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FINANCIAL & RETIREMENT PLANNING FOR LIFE

Your post-CARES Act guide

Explore the act's impact on year-end planning.

Signed into law on March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act offered an estimated $2 trillion in fiscal stimulus to help individuals and businesses cope with the economic impact of COVID-19. But what effects could this legislation have on your year-end planning? More than you may think, starting with your retirement savings.

DECIPHERING THE FINE PRINT

If you're among those with required minimum distributions (RMDs), perhaps the biggest impact of the CARES Act was the waiver of RMDs for the 2020 tax year, which also pertained to inherited and beneficiary-qualified account holders. Do keep in mind, however, that while this means you do not have to take an RMD at all this year, your future RMDs could be slightly higher as a result.

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The CARES Act also gives you until December 31, 2020, to withdraw up to $100,000 in what's called coronavirus-related distributions (CRDs) if you or another qualified individual experienced a financial hardship (e.g., healthcare expenses, layoffs or furloughs) due to COVID-19.

While CRDs aren't subject to the IRS's mandatory 20% withholding fee and are exempt from the 10% early distribution penalty tax, it's important to note that doesn't waive your potential tax liability. Fortunately, you have options. For instance, you can elect to have your CRDs taxed in 2020 or ratably over a three-year period. You can also repay all (or even a portion) of your CRDs to an eligible retirement plan within

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Your post-CARES Act guide (cont.)

the three-year limit and file an amended tax return to receive a refund on any taxes you already paid. And if you're worried about exceeding your plans' annual contributions limits, there's more good news: These re-contributions, which are considered a tax-free rollover, won't count against you.

> If you withdrew coronavirus-related distributions, you can elect to pay taxes this year or over a three-year period. Another option is to repay those distributions back to your eligible retirement account over a three-year period and amend your returns.

HEEDING CAVEATS

When it comes to the CARES Act's impact on your retirement planning, there are crucial caveats to keep in mind. If you had already withdrawn your 2020 RMD prior to the legislation going into effect, for instance, you cannot now repay your plan. Additionally, if you think you'll end up in a lower tax bracket for 2020, you may still want to withdraw your distributions. You may also want to consider converting your assets from a traditional IRA to a Roth IRA – since you don't have to satisfy the RMD requirement that normally accompanies these conversions.

All things considered, you may be unsure if now's the right time to convert your assets to a Roth IRA. While you'll certainly want to discuss the matter with your advisor and tax professional, you might conclude that the answer is a resounding yes. That's because converting when your retirement account values are low helps diminish your potential tax impact. Another worthy consideration? You'll have to pay income tax on whatever amount you convert – and income tax rates are set to increase after December 31, 2025, when the Tax Cuts and Jobs Act expires.

PRIORITIZING PHILANTHROPY

True to its acronym, the CARES Act also included temporary provisions to promote charitable giving and provide additional gifting opportunities. If you itemize your charitable cash contributions, for example, the act allows you to deduct up to 100% of your adjusted gross income (AGI), instead of the usual 60%. Even if you don't itemize, the CARES Act still works in your favor with an above-the-line deduction for cash contributions up to $300. So no matter how you go about it, prioritizing philanthropy under the CARES Act is sure to be a win/win. ■

Sources: proconnect.intuit.com; forbes.com; investornews.vanguard; pillsburylaw.com; washingtonpost.com; aarp.org; tannerycompany.com; vanwiefinancial.com; ibmadison.com

NEXT STEPS

As you prepare for year-end and the upcoming tax year:

- Speak with your advisor to determine whether to skip or withdraw this year's RMDs.
- If you need to take a distribution from a qualified plan, your advisor can help you determine the best options.
- Consider if now's the best time to convert from a traditional to a Roth IRA.
- Maximize your impact by reviewing your charitable giving plans under the CARES Act.

Revive your retirement savings

11 ways to step closer to the future you envision.

If you're concerned your retirement savings aren't quite where they should be, you have plenty of company – about 30% of working Americans feel the same. But while boosting savings is the most important factor in ensuring a comfortable retirement, there are other changes you can make without straying from your financial plan.

1 **Look at expenses** – Depending on your anticipated shortfall, this might mean anything from trimming daily expenses to really slashing them (e.g., delaying a new car purchase).

2 **Eliminate credit card debt** – Pay down high-interest debt as rapidly as possible, and construct a new household budget that makes retirement savings your top priority.

3 **Save as much as possible** – Try putting away at least 15% of your income, or setting a specific savings goal and getting there as quickly as possible.

4 **Retire later** – The more time your investments have to grow, the bigger the ultimate payoff can be. Even a couple more years can make a big difference in how much you can put aside.

5 **Revisit your asset allocation** – You may have to allocate more of your investments to equities if you're behind. Historically, these have provided better long-term returns than bonds. Just be careful not to exceed your risk tolerance.

6 **Maximize Social Security benefits** – Waiting as long as possible to begin taking benefits makes sense for many, but Social Security is complicated. Fortunately, your advisor can guide you through different claiming strategies.

7 **Retire part time** – If you or your spouse or partner can work part time, you'll boost your retirement cash flow and give yourself more time for savings to grow.

8 **Retire simpler** – Many retirees find that living more simply is just fine. You'll want to strike a balance here – don't give up on your dreams, but try to make them a little more realistic.

9 **Rethink your home equity** – Consider deploying your home equity to establish an emergency fund or to meet other essential expenses.

10 **Downsize for simplicity** – If you have more home than you need, consider downsizing and investing whatever you clear in an income-oriented account.

11 **Maximize tax breaks** – Once you're 50, the amount you can contribute tax-free to retirement accounts increases. So if you have a workplace retirement plan with an employer matching program, try making the maximum allowable contribution. Also think about prior jobs – did you leave anything behind in a retirement plan? ■

NEXT STEPS

To begin boosting your savings:

- Discuss everything with your advisor, including how much you think you'll need for the retirement you envision. He or she can help you determine what you need to get there, how to invest your money, how to account for inflation and what to set aside for your potential healthcare costs.
- Ask your advisor to run the appropriate what-if scenarios. You may find your situation is brighter than you think.

Investing involves risk and investors may incur a profit or a loss. Past performance may not be indicative of future results.

Source: Employee Benefit Research Institute, "2020 Retirement Confidence Survey"

The unofficial guide to American Snowbirds

A different breed than the common American Retiree, the Snowbird heads south for months at a time, chasing an endless summer in places like California and Florida. If you're hoping to join their flocks, there are certain preparations you'll want to make, putting a lot of thought into what it really means to leave your nest – temporarily – and establish a new one.

SEASONAL MIGRATION

One study showed that by age 61, most people feel free enough to live wherever they want. To narrow down your choices, start with the weather. Retirees often prefer climates in the Mountain, South Atlantic and Pacific regions of the country. Consider taking extended vacations to cities in regions that entice you to get a true feel for each place.

A PLACE TO PERCH

Once you find a location, it's time to find a home. One option is to rent for one or two years. This allows you to explore an area and closely examine for-sale opportunities, while avoiding many of the maintenance responsibilities that come with buying a home. If you prefer to buy, try to do so a few years before you stop working. Getting a mortgage is much easier when you still have employment income.

FEATHERING YOUR NEST

Warm-weather clothing, accessories and home décor won't be your only moving costs. There are maintenance and homeowners or condo fees, travel costs, property taxes, insurance, out-of-network healthcare and more. Fortunately, you may be able to cut or lower your cable, internet, phone and subscription services at your primary residence while you're away. If you need to, think about seasonal employment opportunities, too. Just be sure to maintain the appropriate requirements to work in your chosen state.

BIRDS OF A FEATHER

Establishing a new life elsewhere doesn't mean losing sight of your old one. But it's still crucial to make new connections wherever you may roam. When appropriate, take advantage of community events like cookouts, socials, dances and book clubs. Check out rec centers, libraries, places of worship and community associations. You'll feel like a local soon enough. ■

Sources: isnowbird.com; U.S.News & World Report; moneysense.ca; AARP.com; Foxbusiness.com; Tesar Law Group; CNBC; retireinstyleblog.com; National Association of Realtors, homeaway.com; Merrill Lynch; "Snowbirds, Sunbirds, and Stayers: Seasonal Migration of Elderly Adults in Florida," Florida Weekly

NEXT STEPS

Before you flock to your next location:

- Visit taxfoundation.org to learn about the tax rules in your prospective new state.
- Reach out to a knowledgeable accountant and estate attorney to discuss your plans of buying or renting a property.
- Speak with your advisor and accountant about the tradeoffs that can accompany a long-term dual lifestyle.