KEEN ON RETIREMENT

New Coronavirus-Related Distributions Could Help Folks as the Country Begins Reopening

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody, and welcome back to Keen on Retirement. I'm your cohost, Steve Sanduski, and with me are Bill Keen and Matt Wilson. Gentlemen, how are you today?

Bill Keen: We're hanging in there, Steve, how are you doing up in your neck of the woods?

Steve Sanduski: Yeah, we're doing all right, we're doing all right. Things are starting to move a little bit here with the coronavirus situation, things are slowly starting to open up. How are things down there in the Kansas City area?

Bill Keen: Well, things are opening here in Kansas City, we're starting to see restaurants open in limited capacities, and other things as well. I think that folks are starting to sense some light at the end of the tunnel for sure.

Steve Sanduski: Well that's good. All right, well we're going to stick a little bit with our conversation here about the coronavirus. I know we've done a few episodes on that, we've done some blog posts on it as well, but this is certainly an extremely important topic that is affecting all of us. So we're going to continue to talk about some things related to that today.

Steve Sanduski: A couple of main things we're going to focus on today, one is we're just going to do a little bit of a recap on what's happening in the economy, we've got some important economic numbers that came out last week that we'll briefly talk about. And then we're also going to talk about the CARES Act, and in particular one of the areas that relates to what they call a coronavirus-related relief for retirement plans and IRAs, and also talk about folks who may have lost their job in this, and what are some of the options available to you when it comes to your retirement plans and some options there. So why don't we start here and talk about some of the economic numbers that came out here recently.

Matt Wilson: The big story, last week and over the weekend, was definitely the jobs market. There were over 33 million unemployment claims filed just since coronavirus and COVID-19 showed up. And last week we got the announcement that the unemployment rate in the United States is 14.7%. So, pretty sobering news, I would say not necessarily surprising because we've been talking about this and tracking this, the unemployment claims and whatnot. But just to see that level of unemployment and kind of see where that number is something that we don't like to see.

Bill Keen: And we hope a lot of those are temporary.

Matt Wilson: That's right. We're seeing data here that does indicate that a lot of people are on temporary leave of absence, that's what they're indicating. So you hope that that is the case, especially now that we're getting to the point where economies, local, county, state, are opening back up, and we'll see how that brings employment back up here across the U.S.

Bill Keen: Something interesting that I would share, my daughter who lives in Florida, works in the hospitality industry, went to central Florida for her degree, Event Management and Hospitality, works in that field. So of course that was one of the fields that's getting hit the hardest, and she was furloughed about six weeks ago.

Bill Keen: You probably haven't been following the Florida unemployment debacle, but her initial claim was denied after about a month. The computer system had gone down, it had just been overwhelmed, and six weeks in she's now been approved, but still hasn't received anything from that. So it's highly likely that she will be back to work before she receives any of the unemployment. Interesting how the systems have been overwhelmed like that.

Bill Keen: She's doing well in her life. She's not under dire stress there, but just imagine there are many folks that are experiencing this maybe much differently than she is that are going through something very similar, maybe in many states. Not to pick on Florida, it just so happened to be something that I was pretty intimately aware of because of her.

Steve Sanduski: Now, if she does eventually get approved for it, would she get retroactive pay for when she originally filed?

Bill Keen: That is my understanding, Steve.

Steve Sanduski: Okay, well that's good.

Bill Keen: That would happen. But imagine folks that weren't able to wait six weeks or eight weeks, or something of that nature, talk about massive levels of stress happening. And you mentioned in your opening what we would be talking about today. We are beginning to now sit down with folks that are experiencing coronavirus-related furloughs. I think that's why it's going to be good to hit on some of the things, some of the checklist items that we're going through with those folks today.

Steve Sanduski: And I think one of the other things I want to touch on related to this is we look at the economy and what's happening there, and Matt, you just talked about the headline number there with the unemployment rate. Yet, when you look at the financial markets, if you look at the stock market, it's come back very strongly. How do you guys describe maybe a disconnect, at least some people would think there's a disconnect, between what's going on in the economy and what's going on in the financial markets?

Matt Wilson: Yeah, it is interesting. You look at the major indices that we use to track the market, and some of them definitely look like nothing's even happened. You look at the big tech index, and for the year it's positive, which almost kind of blows your mind, to think the fact that a financial market is positive for the year. But there are other indices that aren't doing as well, they don't get as much maybe of the headlines that the lay person would see, and that is some of the small cap and mid cap stocks, they're still struggling. So there are areas of the market that definitely haven't recovered, but that is I think surprising to some people.

Matt Wilson: Now, this is a little bit in the weeds, but those big tech companies are actually a big piece of several of the indices, so that is maybe skewing the data a little bit. Because some of the tech companies are performing very well. Overall let's just avoid that, and the financial markets still don't seem to be doing that bad. And part of it is what Congress has done with the CARES Act, and also the extended unemployment benefits that they've offered.

Matt Wilson: And then we have the federal reserve, on their side of things, that have really done a whole lot to shore up the financial markets and provide facilities to provide liquidity. And they did that very quickly. So I think that is a big reason why the financial markets have recovered so much of the loss that was initially experienced in February and March.

Bill Keen: Each week that unemployment claims have been announced, there have been Thursdays that the market has been up pretty substantially on each of those days. Not to draw some correlation there, maybe there is one, other than the fact that the participants in the market were expecting those types of numbers to be released, it was old news already at that point. But again, to your point, Steve and Matt, confusing to the layperson that's watching the headlines and also then also watching what the financial markets are doing. It seems to be a disconnect, to your point.

Matt Wilson: It does. And one thing with those unemployment numbers, while they have been very large and surprising, they have been getting smaller and smaller each announcement too. So the market is kind of looking past this and thinking, "Okay, well Congress and the fed have done things to really provide relief and put the items in place to provide well-functioning markets. So if we can get through this event-driven recession, with the COVID crisis and the shutdown, where do we see things towards the end of this year, and then going into 2021"? And that's really what the market's looking at, is how do we get past all this, not necessarily the level that we're at currently.

Steve Sanduski: Yeah, and I think another interesting conversation that's going to be happening in Congress is what about the deficits? Now, we don't have to get into that today, but I think that would be a fun podcast to do at some point down the road. With all of the support that the government has put into this, the multi-trillion-dollar deficits that we're looking at this year, that's going to be an interesting conversation. We're starting to hear some of that from Congress, that they're starting to think about that. The good news is interest rates are still very low, so the interest costs on these large deficits are not that bad relative to how much money has been spent so far. But yeah, that's potentially a podcast episode down the road.

Bill Keen: Well, why don't we kick that down the road 10 years? Let's just do what Congress does.

Steve Sanduski: Let's just do the rolling 10 years, how's that?

Bill Keen: Yes, exactly.

Steve Sanduski: All right. So Bill, one other thing I want to touch on here before we go on to the next topic, I know you were asked to participate in a group here that's meeting at the request of the Department of Labor. It was a group of people that are getting together here to talk about how to reopen the country. So tell us a little bit about what that was about.

Bill Keen: Yeah, I was honored to receive a call and an invitation to participate in the DOL's Opening America's Workplaces Again National Online Dialogue. They wanted to reach out to small businesses, so I was one of 12 participants in a Zoom call with the representative from the Small Business Administration. And we were asked questions and were discussing things like reopening businesses, commuting safely, working safely, accommodating members of vulnerable populations, supporting America's families.

Bill Keen: And also really looking at regulatory burdens and maybe reducing some of those with getting businesses comfortable with opening up safely, considering potential liability issues from even team members, employees, businesses like ours, we regularly see clients in our place of business. There was some very,

very interesting discussion from all parties, and it really felt nice to at least think.

Bill Keen: And I do believe that we had sort of a voice that would be taken back up to the DOL, and the representative from the Small Business association that was leading the call did say that this information would get back to the president as they decide on how to open our country back up and refine plans on everything across the board.

Bill Keen: We talked about things from what kind of PPE that everyone would be required to wear, all the way to, if you rent space from your landlord, air filtration systems even is a hot button right now, as they look through how air is circulated through businesses in these big buildings, and so forth. So a lot of interesting things that we were able to talk about. And again, like I said, it was an honor to be able to be a part of that and have maybe some small voice.

Steve Sanduski: Well, congratulations. Why don't we now go jump into the next segment here that we want to talk about, which is, and you touched on this earlier where you mentioned that you're starting to see folks now that have been furloughed or permanently lost their job, which is extremely unfortunate. So let's talk a little bit about what should we do if you are furloughed, if you do lose your job, what are some of the options that you can be talking to them about?

Matt Wilson: Yeah. If you've been laid off, I mean, the very first thing is to get a plan together. I'm talking around just some broad, basic concepts, these aren't anything different from what we would talk about with someone who's even thinking about retirement. But the whole layoff situation is front and center right now, and the very first thing, of course, is to assess your financial situation, figure out what your liquid assets outside of retirement accounts are. Do you have that emergency reserve in place that can sustain your lifestyle? What about your health insurance options? These are all significant items that you need to get some clarity on, especially if you're worried about that happening or if you're facing that right now.

Bill Keen: We did a podcast probably three months ago or so, I'd have to go back and look, about the ... Do you recall, 55% was a number that we saw quoted in an article of how many folks will end up retiring sooner than they expected. And this was maybe six months ago, I'm not sure exactly, but we talked about the reasons. You or a loved one becomes ill, we talked about a layoff or a downsizing.

Bill Keen: We didn't talk about: a pandemic. We weren't thinking about that, but we were kind of out in front of this six months ago unknowingly. So a lot of those things apply, but I think differently now is some of these things related specifically to coronavirus.

Matt Wilson: And also, one of the first things people should do is look at unemployment. If you don't have a severance package as part of your layoff plan, unemployment has been extended an additional $600 per week through July 31st, and that's on top of the benefits that already exists, so it's nearly $1,000 a week for individuals here. Think about your budget as well, and make sure you factor your health insurance into that, whether you have a Cobra that you're going to extend, or if you're going to look at the exchanges.

Matt Wilson: The exchanges also, as part of COVID-19 and the situation, have come up with some special enrollment periods, so that allows individuals and families to get on the exchanges, or even look at the plan that they have, if they're impacted by coronavirus and have a medical need or have an issue with their employment that would necessitate them getting on a healthcare.gov plan.

Bill Keen: There is a website for folks to refer to, healthcare.gov/coronavirus, that talks about a lot of these scenarios that may have come up. If you've lost your job, or experienced a reduction in force or in hours due to COVID-19, there are a lot of different scenarios on that website with questions and answers. There's some relief being provided if you can't make your premium payments and other things as well. Probably a lot of things folks haven't thought about, but may need to. So that would be definitely a resource to review if this affects you or a loved one.

Matt Wilson: And some folks are at the age where Social Security is an option as well, so another item to consider as you evaluate your plan. But then lastly, we've been getting a lot of questions about this, and it was the coronavirus-related distributions.

Bill Keen: CRD.

Matt Wilson: Yeah, we shortened it to CRD, and it really is ... Part of the CARES Act that was passed calls for some relief on distributions from retirement plans specifically. In summary, essentially the coronavirus-related distribution is up to $100,000 that you can take out through 2020, so anytime throughout the year, and then you have a lot of different options when it comes to paying it back and recognize the income. But they have to be taken in 2020. And it's up to $100,000. It doesn't matter if it comes out of an IRA for part of it, and then part of it comes out of a 401(k) plan. It's just $100,000 limit for an individual.

Matt Wilson: Now, when they originally came out with the CARES Act, I know we were talking about this because they had some vague terms who qualifies for this?

Matt Wilson: To qualify for a CRD, you have to be yourself diagnosed with COVID-19 by a test approved by the CDC, or it is your spouse or dependent also diagnosed with COVID-19. So that's one of them, you don't have to have all of these. But in addition to that, you also can take a CRD if you've been quarantined, furloughed, laid off, or are having your work hours reduced, or you're unable to work due to lack of childcare, or a business owner has had to close or reduce hours of their business. It's all related to financial consequences related to coronavirus.

Bill Keen: So not necessarily available for every person. We thought that at first, that maybe just anyone could qualify. Now, how they would be able to go back and look at that is going to be interesting, and probably just going to be good faith it's always good to see more clarity than less, so we appreciate that, and probably more to come.

Steve Sanduski: And in terms of being affected, would it also include people who might be business owners that have lost revenue? They're still open for business, but the revenue is down, so they have a financial consequence. Would that qualify?

Matt Wilson: That's right, that does. So it's probably more your W2 employee who really had no impact by this because of the role they're in, and maybe it's an individual who's not married, so they don't have any children and a spouse, so they were able to work remotely and not have any adverse financial consequence, that may not qualify for this.

Matt Wilson: And just because you qualify, you have to have access to your retirement funds to be able to utilize this. That's another hurdle that people have to pass. So, first and foremost, if you have an IRA, you could utilize a CRD out of your IRA and subject it to that, which is fine. But if you have a 401(k) or a 403(b), not all of those qualify to be able to take a coronavirus-related distribution. So I think that's an important clarification.

Bill Keen: And some companies, we know of some that have not participated in this. So it's good to check with your employer, to make sure if this affects you.

Matt Wilson: Yeah. Not all plans allow what they call hardship distributions or in-service distributions, those are things that a 401(k) plan or a 403(b) plan can allow their employees to do. If your company did not opt-in to one of those options, this could have been years ago when they set it up, they had the ability to amend the plan with the coronavirus and the CARES Act to then allow all that, but they may have opted out of that. If they don't provide those options, then you're stuck.

Bill Keen: Of course, if you've been furloughed or laid off, you're forced to move money out of that plan into an IRA to access it, aren't you?

Matt Wilson: Well, a former employee can roll that to an IRA.

Bill Keen: Sure.

Matt Wilson: Should be able to, assuming there are no restrictions on company stock or things like that. That would then allow them to then take it from the IRA. But if you're an employed person inside a company that does not allow that, that is a restriction. So if you are thinking about this, definitely something to bring up with your plan administrator.

Bill Keen: Because you could absolutely still be affected and qualify, but still be employed. That was all your assets, and you're kind of out of luck with this one, the way this is.

Matt Wilson: Right, they said, if you got diagnosed or a spouse got diagnosed and you had childcare expenses related to it. So there are other reasons, besides just losing your job or being furloughed, to take these distributions out. Now, let's say we do qualify and we can take a distribution out. How do we report it? Well, right now the IRS said there are not going to be any special forms when it comes to the distribution. So you're going to get a traditional 1099-R that just shows the gross amount of the distribution.

Matt Wilson: But when you actually report it on your tax return, there are going to be a couple of different forms depending on the situation. If you're under age 59 and a half, they've allowed that as part of the CARES Act and these CRDs, they say you can take a distribution, you qualify, avoid the 10% early withdrawal penalty. You still pay income tax, but you avoid the penalty. There's a form 5329, which is where you would report that on.

Matt Wilson: Now, if you're over 59 and a half, then you don't have to worry about that 10% early distribution penalty, but in this situation there's a form 8915, which is going to be used to report the kind of coronavirus-related distribution. Because there are some benefits to these if you take them and if you qualify for them. As I already mentioned, you're exempt from the 10% early distribution penalty. But the other item, which we've talked about before, is the distribution can be spread over three years.

Matt Wilson: That's an important piece to this. You may have been laid off or furloughed, and you need the income and cashflow now, and you're uncertain about the future, so you take out that $100,000 distribution. Will only report one third of it as income in 2020, another third of it as income in 2021, and then the rest of it as income in 2022.

Matt Wilson: Or, the only other option is to just take it all in one year. So you have that option, you could say, "Take out my distribution, and I want to claim it all this year in 2020." Because maybe your income is lower and you don't want to have future tax liability because you're thinking you'll get your business back up and running, or get a job back, or things like that. But those are your only two options. You either expense it all, show the income all in this year in 2020, or you're able to spread it out equally over the next three years.

Steve Sanduski: So Matt, if I decide I want to spread it equally over three years, does that mean if I take out $100,000 now, could I spend all $100,000 in 2020, but not show it as income, but one third this year, one third the next year, and one third the next year? Is that what you're saying?

Matt Wilson: That's correct, that's correct. Yeah, you have the income today, but then the tax liability is spread out over this year and the next two years after that.

Steve Sanduski: Got it, okay.

Matt Wilson: But also, you could pay it back. So you have up to three years to repay the distribution, which is an interesting aspect to this too. Because most people are familiar with, if you've done this before, what they call 60-day rollovers. You can take money out of an IRA, you can put it back within 60 days like nothing happened. Well essentially, now they're giving you a three-year rollover option. Again, you have to qualify, meet those rules, but the distribution that you take out, you can expense it over three years, show the income over three years, but then also in that third year you could pay it all back.

Bill Keen: And get your tax money back, I would assume, that you had paid, correct?

Matt Wilson: You would. Now, what you would have to do is amend the return. So you've got to remember that step to it. Because you can put the money back inside your IRA or your 401(k), assuming they allow it. Not all 401(k)s allow contributions, so you might have to open up an IRA and put the money back in. But if you put it back in at the end of the third year, or sometime during the third year ... Now, of course, you could pay it back sooner, you don't have to wait three years to pay it back, but you can pay it back in that third year.

Matt Wilson: Then you would go back and you would amend your 2020 return and say, "Okay, I didn't take that income anymore," so they would take that out. Then you'd have 2021 where you could amend that also, get that income back. And then that third year you may not have to amend the return because you're putting the money back and you won't have the income that you have to show anymore.

Steve Sanduski: Matt, what it sounds like I hear you saying as well is, if someone did qualify for this distribution and they took the distribution and they didn't actually need all that money right away, they could pay it back, like you said, within three years, and even though they may have to pay some tax on it, they could get the tax back. So, in effect, they could have essentially an interest-free loan for maybe up to three years.

Matt Wilson: That's correct. You have access to these retirement funds that traditionally you wouldn't have access to until you actually retired and needed an income stream from them, to get you by in a financial situation that you might be facing right now.

Bill Keen: Now, you say with no interest, of course you would have paid taxes over those one, two, three years, which would be money out of pocket that, yes, you could I guess claw back when you refiled like Matt mentioned earlier. But technically you're right, Steve, on that ability to do that.

Bill Keen: We had someone recently who, just because of the uncertainty of this year, had been laid off and decided to take advantage of this, and actually was considering a small mortgage on the house, a little bit of a car loan, not much, less than $40,000. They just felt like paying that off and reducing their monthly would help them sleep at night, which I was supportive of.

Bill Keen: And understanding that this is something that's ... You pick up a new job, you're in good shape, you can pay it back. But if you took advantage of this now, you have the option to do that. And in that particular case, somebody was taking out a partial distribution, understanding that by the end of the year they could go ahead and take out the full 100. If we get out to the end of the year, as life happens, and make a determination on taking out the rest up to that 100. So flexibility has been given here in these cases to be smart and prudent about these rules and take advantage of them where it makes sense.

Bill Keen: And we're not saying to just do it automatically, it really requires a deep dive into your personal financial situation and the sleep-at-night factor that I always like to talk about and what makes sense for each family. We're not saying just go out and do it because of uncertainty, it really requires some thinking about the whole financial plan. And of course, if someone's married or has a partner, both partners on the same page as well.

Steve Sanduski: You know, this just points out how important it is to have good financial advice. I mean, this stuff gets pretty complicated. When you look at all the new rules and programs that the government has come out with here in the past couple months, there are so many opportunities for folks that are getting hurt by the situation to utilize. But sometimes it can be very, very difficult to try and sort through what is available.

Steve Sanduski: But when you've got really solid, expert advice, like you guys offer, to really sort through this stuff, and what we're trying to do here on the podcast I think is just so important. So I appreciate you guys being able to share this kind of information with the wide audience here. Is there anything else here related to this CARES Act, related to this topic here that we're talking about, that we should go into?

Matt Wilson: The last piece to this, and there still might be legislation that changes this before the end of the year, but they removed the required minimum distribution for 2020. But they didn't do that until they passed the CARES Act. So folks that took it early in the year may not have been able to pay it back. What they essentially said is, "Okay, we're going to get rid of the required minimum distribution, and if you happen to have distributed those funds within the last 60 days, whenever they pass this, you have this very limited window when you can put the money back."

Matt Wilson: Well, if you took a distribution in really the first month of the year, you didn't have that window anymore. And so you can use these CRD provisions to actually put back that required minimum distribution. So that's a little nuance with the tax code.

Matt Wilson: Especially this year, because they don't have required minimum distributions anymore, and you can utilize that payback provision over the next three years because any distribution from an IRA in 2020, if you qualify, it's as of January one, prior to COVID-19 really being an impact here in the U.S. They're just retro-acting it to January one. So if you took an RMD and you qualify, you do have that option to put it back under the CRD provision.

Bill Keen: You got all that, Steve?

Steve Sanduski: I do, I'm just thinking this sounds like job security for tax accountants.

Bill Keen: In my opinion, there's no way someone could keep track of all this, especially in an emotional time that we're going through. For many different reasons, this is an emotional time, but especially if someone now, on top of everything else, has been in a position where they've lost a job. So we're honored to be able to try to bring some clarity to these topics as things are being rolled out and clarity has come.

Steve Sanduski: Yeah, it's tough out there. There are a lot of people that are hurting from this. And again, I'm just appreciative that you guys are able to bring some clarity and expertise to the situation, and be able to help all the people that you are able to help, both the people that are clients of the firm, and then also people that may not be clients but are able to listen to the podcast, or listen to the webinars that you're doing, or read the blog posts that you're putting out there. You're really educating a lot of folks on what's happening here.

Steve Sanduski: So why don't we go ahead and wrap it there, and again, thank you guys. And for those of you listening here, if you want to learn more, you can visit keenonretirement.com, that's K-E-E-N-onretirement.com. We'll have the show notes there, and we'll have all the previous episodes that we've done, as well as the blog posts on this topic and many others. So guys, thank you, and we'll look forward to the next episode of the podcast.

Bill Keen: Thank you Steve, thank you Matt.

Matt Wilson: Thank you.

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