute all or a portion of the distribution to a qualified retirement plan (or IRA) in which the recipient participates (even if not the same plan that made the distribution), provided certain requirements are met.

Plan sponsors may, but are not required to, permit these distributions. However, if a plan does not permit these distributions, a participant may still treat an otherwise permissible in-service distribution from the plan as a qualified birth or adoption distribution to avoid early distribution penalties (although the participant may not be able to recontribute the distribution to the plan, as described below).

The participant may self-certify that he or she is eligible for a qualified birth or adoption distribution. The plan administrator may rely on reasonable representations from the participant, unless the plan administrator has actual knowledge to the contrary.

A defined contribution plan must accept the re-contribution of a qualified birth or adoption distribution if:

1. the plan permits such distributions,
2. the individual received the distribution from that plan, and
3. the individual is otherwise eligible to make a rollover contribution to that plan at the time he or she wishes to recontribute the distribution.

Similar to a coronavirus-related distribution, qualified birth and adoption distributions are not treated as eligible rollover distributions for purposes of the direct rollover rules, so a Code Section 402(f) notice is not required, nor do the mandatory 20% withholding requirements under Code Section 3405 apply.
