Financial strategies for uncertain times

Education to help Americans weigh financial options

The coronavirus pandemic has impacted us all — in more ways than one. In an effort to provide financial relief, the federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This legislation opened the door for Americans to seek financial relief through distributions and loans from their retirement savings accounts without the typical penalties or mandatory withholdings. Please note: withdrawals may generate an income tax liability — and loans will reduce account balances — which may impact withdrawal values and limit participation in future growth potential. Other restrictions may apply.

Let's take a look at a few financial alternatives and strategies you may want to consider. Your financial professional can work closely with you to create a tailored plan and chart a path forward through these uncertain times.

Manage cash flow

One of the first strategies should be to reduce cash outflow and maximize cash inflow.

Reduce expenses

Amid COVID-19, many lenders are offering special terms and arrangements to help manage expenses.

- Call creditors to inquire about suspending payments or alternative payment arrangements.
- Review your budget for subscriptions and other non-essential expenses that could be reduced. Every little bit of savings helps!

Look to your emergency fund

If you've worked hard to create and grow an emergency fund, now may be the time to put it to use.

- Withdraw from accounts with no or low income tax impact, such as money markets and savings accounts.
- Consider using any existing emergency funds to help keep other assets invested to ride out the market volatility.

Use the stimulus payment to tide you over

One of the most popular components of the CARES Act is a stimulus rebate for all eligible tax payers. You may be eligible to receive (note that eligibility and payment distributions varies):

- $1,200 for individuals
- $2,400 for married couples
- $500 per child

These funds can be automatically sent to your bank account, if authorized from prior tax returns (timing may vary).

Get your tax refund

The IRS has delayed the federal tax-filing deadline to July 15, which allows additional time to pay owed taxes. On the other hand, if you're expecting a refund, it may be better to file right away. Make sure to check state tax agencies for specific state filing and payment deadlines.

Sell non-qualified investments

These are investments that are not in a tax-deffered retirement account.

- Withdrawals may have less impact on retirement goals than taking from retirement accounts.
- Selling these investments at a loss may offset other gains, which may help reduce your tax bill.*
- Borrowing against these securities may be an option. There are risks involved, especially if the value of the securities decline, and you'll want to have a plan to repay the loan.

* Investments are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. Please consult your financial professional before making any investment/insurance-related decisions.

Keep other tax-deferred funds in mind

As long as you follow the rules, you may be able to access the following options with minimal tax consequences.

Cash value life insurance

If you have an insurance policy with a cash value savings component, it can be a source of cash or loans.

- Cash value life insurance may have no tax ramifications and may not need to be repaid.
- Make sure to leave enough cash for the policy to remain in force.
- Policy loans and partial withdrawals may vary, some states can generate an income tax liability, reduce available surrender value and death benefit or cause the policy to lapse.

Roth IRA

If you are concerned about taxation, you may be able to access Roth IRA contributions.

- Contributions can be withdrawn tax free at any time.
- Growth is taxable unless you are 59½ and have had the IRA for at least five years. If you take a distribution that doesn't meet the requirements as a qualified distribution, you may be subject to taxes and penalties on growth or any converted amount.

ABLE account

ABLE accounts were created as a result of the passage of the Achieving a Better Life Experience Act of 2014.

- These accounts are for people with disabilities and special needs.
- Contributions are made after tax and balances can be witihdrawn tax free if used for qualified disability expenses.

Health Spending Account (HSA)

If you accumulate medical expenses, you may be able to cover those expenses with your HSA.

- Distributions for qualified medical expenses are federal income tax free (may be subject to state income tax depending on where you live).
- CARES Act expands the allowable uses of HSAs.

Weigh your debt options

When it comes to debt, using the lowest cost of funds is often the best strategy.

Home Equity Line of Credit (HELOC)

HELOCs may be an option if you have at least 20% equity in your home.

- Will typically have lower interest rates compared to credit cards due to collateral.
- You'll have continuous use of the line.
- HELOCs are not meant for investing in securities.

Credit cards

The strategic use of credit cards can be a viable way to meet short-term needs.

- However, credit cards will typically have higher interest rates.
- You can avoid finance charges by paying the balance during the grace period.

Let's connect, work together and create a plan

Navigating market volatility and periods of uncertainty can be unnerving, but you are not alone. Your financial professional can help you create a plan for the future.