



Subject: How the relief bill will help you

March 31, 2020

Dear Client:

On Friday, President Trump signed into law the \$2 trillion Coronavirus Aid, Relief and Economic Security Act.

Here are the key features of the CARES Act legislation:

Checks Will be Sent Over the Next Three to Eight Weeks

- Payments to American Households
 - Single adults with income of up to \$99,000 will receive a check.
 - If your income is \$75,000 or less, you will receive \$1,200.
 - Your check will be reduced by \$5 for every \$100 of income above \$75,000.
 - You will not receive a check if your income is more than \$99,000.
 - Married couples with combined income up to \$198,000 will receive a check.
 - If your combined income is \$150,000 or less, you will receive \$2,400.
 - Your check will be reduced by \$5 for every \$100 of combined income above \$150,000.
 - You will not receive a check if your combined income is more than \$198,000.
 - You will receive a check even if your income comes solely from Social Security.
 - "Income" is based on your most recently filed tax return (whether 2018 or 2019).
 - You will receive this payment even if you don't (and aren't required to) file tax returns.
- Child Care Payments
 - You will receive \$500 for each child in your household who is age 16 or younger.
 - You'll get less per child if your income exceeds the thresholds noted above.
- Unemployment Payments to Individuals
 - If you file for unemployment insurance compensation, you will receive \$600 per week more than your state unemployment program would have otherwise provided, and you'll receive this additional weekly amount until July 31.
 - Unemployment benefits will be paid for 13 weeks longer than otherwise provided by your state unemployment program, through Dec. 31.

Health Care

- COVID-19 tests and vaccines will be provided for free.
- The reduction in Medicare reimbursement imposed by the Budget Control Act of 2011 is suspended from May 1 through Dec. 31.

- The law creates a new 20 percent Medicare add-on payment for treating patients admitted to a hospital with COVID-19.
- Medicare telehealth services are being broadened, so you can get medical advice while staying home.
- More diagnostic tests and preventive services will be covered by insurance.

Retirement Accounts

- Required Minimum Distributions are waived in 2020 for all retirement accounts and Individual Retirement Accounts, including inherited IRAs.
 - Please contact your tax advisor if you've already made your RMD in 2020 because you may be able to return to your account any amounts you already withdrew.
 - You also might be able to reclassify your withdrawals as special coronavirus retirement distributions (see next item).
- You can withdraw up to \$100,000 in 2020 from your retirement accounts and IRAs without paying the IRS 10 percent penalty that might otherwise apply, as a "COVID-19 emergency" distribution. For a withdrawal to qualify, you must:
 - Be diagnosed with COVID-19 using a test approved by the CDC.
 - Have a spouse or dependent who is diagnosed with COVID-19 using a CDC-approved test.
 - Experience adverse financial consequences as a result of being quarantined, furloughed, laid off or having work hours reduced due to COVID-19.
 - Be unable to work due to lack of child care as a result of COVID-19.
 - Own a business that has closed or is operating under reduced hours due to COVID-19.
 - Meet other factors as determined by the Secretary of the Treasury.
 - If you qualify based on the above:
 - This is retroactive to Jan. 1. Thus, any RMD you made this year can be reclassified.
 - Any taxes due on the withdrawal can be paid over three years, starting with 2020.
 - You can avoid the tax by returning any amounts withdrawn to your account within the next three years.
 - If your workplace retirement plan permits loans, you can now borrow up to the full vested value of your account, or \$100,000, whichever is less.
 - If you are age 70 or older and still working, you can continue contributing to an IRA.

Avoiding Foreclosure or Eviction

- If your mortgage is federally backed, you can ask the servicer for forbearance (stop making payments) for up to 180 days. Forbearance can be extended for an additional 180 days.
 - Federally backed mortgages include those purchased by Fannie Mae and Freddie Mac, insured by the departments of Housing and Urban Development, Veterans Affairs or Agriculture or made directly by USDA.
- If you rent your home in a multifamily dwelling, and your landlord has requested forbearance, they are prohibited from evicting you for lack of rent payment for up to 90 days.
- Evictions are prohibited by landlords whose mortgage is backed by HUD, Fannie Mae, Freddie Mac, the Rural Housing voucher program or the Violence Against Women Act for 120 days starting March 27, 2020.

Charitable Contributions

- If you itemize deductions on your tax return, all of your cash donations are deductible, up to 100 percent of your Adjusted Gross Income, to charities that are designated as 501(c)(3) organizations.
- If you use the standard deduction on your tax return, you can deduct up to \$300 in cash donations to qualified charities.

Students and Student Loans

- If you have federal student loans outstanding, you don't have to make any principal or interest payments until after Sept. 30. You will incur no penalty for deferring payments.
- Students unemployed due to COVID-19 may be able to continue receiving work-study payments from their institution.
- Students who had received a Pell Grant or federally subsidized loan who have been forced to drop out of school because of COVID-19 will not have to return their grants or loans.
 - Also, the grants or loans students have received will not count against their lifetime eligibility.
- Your employer can give you up to \$5,250 tax free in 2020 to help you pay for your student loan.

For Independent Contractors, Sole Proprietors, Owners of a Small Business and Non-Profit Organizations

- You can get a Small Business Administration loan if your business or nonprofit has less than 500 employees, even if you are self-employed or operate as a sole proprietor or independent contractor.
 - Restaurants and hotels are eligible.
- Loans are available up to \$10 million. The amount is based on payroll, up to \$100,000 per employee.
 - The loans will be forgiven if you continue paying your employees, and use the loan to pay for payroll, mortgage interest or rent, and covered utilities. Loan forgiveness will be reduced based on the reduction of workforce or salaries.
 - Loans not forgiven can be repaid over the next 10 years.
 - The maximum interest rate is 4 percent per year.
 - Payments can be deferred for at least six months.
- Independent contractors and sole proprietors are eligible for emergency Economic Injury Disaster Loans without providing personal guarantees for advances, and loans up to \$200,000.
- You can get a disaster loan and grant of \$10,000 to pay for capital expenses.
 - This grant does not need to be repaid.
 - Apply by contacting the SBA.
- If the SBA does not forgive the loan, you can defer paying your share of payroll taxes for 2020. Half of what you owe is due Dec. 31, 2021; the other half is due Dec. 31, 2022.
- The act increases the deductibility of business interest expense for 2019 and 2020 to 50 percent of Adjusted Gross Income.
 - Self-employed individuals are eligible for up to 39 weeks of unemployment compensation, through Dec. 31.

Your 2019 Federal Tax Return

- The IRS has delayed the 2019 tax-filing deadline from April 15 to July 15.
 - Some states have delayed their filing deadlines to July 15 as well, but others have not. Check with your tax advisor to see when your state tax return and payment is due.
- You do not need to file an extension request; the delay to July 15 is automatic.
- You do not have to pay 2019 federal income taxes until July 15.
- If you are owed a tax refund, you can file now or anytime up to July 15; the sooner you file, the sooner you will get your refund.

From Here Forward

Keep in mind that the CARES Act, by providing financial relief to millions of American families and small businesses, is designed to stabilize the economy and help it avoid getting worse. And while we welcome the emergency relief the law provides, there's still much more to be done.

Last week, I called on Congress to waive the RMD rule to help retirees who are struggling, and to let individuals borrow from their IRAs. We were pleased to see these provisions included in the final legislation.

But Congress has so far failed to enact another policy recommendation that is urgently needed: permitting the temporary start of Social Security retirement benefits for those 62 and older and letting them stop their benefits after the crisis is over. You can read more about my proposed policy changes here: <https://www.edelmanfinancialengines.com/press/2020>.

In addition to my three policy recommendations for Congress, my colleagues here at Edelman Financial Engines have identified 36 more. You can read them here: <https://retail.edelmanfinancialengines.com/36-policy-recommendations/>.

Normally, we would not recommend such actions, but these are not normal times. Millions of Americans have lost their jobs, and millions more will before this crisis is over, and many don't have ready access to cash — meaning these policy changes are suddenly and urgently needed.

Does drastic government support “reward” those who were not properly prepared? Will massive stimulus packages worsen the federal debt and lead to inflation? These are legitimate questions. But for now, in the midst of the crisis, such concerns must be deferred. When your house is on fire, the only thing that matters is getting everyone to safety and extinguishing the flames; we can't worry that the firehoses might create some water damage. So, let's do whatever it takes to put out this fire as fast as we can, and we'll deal with the rest later, after everyone is safe.

And to that point, let me emphasize that this letter's focus — and the CARES Act itself — is on economic recovery — recovery for you personally as well as our nation. And we must remember that there is a huge difference between *economic* recovery and *stock market* recovery.

That's good news — because the stock market acts in advance of the economy. Indeed, investors set the prices of stocks based on their expectation of future (not current) corporate profits. Typically, this view is several months into the future — so if the stock market feels that corporate profits will be higher in the future, prices will rise now; if the market feels that profits will be lower, prices will fall now.

Consider that in March, most companies were still operating normally. Thus, they were continuing to earn profits as usual. But investors began to expect that most companies would suffer a massive drop in business in coming months — so the stock market crashed right away, with the S&P 500 index falling 35 percent in a matter of weeks.

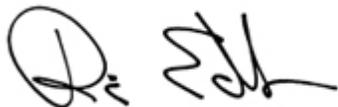
Because this is the way the stock market behaves, we can expect stock prices to recover *before* the economy does. You saw a glimpse of this when the government passed the CARES Act: The stock market rose sharply — even though none of the law's \$2 trillion had yet been distributed to anyone.

This is why it's so important that you maintain your current investment portfolio, and not try to guess when stock prices will recover by timing the market. The diversification of your portfolio, aided by our rebalancing strategy, is designed with market volatility in mind. So, if your long-term goals have not changed, as I mentioned in my email to you last week and on my radio show, keep your portfolio in place.

As always, feel free to contact your advisor if you have questions about the CARES Act or any other aspect of your personal finances. We'll continue to keep you informed, as always.

Thank you for the privilege to serve you. We wish you the best of health and safety during this crisis.

Regards!

A handwritten signature in black ink, appearing to read 'Ric Edelman', written in a cursive style.

Ric Edelman
Founder

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