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Managing Your Finances in Unprecedented Times

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The past few weeks have created sudden and unexpected financial challenges for many people. More than 16 million Americans applied for unemployment in the past three weeks. Countless more have been furloughed or had their hours reduced.

Here are a few tips to help you manage the financial stressors you may be facing in these unprecedented times.

- **Negotiate Your Monthly Bills**

  Many companies are offering relief to customers who request assistance. You may be able to negotiate some of your monthly expenses, including your rent, student loans, car insurance, phone, and internet service. Your results may vary depending on the service provider.

- **Prioritize Your Avenues for Cash**

  Most personal finance articles tout the importance of having an emergency fund. But what if you've already exhausted these funds? Here are other potential sources of money to help you cover expenses:

  - **Low-risk investments in taxable accounts.** Taking funds from your money market account should not have a significant impact on your 2020 taxes. However, we advise checking with your tax advisor.
  - **Roth IRA distributions.** Your contributions are always accessible without penalty or taxes. If you're over age 59 1/2, your earnings may be withdrawn as well. If you earn more than the Roth IRA eligibility limit, which is $139,000 for 2020 ($206,000 for couples filing jointly), this approach may not be as advantageous for you.
  - **Withdrawal of cash from life insurance policy.** If you have a whole or variable universal life insurance policy, you may be able to receive some money without penalty as long as the amount doesn't exceed your contributions.
  - **Home equity line of credit ("HELOC").** If you have equity in your home, you might take advantage of a low interest rate HELOC to access cash. Your credit score will affect your actual rate, and the HELOC won't be tax-deductible unless the money is used for home improvements.
  - **401(k)/403(b) coronavirus-related distributions.** Check with your employer to determine if these temporary distributions are available to you. If you're eligible, the distribution isn't subject to the 10% early withdrawal penalty, and you can pay the taxes over three years. More importantly, you can avoid paying taxes entirely if you pay back the distribution within three years.
  - **401(k)/403(b) loans.** While the interest you pay goes back to you, there are downsides to taking a plan loan. You miss out on any potential earnings while your money isn't invested. Additionally, loan payments are made with after-tax dollars, and you may need to pay the loan back in full if you lose your job.
  - **Alternative financing options.** These options should be a last resort because of the potential long-term negative impact on your personal and financial well-being. Borrowing from family members carries a myriad of challenges. Not paying off your high-interest credit card debt is not ideal. Getting a paycheck advance could carry an interest rate in the triple digits.

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- **Stay Focused on the Long Term**

  You may be tempted to move your personal or retirement savings out of stocks into more "safe" investments. However, we caution against making emotional investment decisions that are not aligned with your long-term plan. Depending on your goals, you may have years or even decades to recover from the current downturn. More importantly, you chose your existing mix of investments (stocks, bonds and cash) because you believe it's the right mix for you and your long-term goals. That doesn't change simply because the market moves up or down in the near term. And if you're investing your retirement account in a target-date fund, the investment weightings are automatically adjusted to keep the portfolio on track for its respective retirement date (e.g., 2040 fund).

- **Communicate with Your Family**

  Money is a tough conversation for many people to have under normal circumstances. But having this discussion is more important than ever. Talk to your family about your current financial situation so together you can identify ways to reduce expenses, save money and reprioritize goals.

We're Here to Help

Dealing with unexpected financial challenges can be overwhelming. You don't have to face them alone. We're here to answer your questions and help you put the proper plan in place for your circumstances. Please don't hesitate to contact us.

Paul is a Partner in the firm's Retirement Plan Services Group. He has more than 15 years of experience in the retirement plan industry and specializes in helping organizations understand how plan design can dramatically improve their employees' ability to successfully retire and how proper governance can limit personal fiduciary liability. Paul has worked with a variety of public, private and nonprofit organizations providing them with proven strategies that have resulted in improved outcomes for thousands of retirement plan participants. He is an ardent researcher of behavioral economics and prides himself in using plain language to help plan committees and participants accomplish their goals and objectives.