Priorities
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Coronavirus and Your Retirement Accounts

By Megan Morrow

NEW REALITIES

Half of U.S. adults believe the coronavirus is a significant threat to their personal finances, according to a recent survey from the Pew Research Center, and nearly everyone surveyed was apprehensive about how the virus will hamper the economy, although younger Americans were more worried about finances while older adults shared greater health concerns.

The Coronavirus Aid, Relief and Economic Security (CARES) Act was designed to deliver financial relief and respond to some of these concerns. Beyond stimulus checks, it also includes some new rules on tax-protected retirement accounts. Following are highlights of these changes; you can also contact your financial professional to discuss how these rules may impact your personal financial situation.

- **You can withdraw retirement funds now without penalty and return them later, if needed for coronavirus-related expenses.** While you would typically pay a penalty for withdrawing funds from your traditional IRA or 401(k) plan before the age of 59½, you can now withdraw up to $100,000 without fear of penalty. This covers those who have tested positive or faced financial hardship due to loss of job, reduced salary/hours or other COVID-19-related issues. Most advisors recommend only taking funds out of your retirement accounts at this time if you need them for day-to-day expenses, since this will impact your retirement picture, but this is a new option for those in need.
- **You can borrow additional funds from your 401(k) with a longer repayment option.** Typically, when you borrow from a 401(k) plan, you can withdraw up to $50,000 (or half the amount in the account, whichever is less), and must repay the loan within five years. With the new rules, however, you can now borrow up to 100 percent of your vested account balance, with a new maximum loan of $100,000. You will also have six years for repayment. Again, it is wise to look into repayment terms before determining if and how much you wish to withdraw, since you will have to pay interest on this loan. Ideally, it is best to withdraw the minimum to cover your current needs.
- **Income taxes on withdrawals can be deferred and repaid over three years.** Income taxes are required on withdrawals that are made from traditional IRAs and 401(k)s ahead of schedule. With the new regulations, however, you will have up to three years to pay income taxes on these funds, which can help with budgeting and financial planning.
- **Retirees have an extra year before they are required to make withdrawals.** At age 72, retirees are typically required to start making withdrawals from 401(k) plans and traditional IRAs. However, withdrawing money during a pandemic presents significant challenges, so the government is allowing investors another year for the stock market to recover and the economy to stabilize before they must make a required minimum distribution.

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If your financial situation allows, continue to make at least a minimum contribution to your retirement accounts, for example, maintaining your employer's match. However, if you need funds to maintain emergency savings and hedge against potential job loss, you can halt your contributions with the aim of returning as soon as possible. Your financial professional can also help you determine if any of these new rules make sense for your investment and retirement accounts.

To speak to a financial professional, please call 1.800.HJS.1935.

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