KEEN ON
RETIREMENT

Making Sense of Recent Market Movements and How the CARES Act Affects Your Retirement Planning

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody, and welcome back to another episode of Keen On Retirement. I'm your cohost, Steve Sanduski, and with me is Bill Keen and Matt Wilson. Hey guys, how are you doing today?

Bill Keen: We're doing good here in Kansas City, Steve. We are officially, since we last recorded, on shelter at home here in Kansas City, Steve.

Steve Sanduski: Yeah, well we're pretty much locked in at home here as well, up in Northeastern Wisconsin. In fact I just heard this morning that our first confirmed case of COVID-19 was announced here, and the person is now in the hospital in Green Bay. So it's getting close to home here as it is I'm sure for pretty much everybody that's listening to this today.

Matt Wilson: Mm-hmm (affirmative).

Bill Keen: That's right. It's been a real, I've said before, a health threat, it's a financial threat or it certainly feels, at least at this moment, as a financial threat as people go through this and experience the bear market, although some could say that maybe we're out of the bear market now, but we've established a bull market. Maybe I'll let Matt speak to that. I wouldn't go that far probably, but we did have a nice recovery off lows of 10 days ago or so.

Bill Keen: And then it's also a mental health threat, and I think it's good to honor and acknowledge that each person is experiencing this differently, and in their own individual way. From the grade schoolers that had their year turned upside down, and of course we don't hear many of them complaining, they're liking to be home and being taught by mom or dad there and getting some time off the school. But all the way to the workers that have been furloughed, the ones that haven't, the ones that are on the front lines, God bless them, the work that they're doing. To the retired person that's living on their assets, all experiencing this very differently. And add on to that, that we're in this social distancing world that is very new to most of us.

Bill Keen: But I can tell you this, it sure has simplified life for us, I'm spending more time with the family, grilling out, taking long walks, enjoying the sunset, playing board games, talking about family values, all things that we probably should have been doing more of anyway, but certainly not under these circumstances.

Steve Sanduski: Yeah, similar on this end as well. And I've worked from home for many years so from a working standpoint, it hasn't been that different. But what has been nice is that with the virtual technology that we have today, we've been doing a number of what we call fam-jams. So we've been getting the family together via video in the evening, and so that's been a lot of fun. My kids and their assorted friends, and then later on this week we're going to be doing one with my siblings and their children so that we can get all the cousins together who are in far-flung places all over the country here. So that's been really good and I'm hopeful that we'll continue to do that even after the restrictions that we have in place right now go away. Yeah, I just want to second what you said there Bill about all the healthcare workers out there, and all the essential workers who are out there supporting all of us through all of this, and really putting their lives literally on the line. We're very thankful and appreciative for everything that they're doing.

All right, today we want to spend, I think just very briefly talking about what's happening here in the financial markets, and then we want to spend a little bit of time talking about the new CARES Act of 2020. So alot of things have happened here in Congress over the past week or so, so we'll spend a few minutes there. This is going to be a little bit of a shortened podcast, because we want to get these out a little more frequently in light of what's happening here, so we'll just jump into it guys.

Matt Wilson: The market has recovered a bit from the lows here that we've experienced towards the end of March, and headed into the beginning of April. And we'll see what happens from here, I know Bill you've mentioned it, we start a new bull market, well hindsight will be 2020 on that answer.

Bill Keen: That's right.

Matt Wilson: They define that as, once we recover 20% from the loss, the new bull market started, but if we go back down again they reset all that.

Bill Keen: It doesn't feel like we're in a bull market.

Matt Wilson: It sure doesn't.

Bill Keen: But again, you never know till after the fact, that's the fact.

Matt Wilson: Well its you know, bring it back to our favorite investor, Warren Buffett. It's be fearful when others are greedy, and greedy when others are fearful. And if you're fearful right now, you know there's investors like Buffett that are maybe getting a little excited about some of these lower prices.

Bill Keen: Well, and even for folks that have diversified portfolios, like the folks we work with willing to take advantage of some of these things as well. So looking around at things that could be somewhat opportunistic, as far as the financial side of it goes with managing portfolios.

Matt Wilson: That's right, there's opportunities in the investment world for sure right now. And a lot of this really the market reacted to the fed stimulus and also to the government stimulus with the passage of this CARES Act. But then it melted down right after that, now we've recovered a little bit since then. And I think what the market is responding to is the fact that while the economy is definitely shut down across the country for most part, we also have the government intervening via fiscal and monetary policy to help bridge that gap until when we can open the markets back up again, and the economy back up again.

Bill Keen: And the big sell-off that we've experienced to date, which was almost 39% from peak to trough, we've talked about this in the past, it's a very forward looking animal and it's taking in all the information and trying to process the inaccurate price at any given moment while it's open. And in my opinion, it was estimating kind of Armageddon at that point. And I think since we've realized that the financial system itself is intact. Totally different than the '08, '09 scenario. And I think the market and the participants, while the bad news continues to come with additional numbers of cases being reported, additional deaths occurring in our country and across the world, the market is still looking past that and it's saying, "Where will we be not next week or next month, but where will things be in six months from now or one year from now?"

Bill Keen: And that's why it's very difficult when we look at COVID in a vacuum, or we even look at just the economy itself in a vacuum, or we look at the stock market in a vacuum, they're all intertwined but they don't act in congruence. You might remember we received the worst unemployment report in the history of our country, I think 3.2 million unemployed, and the data was released, the market was up substantially. And if you were watching the headlines and trying to make heads or tails of it, and trade that even, imagine the people that try to be these day traders, you would be very confused about why was the market up so much when that number was released that morning. And the reason is because the market already assumed that, the market already knew that was coming, and I believe that where we sit today and this week, the market knows the bad news that is coming.

Bill Keen: So the question is going to be how much additional bad news comes that it's not expecting? Or with things like Abbott Labs, new five minute positive test, I think 13 minutes for a negative test, push that through and get it out to market almost instantaneously here this week, or the fact that Walmart is hiring 150,000 people, Amazon is hiring 100,000 people, CVS 50,000, Kroger 10,000, Walgreens 9,500, Papa John's 20,000, Ford and GE are making ventilators, private and public sector is working together, the smartest scientists in the world, in the US, anywhere are working together to solve this, whether it's a vaccine or treatment. Any break from a positive standpoint brings the market higher from here. But at this given moment I believe the market has discounted all of this bad news that's coming, that it's expecting. And I get it, it's confusing because again they're not tied lockstep, COVID, the economy and the stock market are not acting in lockstep. So it's really important right now to have that financial plan in place and not be making knee jerk reactions as we navigate this.

Matt Wilson: The government has responded with the CARES Act. And we finished 2019 talking about the SECURE Act and now we have the CARES Act. Remember they're big on acronyms here, now do you all remember what the SECURE Act stood for? Wasn't that long ago we were talking about it, you remember?

Bill Keen: Steve you got this I think.

Steve Sanduski: Oh, no. You're putting me on the spot here.

Bill Keen: I hear his keyboard.

Matt Wilson: Setting Every Community Up for Retirement Enhancement, that's what the SECURE Act was. Now we have the CARES Act, so now do you know what that stands for?

Steve Sanduski: I have it in front of me.

Matt Wilson: Okay. Coronavirus Aid Relief and Economic Security Act of 2020.

Steve Sanduski: Do you think they have a full time person on staff that comes up with these acronyms?

Matt Wilson: I mean that is going to be a nice memoir, the acronym writer, I mean who knows how they come up with some of this stuff, but it's interesting nonetheless. But it is a $2 trillion package that includes nearly half a trillion dollars in individual rebate checks, another $500 billion for support of severely damaged industries, and nearly $400 billion support including tax credits for wages and payroll, tax relief. And then over $300 billion of support for state, local governments. And then almost $150 billion for various initiatives to support hospitals and healthcare system. So a very big bill, I mean we're talking $2 trillion, the federal reserve side of things are estimated at $4 trillion, so we've got a $6 trillion package that was just passed. And if you want to say the bazooka was fired at the COVID virus, you can say the bazooka was fired. Because we weren't even talking a trillion dollars when we got into '08, remember all the commentary about the TARP and what that was going to cost, it was $700 million back then.

Bill Keen: I was going to say, well inflation's made this not as big a deal, but we haven't had much inflation. Let me really say in the last 12 years, no it's big, no way around it.

Matt Wilson: And it makes sense considering that we've have an economy that is now just put on pause for maybe, it's 90 days even, could be even longer than that. But to have an economy essentially, not all of it, we're just talking pieces of it, but it adds up over time. And so let's talk about a few of these things that definitely impact our listeners. And one of the things that I think we're going to get a lot of questions on is the recovery rebates. That was a big part of this, there's been a lot of discussion around what that is. And those are the checks that are going in the mail. But the technical term is they're recovery rebates, and it's estimated that 90% of taxpayers will receive some amount. So it's a phase out dollar amounts, so the more income that you've had in previous years, the less that you'll receive.

Matt Wilson: So here's where it starts. So the CARES Act provides a refundable income tax credit against 2020 income of up to $2,400 for a married couple filing a joint return. Other filers will receive a credit of up to $1200, so those are single filers, and then the amount then increased by $500 for each child a taxpayer has under age 17.

Bill Keen: Okay.

Matt Wilson: There's an AGI, because you heard the word up to, so there's the threshold. And they're looking at adjusted gross income, so that's different than taxable income. Adjusted gross is on the front page of your 1040, and so if you're looking at previous tax returns, just look at the very front page of your 1040 and you'll see your adjusted gross income. So the phase out begins at 150,000 for a married filer, 112,500 for head of household, and then 75,000 for all other filers, so that'll be your single filers. And then for every $100 that a taxpayer exceeds their credit, their potential recovery rebate is reduced by $5.

Bill Keen: Okay.

Matt Wilson: So you're following along with this?

Bill Keen: I'm following along, I'm going to give our listeners a website to go to, we can put it in the show notes. It's Kiplingers, has a stimulus check calculator website that you plug your numbers in, and it gives you your estimate there, it's appeared to be pretty accurate, so we'll make sure we include that in the show notes.

Matt Wilson: I've seen a lot of them out there and I think the IRS even will have one out here shortly too. Because there's still a lot of pieces to this that the IRS needs to provide clarity on, and where to go, and how to do things on how you're going to receive the funds, and when they're going to be mailed out.

Bill Keen: You say mailed out, are they literally mailed out? Or do I understand it right that if you had your tax return direct deposited into a bank account, it may be for expediency purposes, direct deposited?

Matt Wilson: They're looking back at your 2018 or 2019 tax return, if you filed your 2019. And they're issuing this tax credit but they're issuing it now or as soon as possible according to the government, which for all intents and purposes is probably going to be early May.

Matt Wilson: And that doesn't mean that if your income was higher in 2018 or 2019, and you were phased out of this, it doesn't mean that you won't get it in 2020, it's just based on your 2020 income. When you go to file that tax return in 2021 they'll actually give it to you if your income was low enough, but you won't get it till you actually file your taxes.

Bill Keen: In 2021 in that case?

Matt Wilson: That's right. And it'll be in the form of a tax credit, which is dollars that you receive. So a tax credit is good, but it just won't be until that point because your income was too high on those previous look back years.

Bill Keen: Hopefully this crisis is over well before then and anyway, nonetheless.

Matt Wilson: And they haven't come out with the deadline for 2019, meaning that if you haven't filed your 2019 taxes, and they're going to be lower than 2018 and you would qualify for a higher rebate, it's recommended to just get your taxes filed, to go ahead and get that in the system. You may have missed the cutoff already because again they haven't said what it is, but at least you're doing your best to try and get it, because it might make sense for you to do that. And if your 2019 is higher than 2018 and you haven't filed, you can wait now till July 15th to file your 2019 taxes.

Matt Wilson: Now there's other pieces to this beside just these recovery rebates. And that is they provided some relief when it comes to retirement plans. Retirement plans include 401(k)s, IRAs, 403(b)s, these employee-sponsored plans that you can then roll over to IRAs and what have you. And I think the next biggest piece to this, is they have waived the required minimum distribution.

Bill Keen: Now a lot of people need that money to live on, so they may go ahead and take their required minimum distribution, but what do you think the thinking is on that? I know they waived those, did they wave those back in '08, '09?

Matt Wilson: They did, in 2008 they said you don't have to take it if you haven't taken it already.

Bill Keen: The idea, I believe that there are allowing people to forego this, is that if folks had their assets and they're down, they don't want them to have to sell them at a bad time to take those dollars out of those accounts. Of course we recommend highly that folks have at least five years of their income needs in fixed income and bonds so that they would never get caught short like that so to speak, having to sell something at a bad time. But I think that's the thinking on this particular aspect to this.

Matt Wilson: That's right, I agree. I think they just look at it and say, if we don't have to force people to liquidate investments, let's go ahead and waive that. And they kind of set the precedent in 2008 with that. And I had actually been commenting to folks, even though over the last a couple of months as I've been talking to them that this is possible, they've already done it before. We could see them wave the RMD and they did.

Bill Keen: So what happens if you've already taken your RMD early in the year before all this, we'd even heard of coronavirus?

Matt Wilson: If you haven't taken it of course then you don't have to. But if you've already taken the distribution, you can put the money back via a 60 day rollover the IRS has this rule that says if you take money out of an IRA and then you redeposit it back inside in another IRA, it doesn't have to be the same one, but just another IRA within 60 days, for all intents and purposes, you didn't take the distribution out and you don't owe income tax on it.

And that's a little restrictive because you can only do one of those every 365 days. So if you've already done that once, then you may not be able to do that again in the last 365 days, but that is one option. Now the other option is if you are impacted by the COVID-19 virus, then there's actually some special rules around taking distributions and spreading the income out, and so you could utilize that. But if you're not impacted by COVID-19 and if it's been longer than 60 days and you don't have any other recourse, you have to just pay the tax on it, even though they've repealed it at this point.

Bill Keen: Let me quickly list off what impacted by the coronavirus means in the CARE Act. It's one, it's having been diagnosed with COVID-19, have a spouse or dependent who has been diagnosed with COVID-19, have experienced adverse financial consequences as a result of being quarantined, furloughed, being laid off or having work hours reduced because of the disease, are unable to work because they lack childcare as a result of the disease. We're on a business that is closed or operated under reduced hours because of the disease, or, and this one gives it a little bit of broad brush, or you meet some other reason that the IRS decides to say is okay. So I think they've tried to be very broad in this aspect to the CARES Act.

Matt Wilson: And I could see them come out with more clarifying language too on that, especially that last bullet point because those rules apply throughout the rest of this year. And so what those rules mean is that you can take distributions and you can pay them back over three years. So if you're impacted by those items that Bill just mentioned, the CARES Act is allowing distributions of up to a $100,000 to be made from IRAs and employer sponsored retirement plans or some combination of the two. If you're impacted by those, you wouldn't be subject to the 10% early withdrawal penalty. So if you're under 59 1\2, you pay a penalty for early withdrawal, so that would be a waived.

Matt Wilson: You're not subject to mandatory withholding requirements, you'd still pay income tax. You can repay up to that $100,000 distribution over three years, so essentially you can say, "I'm going to act like it didn't happen over the course of the next three years." Now you'd have to amend those tax returns because it's going to be taxable in the year you take it out, but then you pay it back, a portion of it in year two, and then the rest of it in year three. Well you'd have to go back and amend those returns and it would reduce your tax liability in those previous years.

Bill Keen: To get a tax credit for that prior tax paid. Or the way I understand it, the last day of the third year, you pay it all back and you've essentially, we talked about a 60 day rollover that's existed for many years, this is now a three year rollover opportunity of up to 100,000. And we've shifted now from talking about the RMD being waived for 2020, into this new aspect of this where you can take out like 100,000 from your 401(k) or IRA under these guidelines. So there's some real flexibility there as well. Hopefully not many people are in a position to have to do this, but it is providing some opportunity if that is kind of a last resort.

Matt Wilson: Giving people at least some flexibility when it comes to the retirement accounts to help them essentially bridge this gap so to speak, to when they can get back to work or not as impacted by the coronavirus. The other piece to that too is the income can be spread over three years as well, so you can take the $100,000 out, no plans to repay it but then only have one third of it count over this year, 2021 and then 2022 as taxable income.

When it comes to the employer sponsored plan part of it is they increase the maximum loan amount. Used to take 401(k) loans, and there are certain situations we do talk to folks about utilizing 401(k) loans, not real common. But that maximum used to be $50,000, now they've increased it to 100,000, and they've also changed it to where 100% of the account of the invested balance can be used. There used to be limits, if you didn't have as much in there, you couldn't take a high of a loan.

Matt Wilson: Now a few other things, I don't think these are as timely when it comes to our folks that are at near retirement or in retirement, but they increased a little bit on the charitable deduction side. If you're giving away a portion of your income, there's a limit to how much income you can offset with charitable donations.

60% was the previous limit and how they've waived that completely, so you can donate all your income and not be subject to the income limit.

Bill Keen: So if you make 100,000 a year, under old rules you could donate 60,000 to charity. You can donate as much as you want, you just couldn't get a deduction for more than 60%. Now they're allowing you to donate your entire salary and get a deduction for it. Maybe people will be doing that, it's interesting that was thrown in here.

Matt Wilson: And then they have a $300 above the line deduction for qualified charitable contributions too, cash. And one other thing too with the RMD is the QCDs did not go away, so you can still donate directly to your church or to a charity from your IRA and utilize the QCD provision, that did not change.

Another thing that we want to cover on that. Then they had some other things on medical expenses when it comes to Medicare and the expansion of that, and covering like, HSAs and FSAs covering over the counter expenses. And then really the next biggest things on this CARES Act was related to businesses and unemployment benefits.

Steve Sanduski: So overall, this sounds like a pretty comprehensive package of changes here.

Matt Wilson: Yeah, they spent a lot of time debating it. It was one of those things while they were talking about it, the market's definitely were reacting to their lack of action. It was like, well I guess they wanted to make sure they hit this from all fronts.

Bill Keen: As frustrating as it is to see the politicians going back and forth, I have to honor them for the work that they're doing right now. And maybe somebody might say, no I don't like politicians, but I don't like the back and forth, but I do have a deep respect and appreciate the work that they do where they're working into the wee hours of the night. Imagine trying to hammer all this out.

Matt Wilson: You have 900 pages.

Bill Keen: It's amazing work, and we certainly appreciate it here, at least I do, what they're trying to do for us. And there's going to be some planning opportunities that come out of this, if someone doesn't have to take an RMD, like Matt said, that could maybe open up the door for a Roth conversion in that given year. There's going to be a lot that we're going to bring to you our listeners here as we proceed on through this time period. There's going to be opportunities, we're going to continue to bring you what we're seeing, some of the rules, the legislation, and we'll continue to stay in close touch as again, the coronavirus plays out, the economy plays out and the stock and capital markets continue to play out as well.

Bill Keen: Always remembering, you've got to have a financial plan in place. You've got to look at what you need to live on in the coming years, whether you're 10 years out or 20 years out or currently in retirement. If you have a plan in place and we know these things are coming, did we know a pandemic was coming? No we did not. Did we know a bear market was coming at some point? Yes we did. Have we done prior episodes and blogs about the coming correction? We have a blog out called, What if I retire and the market crashes the next day, that was written I think 18 months ago. We talk about this consistently on our program. The five years of income needs in bonds and fixed income to get through these difficult times.

Bill Keen: And now more than ever is the time to realize that, and to get those financial plans out, keep those updated. If you don't have a financial plan in place that's been shepherded alongside you by a fiduciary advisor, now is the time to really think about taking a look at it via a zoom call of course.

Bill Keen: I did want to also mention though, sorry, that we have a webinar that we just posted yesterday. It's a little more in depth in what we were trying to cover today quickly. We're going to talk about our objective view of what we're seeing, we're going to talk more about COVID, the economy, the stock market, and this government stimulus that Matt talked about today. So that will be hosted on our website, that you can tune into that if you'd care to go back and watch that, it just posted yesterday.

Steve Sanduski: Great, I appreciate that guys, and for all the information that we've talked about here today, you can go to keenonretirement.com that's K-E-E-N onretirement.com, we've got all the past episodes, all the blog posts are out there as well. So guys I appreciate it, you're really showing great leadership here through the crisis with all the great work that you're doing with these podcast, with the blog posts, and really helping people navigate this very difficult time. So thank you and we look forward to the next episode of keen on retirement.

Bill Keen: Thanks Steve. And everybody stay healthy out there, we'll talk soon.