



## The CARES Act – What every individual needs to know

### Key points:

- In response to COVID-19, Congress has passed the Coronavirus Aid Relief and Economic Security (CARES) Act.
- While most of that money is specifically for businesses of all kinds, there are major considerations for individuals and how it impacts an individual's financial plan.
- The bill has impacts on other major areas of the financial planning process including unemployment benefits, debt and liabilities, credit reporting, retirement planning, tax planning, and student loan management.

With a price tag exceeding \$2 trillion, the CARES Act is the single largest piece of legislation passed by Congress. While the bill is noted and reported as a stimulus bill, it's better to view it as an economic relief package. The bill provides a far-reaching range of provisions to assist individuals, businesses, healthcare entities, as well as state and local governments. These provisions are still intended to benefit the individual through meeting short-term cashflow demands in relation to payroll such as salary, wages, commissions, and benefits. The bill also has requirements to help businesses as long as they avoid terminations and reduction in salary for employees.

### WHERE IS THE \$2 TRILLION GOING?

<p><b>Individual Benefits (25%)</b></p> <ul style="list-style-type: none"> <li>• Direct Payments</li> <li>• Unemployment insurance</li> <li>• Additional Provisions</li> <li>• Food Assistance</li> </ul>	<p><b>Federal Business Loan Facility (20%)</b></p>	<p><b>Business Tax Changes (19%)</b></p>	<p><b>Health Care Provisions (excluding food assistance) (16%)</b></p>	<p><b>Small Business Loan Facility (16%)</b></p>
			<p><b>Air Carrier Relief (4%)</b></p>	

How much of that \$2 trillion of relief is set aside for the direct benefit of individuals? The \$2 trillion allocation is intended to be spread widely across different businesses, individuals and state and local entities. The graphic above shows how the \$2 trillion will be allocated to various elements of the economy. As can be seen, individuals will receive roughly a quarter of the allotted money with a little more than half of that purposed for direct payments to individuals and the remainder going to an expansion of unemployment insurance benefits.

**Who and how much will be paid to individuals.** Eligibility will be mainly based off the earned adjusted gross income (AGI) filed in 2019 or 2018. Individual should contact their advisor or accountant to know their specific payment amount. There are also different online resources for this as well.

Provision	Details	Additional Commentary
Individuals	Those who earned up to \$75,000 in AGI will receive up to \$1,200 with phaseouts up to \$99,000.	Payment is for those not claimed as a dependent. This can cause some issue for college students (see the children section).
Married Couples	Married couples who earned up to \$150,000 in AGI will receive up to \$2,400 with phaseouts up to \$198,000.	Married filers in 2019 that are now divorced such will still receive one payment, deposited into the account that the IRS had on file.
Head of Household Filers	These filers who earned up to \$112,500 will receive \$1,200 with phaseouts up to \$136,500.	High earners who lost their job in 2020 will not qualify for payments this year, but you will get a credit on your 2020 taxes.
Qualifying Children	Those with qualifying children will receive \$500 per child	Children must be dependents and under the age of 17, so most college students will not receive any payments of any kind. Child payment is based on children prior to 2020 since it is based on 2019 tax filing.
Social Security Filers	Those that receive Social Security Benefits will receive payment, whether they filed a tax return or not.	The IRS will use information on Form SSA - 1099 or Form RRB -1099 to generate Economic Impact Payments to recipients of benefits in either form. This typically includes senior citizens, Social Security recipients and railroad retirees.
Military Members	Members of the military qualify, even if they do not have a social security number.	Spouses of military members also fall under this category for payment.
When to expect payment?	Those that filed in 2018 or 2019 and the IRS has their bank information, mid April is the expectation. If you're banking information needs to be updated, delays based on when information is updated. Paper checks could take much longer.	Those that didn't file a tax return in 2018 or 2019 and do not receive Social Security need to file a "simple tax return" to obtain payment. An important note to consider, if an individual made less in 2018 and hasn't filed their 2019 return yet, it maybe good to actually wait on filing for a higher payment. To be sure, they should contact their advisor or accountant.

Additionally, there are other pertinent points to be aware of regarding the direct payments. Many have asked about what AGI figure will be used to determine eligibility. Most individuals will base their AGI off of 2019 filings, but if someone hasn't filed yet, they may use their 2018 filing AGI. Importantly, if an individual made less in 2018 and hasn't filed their 2019 return yet, it may be good to wait to file for 2019 to be eligible for a higher CARES payment. Again, you should consult with your advisor or accountant. Individuals must have a valid social security number for eligibility, except for members of the military. Individuals that are U.S. citizens living abroad will also be eligible for payments as long as they have a Social Security number and fit the income eligibility.

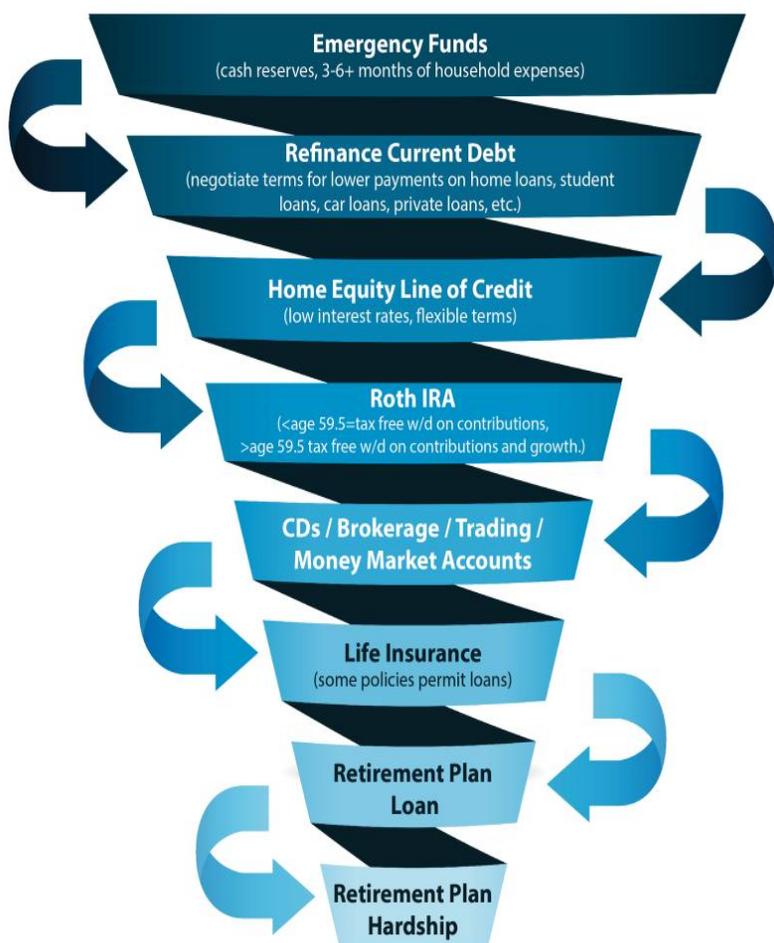
For most, no action is needed to claim their payment, but some may have steps to take. Individuals that have filed 2018 or 2019 taxes and provided their bank account information, will not have to do anything to receive payment. If their bank information has changed, the Treasury will create an online portal to enter your new information so the IRS can immediately deposit payment, otherwise they will receive a paper check.

While direct payment made headlines, the bill has also expanded benefits to those losing income due to COVID-19. The impact of the coronavirus and the shutdowns associated to many businesses has caused a surge in unemployment claims. In a matter of a couple of weeks, initial jobless claims soared by a magnitude never seen before. The CARES Act expands benefits to those individuals in a variety of ways. While specific unemployment benefits vary from state to state, the federal government expanded benefits to additional categories of workers such as freelancers, gig workers, independent contractors, self-employed individuals, and even part-time workers. Duration of benefits has also been increased from 26 weeks to 39 weeks by the federal government. Eligible workers will also receive an extra \$600 per week through July 31<sup>st</sup>.

These expansions will greatly cushion the blow for many workers that have lost income due to the virus. Research has shown that the average worker earns about \$1,000 per week and typical unemployment benefits replace about 40-45% of that total. The federal expansion will help to fill the difference and provide relief during the virus outbreak. As is usually the case when it comes to unemployment, it's important that workers who are laid off begin applying as soon as possible and in this case there is a potential added benefit of the \$600 per week through the end of July.

## Order of Distribution of Assets

After tightening your financial belt through cutting discretionary spending, consider following this order of asset liquidation if funds are needed



### “What if I’m directly impacted by the virus?”

The bill has brought intentional thought to those that are experiencing hardships or changes of lifestyle due to the virus as well. If a worker has received a diagnosis, experienced symptoms, or has to care for a family member who has it, they are also covered for unemployment benefits. Individuals who rely on daycare, school, or a facility for elderly care that’s been shut down are also eligible for benefits. While the impact of the virus is damaging to some individuals’ situations, these expansions are set to cushion that impact until the virus is contained.

The CARES Act also includes additional financial planning benefits for many to consider. While not all individuals will need to claim unemployment or be eligible for direct payments, the bill has included multiple provisions that will have widespread implications for individuals’ financial plans. The following page outlines features that may assist individuals in achieving success for their financial goals both now and in the long term. With all of these, it is wise to consult your advisor on the details and how it may affect your financial plan.

Planning Area	Details	Additional Commentary
Retirement	<ol style="list-style-type: none"> <li>1) Required Minimum Distribution (RMDs) have been waived for 2020.</li> <li>2) Hardship withdrawals from retirement accounts have been relaxed; participants may take up to \$100k without the 10% tax penalty; but the retirement plan must permit these distributions.</li> <li>3) For the next six months, participants can take up to \$100k or 100% of the balance as a loan.</li> </ol>	<p>The suspension of RMDs is welcomed by retirees that have other sources of retirement income or lower tax basis assets to draw income from. Not having to take RMDs will help to avoid selling at lower basis for qualified assets. Some retirees might even consider a Roth conversion (as always, consult your advisor or tax professional).</p> <p>While it's not advised to take a hardship withdrawal or a loan on your retirement money, the relaxed rules can provide an additional source of funds during the pandemic.</p>
Taxes	<ol style="list-style-type: none"> <li>1) Those who don't itemize are able to claim up to \$300 for charitable contributions.</li> <li>2) Individuals for this year can deduct 100% of charitable gifts that they make.</li> </ol>	<p>These are some major benefits on the tax side. The \$300 is considered as an above the line contribution. This contribution needs to be a cash contribution though to a qualified charity. The bigger benefit for high wage earners is the elimination of the AGI limit. For example, someone who earns \$300k can this year donate that same amount as a cash gift to a public charity and fully deduct their income this year. Again, this is a major benefit and for further details, individuals should speak with their tax professional.</p>
Student Loans	<p>The law allows those with federal student loans to suspend their monthly payments through September 30th without interest accrual.</p>	<p>This essentially gives those with student loans a breather from having to pay through this difficult stretch. On top of this, with the Federal Reserve cutting rates significantly, it could be a great time to also look at reducing that loan payment. And lastly, the bill also enables employers to make tax-exempt contributions toward their workers' loans, something every borrower should explore to pay off loans faster.</p>
Mortgages	<p>Companies that service federally backed mortgages are required to grant forbearance of up to 360 days to borrowers that show they've been harmed by COVID-19.</p>	<p>This is another welcomed benefit to those that have a loss of income from the effects of the virus. The servicers are prohibited from initiating foreclosure and processing evictions for 60 days starting March 18th as well. This can give some relief to those that needing to cover those payments.</p>
Food Assistance	<p>The bill includes \$25 billion for food assistance including almost \$16 billion for "Supplemental Nutrition Assistance Program" (SNAP) and about \$9 billion for child nutrition.</p>	<p>These provisions add more funding for those that qualify for food assistance programs. The bill has provided relaxed requirements for aid and opens up coverage of school lunches for those children who are now at home and in need of those meals. Each state has different requirements, so individuals will need to contact their local SNAP office for more details</p>
Credit Reporting	<p>Provisions state that if a person falls behind on debt payments, it will not necessarily cause a hit on their credit.</p>	<p>Lenders must be cognizant of the current environment and hardships coronavirus is causing. It's never good to miss a payment, but penalties will be avoided through this timeframe.</p>

## The Bottom Line

The bottom line is that the CARES Act has a numerous benefits available that individuals should explore. While this is a difficult time for everyone in many different ways, it is also a time for every person to look at what they're doing with their financial plan and consider if they're on the right track. The CARES Act provides some helpful benefits to help cushion the blow of the global coronavirus pandemic through direct benefits as well as additional features that can be accessed through the financial planning process – both in the short-term and the long-term. For individuals already working with a financial professional, it is highly recommended that you consult them to evaluate the availability of these features for your circumstances. If you are an employer or employee that is interested in financial wellness services that include in-person financial coaching, a phone bank, and digital wellness services, please don't hesitate to contact us, we're here to help.



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