PROCYON PARTNERS

Covid-19 Creates Personal Financial Planning Opportunities

"Innovation is the ability to see change as an opportunity - not a threat" – Steve Jobs

Change is one of the few universal life experiences. Our Procyon Team is dedicated to helping you both anticipate change as part of your financial plan and make informed financial choices in light of dynamic information.

Bear market conditions and the US government's legislative responses to the unfolding COVID-19 pandemic offer both financial relief and opportunity. The following information represents Procyon Perspectives on financial planning choices that are now available to individuals, couples, and families as a result of these conditions. Following a brief recap of the legislative relief, we've categorized these 18 strategies into three different groups:

- **Opportunity 1: Prepare for the worst**
- **Opportunity 2: Protect and use what you have**
- **Opportunity 3: Plan for the future during a bear market**

Recap of Legislative Relief: In addition to delaying the 2019 federal and state income tax return filing and payment deadline to July 15, the US government recently passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. It offers a $2 trillion emergency fiscal stimulus package to individuals and businesses. The general relief provisions of the legislation include:

- $500 billion in recovery rebate checks to individuals
- $500 billion in support to industries severely damaged
- $400 billion in tax credits for wages and payroll tax relief
- $300 billion in state and local government support
- $150 billion in various initiatives to support health care providers, including hospitals

Opportunity 1: Prepare for the worst

1. **Replenish emergency savings; direct recovery rebates to cash reserves –** In "normal" times, we recommend working professionals generally have 3 – 6 months of emergency savings and retirees have the same or slightly more in reserve, depending on their situation. For some, accessing cash through an existing home equity line of credit and setting it aside as an emergency reserve may also be appropriate.

   The CARES Act provides for direct payments to US residents with a work-eligible Social Security number as follows:

   - $1,200 for individuals
   - $2,400 for married couples
   - $500 for each child in a household under the age of 17

   However, the amount that a household receives depends on their tax filing status and adjusted gross income on file with the IRS. For each $100 of additional income that a household earns above the following levels, the direct payment benefit decreases by $5.

   - $150,000 for Married Filing Jointly
   - $112,500 for Head of Household
   - $75,000 for Single Filers

   For example, a household with an AGI of $160,000 that files "Married Filing Jointly" and has 2 children can expect to receive $2,900.

   Households eligible for recovery rebates are expected to be paid "as soon as possible" per the last known payment direction and mailing address on file with the US Treasury. Based on recent guidance, these checks may be received as soon as April 15, 2020. If you are eligible to receive a recovery rebate, it will be counted as a refundable tax credit for 2020, ***meaning you will not have to pay income tax on the payment that you receive.***

If you receive one we recommend directing this money into emergency savings. In this way, you have cash easily available to you as you need it in the dynamic times ahead. If cash is a concern and you have an existing Home Equity Line of Credit (HELOC), consider drawing on your HELOC and keeping the additional cash in reserve as part of your emergency savings. Check with your bank and verify your draw terms; in 2008 banks unilaterally lowered HELOC available draw amounts when clients really needed it.

2. **Spring clean and refresh critical personal financial housekeeping tasks:**

   - **Identify and organize important documents** – Take the time to locate existing wills, estate planning documents, life insurance contracts and other important home related service provider contracts.
   - **Beneficiary Designations** – Life insurance proceeds, IRAs and 401(k) plan assets are governed by and pass to the stated beneficiaries on their respective documents and ***not*** by the intentions in your last will and testament. Make sure the beneficiary designations you have on file with these types of assets coordinate with your will and your wishes.
   - **Credit Protection** – Identity theft has been a hot topic for several years. During times like these, you should be especially vigilant to ensure your protection. A suggested "best practice" would be for every individual to initiate a credit freeze with each of the three major credit bureaus. It is free and easy to do through the following websites.

   - Transunion: https://www.transunion.com/credit-freeze
   - Experian: https://www.experian.com/freeze/center.html
   - Equifax: https://www.equifax.com/personal/credit-report-services/credit-freeze/

3. **Understand expanded unemployment benefits** - If you are currently working, it is essential that you understand your employer-provided benefits and how they might be impacted if your employment status should change, for instance:

   - What benefits will continue and for how long?
   - What benefits will stop and when?
   - What new types of coverage will you have to initiate and how?

   The CARES Act expands upon unemployment benefits that are established by each state. Key enhancements that result from the legislation include:

   - Self-employed individuals and other select individuals previously deemed ineligible for 'regular' unemployment benefits are now eligible for up to 39 weeks of unemployment benefits
   - The Federal Government will pay for the first week of unemployment benefits; this removes the existing one-week waiting period
   - The Federal Government is increasing unemployment benefits by up to $600 per week, for up to four months.
   - The Federal Government has extended the duration of unemployment benefits for an additional 13 weeks beyond the number of weeks established by each state

   Further details about unemployment benefits and eligibility can be found on the Department of Labor web site:

   https://www.dol.gov/general/topic/unemployment-insurance

Opportunity #2: Protect and use what you have

4. **Manage your expenses for (potentially prolonged) uncertainty –** We do expect that life will continue to be disrupted for some time. What is unclear is how long we all will be affected. Be sure to protect yourself and your loved ones in uncertain times. Even if you have emergency savings in place and do not have to address unemployment considerations, there is no

downside to using this unanticipated time gained from social distancing to:

- Revisit all existing expenses
- Categorize spending into needs, wants, and wishes
- Prioritize immediate needs
- Postpone wants and wishes
- Evaluate pay off and forbearance options for mortgages and other liabilities

The CARES Act has stopped all requests for garnishments against paychecks, federal income tax returns, and social security payments. Also, private collection efforts have been stopped. Some states are instituting grace periods for mortgage payments; consider understanding what eligibility requirements exist in your state and whether they make sense for you.

5. **Consider whether Coronavirus-related Distributions make sense for you –** If you are impacted by the Coronavirus because you:

- Are diagnosed with COVID-19;
- Have a spouse or dependent diagnosed with COVID-19;
- Experience adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of childcare due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19; OR
- Meet other factors as determined by the Treasury Secretary

Then you are eligible for "Coronavirus-related Distributions" from your IRA. For individuals who meet the above requirements,

- Up to $100,000 can be withdrawn, aggregated across all qualified plans such as 401(k), 403(b), governmental 457(b) plans or IRAs of the individual
- Tax on the income due to the distribution can be spread over a three-year period;
- The amount distributed can be repaid into the IRA (or retirement plan) over the next three years; and
- There is no (10%) early withdrawal penalty for individuals who take this distribution between March 27, 2020 – December 31, 2020

Whether you should utilize these available distribution options will depend on your unique situation. Note that the CARES Act also invites employer-provided retirement plans to consider adopting specific relief for their retirement plan loans. If you are part of an employer-provided retirement plan (e.g. 401k, 403b, etc.), consult your HR Department to understand more about what Coronavirus-related provisions and relief might be available to you through your plan.

6. **Reconsider your retirement income needs, and whether you need your 2020 Required Minimum Distributions (RMD) –** Required Minimum Distributions (RMDs) from defined contribution plans including 401(k) and 403(b), eligible (governmental) 457(b) plans, and IRAs are waived for calendar year 2020. This includes the RMDs for individuals that turned 70½ during 2019 and had not taken their distribution prior to January 1, 2020. While RMDs are suspended for 2020, voluntary distributions are still allowed.

What should you do if you collected a distribution for the 2020 calendar year and would like to now return it? The options available to you depend on the date that you collected the distribution and the type of account from which you collected the distribution. If you:

- Collected the distribution in the last 60 days from a qualified account and have not rolled over any other retirement plan accounts in the past year (i.e. you haven't violated the once-per-year rollover rule), you can deposit back into the same retirement account an amount equal to what you withdrew before 60 days elapse

- Collected the distribution more than 60 days ago *and* you are eligible for Coronavirus-related Distributions, then you can deposit back into the same retirement account an amount equal to what you withdrew any time up until three years from the date that the withdrawal was made

Other people and entities are also impacted by the suspension of RMDs for 2020.

Non-spouse IRA beneficiaries who already have collected distributions for 2020 are not able to make a rollover or deposit an amount equal to what they withdrew back into the inherited retirement account. However, non-spouse beneficiaries who have not yet withdrawn their distributions for 2020, are not required to do so this year.

Also affected by the elimination of RMDs are non-designated beneficiaries (e.g. charities, estates, non-see-through trusts) that are subject to the 5-Year Rule. Generally speaking, these beneficiaries must distribute all inherited assets by the end of the fifth year following the death of the retirement account owner. Since the CARES Act allows 2020 to be ignored, non-designated beneficiaries from a decedent who passed between 2015 – 2019 now have six years to distribute the assets.

7. **Evaluate your Charitable Contribution Strategies for Tax Efficiency –** The CARES Act offers a new $300 above-the-line tax deduction for "Qualified Charitable Contributions", effective in the 2020 tax year. Said differently, this is a $300 tax deduction for those who take the standard deduction and don't itemize. These cash-only contributions cannot be made either to a donor advised fund (DAF) or a 509(a)(3) "supporting organization". To claim the deduction taxpayers can not itemize deductions.

   Additionally, the CARES Act temporarily increases the Adjusted Gross Income (AGI) limit on cash contributions to charities from a maximum of 60% to a maximum of 100% of AGI for "qualified contributions". So, technically speaking, taxpayers could offset, entirely, their 2020 tax liability via charitable contributions. If total charitable contributions exceed taxpayers' 2020 AGI, the excess charitable contribution can be carried forward for up to five years.

8. **Return refunded 529 plan payments to 529 plans –** We want your money to work as tax-efficiently as possible for you. Some academic institutions are refunding tuition room and board payments. If you made payments to schools using 529 funds and are receiving refunds, rollover the refund into the student's 529 plan within 60 days of receipt. Your rollover will not count toward your 529 plan's contribution limit. If you don't rollover the refund, the taxable portion of the refund is included in income and potentially subject to penalties.

9. **Consider deferring student loan payments –** Federal student loan borrowers in good standing automatically will have their interest rate set to 0% for at least 60 days. And required payments on federal student loans are suspended until September 30, 2020; however, voluntary payments are not prohibited. Existing borrowers who would like to defer payments without penalty until September 30, 2020 need to contact their loan servicer and request a forbearance; no interest will accrue during the time of the forbearance.

   This period of time will also still count for borrowers who intend to qualify for loan forgiveness programs like the Public Service Loan Forgiveness Program. Borrowers who are on track for these benefits should immediately pause their payments since they ultimately will have their outstanding student debt forgiven upon completion of their program.

10. **Understand your expanded health-related provisions –** The CARES Act expands the definition of qualified medical expenses for Health Savings Accounts (HSAs), Archer Medical Savings Accounts (MSAs) and Healthcare Flexible Spending Accounts (FSAs). These expenses now include over the counter medications and menstrual care products.

    Additionally, the CARES Act expands coverage for COVID-19 related expenses for Medicare and Medicaid participants, and offers telehealth services provisions as well.

    And, finally, the CARES Act offers paid sick leave and paid family leave options to US employees of small and mid-sized firms who are impacted by COVID-19. Check with your HR Department to learn whether your benefits have changed as a result of The CARES Act.

Opportunity 3: Plan for the future during a bear market

While challenges exist simultaneously in the health, economic, and market spaces, there are potentially positive financial choices and planning opportunities.

11. **Refine your portfolio in tax-efficient ways –** When the market value of a position decreases to a level below your cost basis , tax-loss harvesting might become an attractive portfolio management move to minimize future taxable gains. It includes selling investments at a loss, replacing the security with a similar one to retain your overall asset allocation and position your portfolio for expected future returns while minimizing taxes on the resulting gains. Procyon's investment committee has and will continue to actively use this strategy for our clients.

    Additionally, if you have held a concentrated stock position over time in your portfolio due to its large, built-in capital gains, lower asset value levels present unanticipated opportunities to "fix" these previously "unfixable" positions. When they are lower in value, you can re-allocate the holding into a more diversified portfolio.

    Take comfort in knowing that the accounts you entrust to our Procyon Team to manage are benefitting from these portfolio refinement strategies, particularly during these dynamic times.

12. **Evaluate your public company stock options –** If you are an executive at a public company with either Non-Qualified Stock Options (NQSO) or Incentive Stock Options (ISOs), you may want to evaluate whether it makes sense to "exercise and hold" company stock options in anticipation of a rebound in stock price.

13. **Understand pension plan payouts –** If you are evaluating whether to take a lump sum distribution from a pension plan, you may benefit from the low interest rate environment. The lower interest rates are, the larger the "lump sum" payment is required to be from an actuarial perspective. In other words, lump sum options may be more attractive than annuity payment streams in exceptionally low interest rate environments, all other factors being equal.

14. **Consider Roth IRA Conversions –** Although converting to a Roth IRA is a taxable event, the tax is based on the fair market value (FMV) of the traditional IRA at the time of conversion. However, if the traditional IRA is currently undervalued, the resulting conversion tax would also be lower. Once converted, any rebound of value inside the Roth IRA would be income-tax-free. A Roth conversion has many variables, and a detailed analysis of these factors is highly recommended.

15. **Explore gifting depreciated assets –** While asset values are low, consider gifting more assets to maximize your federal lifetime gift tax exemption. The amount of exemption used in making a gift is based on the fair market value (FMV) of the asset transferred at the time of the gift. Any future appreciation of these assets would be outside of your estate.

16. **Evaluate long term investment opportunities –** This is the third time in the past 20 years that the stock market has suffered major losses. In the previous two instances, it has provided an excellent entry point for those who have a long-term investment horizon and a belief that asset values would recover. If this is the case for you, take a moment to revisit your current asset allocation to make sure it is aligned with your goals and continue systematic investments into your personal and retirement plan accounts.

17. **Refinance liabilities –** Mortgage and home equity lines of credit rates are at or near historic lows. Review the details of your loan and consider how long you intend on staying in your current residence. We are here if you want to explore your options.

18. **Estate Planning –** If you are interested in transferring assets in tax-efficient ways, there are a variety of techniques that become more attractive when asset levels are compressed. Examples of strategies to consider include Grantor Retained Annuity Trusts (GRAT), sale to an intentionally defective grantor trust (IDGT), etc.

We truly value the trust you place in us and will continue to provide you with proactive quality advice and guidance you expect from us.

Please contact us at (844) PROCYON with any questions you may have.