

Financial Wellness during Covid-19

Financial wellness strategies are as important now as ever. Until things return to “normal”, you may be questioning what to do, and what to think, about your personal finances. As always, individual strategies should be tailored to individual situations. However, the general information listed below might be helpful. For specific advice, consult your financial advisor or trusted websites.

Short- term cash flow

In general, prioritize current expenditures in this order: 1) Food, 2) Housing, 3) Minimum debt payments*, 4) Utilities* (more on the last two below).

Avoid making unnecessary purchases. If you are spending less now than usual (by not eating out, not paying for childcare, not going to hair and nail salons, etc.), devote the extra money to your emergency fund. Your goal should be to build, and always have available, an emergency fund equal to 3-6 months worth of living expenses. Always keep your emergency cash in an FDIC-insured bank account where you have no risk of losing it. Now is a great time to consider your discretionary spending and differentiate between wants and needs.

Mortgage and Car Loans

If you cannot make your normal debt payment, whether mortgage, car loan, or car lease, contact your lender to work out a payment plan by telling them you have suffered a financial hardship related to Covid-19. Do NOT just ignore the debt. You must call them. However, also keep in mind that your debt will continue to accrue interest until it is paid off in full. If you stretch out your payments now, you'll pay more total interest in the long run. Therefore, if you are financially able, continue to make your normal payments.

Credit Card Debt

Continue to pay at least the minimum amount due on your credit card debt. Make sure you continue to pay it *on time* since late payments can significantly reduce your credit score. Some credit card issuers will reduce your interest rate, *if you ask*. So, if you have credit card debt, you may want to give your credit card issuer a call. Keep in mind that whatever balance you don't pay right now will continue to accrue interest. Since credit card debt carries such a high interest rate, pledge to yourself now that you will eradicate credit card debt as soon as possible and prevent it from building back up in the future.

Student loan debt

Student debt payments on *Federal* student loans (not private loans) are now temporarily suspended through September 30, 2020. Interest will not accrue through this period either, nor will non-payment during this period count against your credit score. Collection on defaulted loans has also been

temporarily suspended. If you have private student loans, and are experiencing financial hardship, you may wish to contact your lender to see if they are offering arrangements that will allow you to defer your payments for a few months. If you are unsure of whether your loan qualifies for this suspension, check with your loan servicer.

Utilities

Pay your utilities if possible. However, Cleveland Water and Cleveland Public Power have suspended disconnection of services through April 6. The Illuminating Company has various payment plans available to those who are having trouble paying their bill. Keep in mind that utility bills will still need to be paid eventually, so continue to pay them on time if possible.

Long-run strategies for retirement savings

Rather than letting the volatility of the stock market scare you, keep your long range goals in mind. As long as your time horizon for using the funds is still several years away, there is no need to panic about the current downturn in your retirement portfolio. Most economists expect that the stock market will come back after the crisis has ended and normality returns to daily life. While no one knows how long that will take, past recessions have been fairly short in comparison to past economic expansions. Those investors who have jumped out of the market at low points in the past missed out on the eventual recovery. If you keep a long-range perspective in mind, the best strategy is usually to just “ride out the storm” with your current retirement portfolio until the market recovers. Keep in mind that if you decide to sell or rebalance your portfolio now, you will actually lock in any losses that have occurred. Because of daily volatility, you will also be gambling with the date with which to make the trade. However, right now is a good time to assess your real “gut” tolerance for risk so that you can use that information when making asset allocation decisions in the future. You should consult your financial advisor for specific advice.

Tax due dates

Federal, Ohio, and most municipal (local) income tax return filing deadlines for the 2019 tax year are now July 15, 2020. However, the taxing authorities continue to process returns. If you are expecting a refund, it makes sense to file as soon as possible.

Direct payments

As you are most likely aware, direct payment of \$1,200 will be made to individuals with adjusted gross income (AGI) less than \$75,000 (payments of \$2,400 per couple with AGI up to \$150,000). The payment is reduced if you have a higher AGI, and completely phases out with AGI of \$99,000 (\$198,000 for couples). To determine if you are eligible, check the AGI on your 2019 return (Line 8b of 2019 Form 1040). If you have not filed your 2019 tax return yet, the payment will be made based on the AGI on your 2018 tax return (Line 7 of 2018 Form 1040).

If you meet the income-eligibility requirements above, you will also receive \$500 per child under age 17.

New temporary rules for retirement accounts

Seniors who are typically subject to taking a Required Minimum Distributions (RMD) from their retirement accounts will not have to take the RMD in 2020. The RMD requirement has been suspended for the year since the value of most retirement accounts has fallen. The government does not want to force seniors to sell stock at a low point in the market.

“Hardship withdrawals” from retirement accounts during this crisis will continue to be taxed, but will not have the normal penalty. Additionally, the loan limit of certain retirement plans is increased to \$100,000. While withdrawals and loans from your retirement accounts are an option, they should only be taken as a last resort since they can have significantly harmful consequences for your retirement goals.

Unemployment benefits

Unemployment benefits are available to almost anyone who has lost their income because of the virus outbreak. The CARES Act has expanded “eligibility” for unemployment benefits to many more people than were previously eligible. Even gig workers, like Uber drivers are eligible. To apply for benefits, go to <https://unemployment.ohio.gov/>

Helpful Websites

For easy-to-understand financial advice consider following Clark Howard at Clark.com. He offers clear financial advice on many topics, including how to handle your finances during this crisis. If desired, you may wish to sign up for his free daily email at Clark.com.

Finally, Congresswoman Mary Kaptur has also just released a document covering Covid-19 resources at <https://kaptur.house.gov/sites/kaptur.house.gov/files/documents/FINAL%20Kaptur%20COVID-19%20Guide%203.30.2020.pdf>