Ameriprise Audiocast
5 aspects of the CARES Act aid package

March 31, 2020

Guests:
Marcy Keckler, Vice President Financial Advice Strategy
Amy Diesen, Vice President Retirement Plans
Jay Untiedt, Vice President Retirement Research

Marcy Keckler:
Hello, I'm Marcy Keckler, vice president of Financial Advice Strategy at Ameriprise Financial. Our conversation today is one of a series of audiocasts from Ameriprise Financial and you can hear more at Ameriprise.com/marketvolatility.

Today we're going to be talking about the two trillion dollar Coronavirus Aid Relief and Economic Security Act also known as The CARES Act which was passed by the US government on Friday, March 27th in response to the COVID-19 and coronavirus crisis and we're going to share some highlights of this legislation and includes things like sending checks directly to ind- individuals and families. It includes a major expansion of unemployment benefits. Funding for our hard-hit medical system, both hospitals and health care providers, as well as financial assistance for small businesses and some loan provisions for distressed companies. You've likely heard some details of this package through the news that you've taken in and so today what we want to focus on is how you might look at some of these measures that might affect you and your financial situation and I have two guests joining me for today's conversation. First is my colleague Amy Diesen. Amy's the vice president of Retirement Plans at Ameriprise. Welcome Amy.

Amy Diesen:
Thanks for having me today, Marcy.

Marcy Keckler:
And then second joining me as well, Jay Unitedt. Jay is the vice president of Retirement Research at Ameriprise. Welcome Jay.

Jay Untiedt:
It's great to be here, Marcy.

Marcy Keckler:
So Jay, let's start with you. I mentioned earlier the checks that are going to be coming too many American individuals and families and the amounts that we've heard our $1,200 for individuals $2,400 for couples with an incremental payment

of $500 per child for families who qualify. What should clients be thinking about if they are going to be receiving these checks? We know it's many but not quite all Americans.

Jay Untiedt:
Right, that's a very good question Marcy and over the coming weeks millions of Americans will be receiving these payments and this includes retirees, which is a very beneficial addition to the bill and we really appreciate thatthey have taken that extra step to include these individuals in the overall plan. Overall, this is a great benefit and many Americans will be helped during this time. But as you mentioned not all the people listening to this call will be eligible to get these payments. Unfortunately, those that are higher earning income individuals and families will not receive these payments. And for this program those income phase-outs begin for individuals earning over $75,000 per year and for families earning over $150,000 per year. The $500 child credit that you mentioned also has some important considerations that will determine whether you receive that payment or not. First, the child rebate is based on the child tax credit. So it only applies to children under the age of 17. If you have a child that's age say between 17 and 23 who are dependent, you will not get that $500 payment. And this is very unfortunate as many families have found that their college-age children have returned home over the last several weeks and for these families some extra money would surely be warmly welcomed to help cover the increased food cost. Now if you are receiving this important this payment there are some important questions that you may have and the first is what can you do with this money and the great news is it's really up to you. Some Americans will use this money to pay bills or buy groceries, others might save it for unexpected future costs or choose to invest it and buy securities that are currently selling at reduced prices. But it's important also to remember that there are many people that are in a fortunate situation, confident about their financial future and for these individuals they may wish to support a loved one or donate some of the money in an effort to help those around them. It's important to remember that with all that is happening, neighbors family members and charitable organizations need your help now more than ever.

Marcy Keckler:
Thank you, Jay. That's really helpful perspective. And I do want to ask you another question about the unemployment benefits that are part of the new legislation. I know one thing that is notable is that it provides some support for people who are self-employed and kind of contract workers and in the past, they have not really qualified for unemployment benefits. There's also some you know, provisions that are for small businesses. Can you talk a little bit about those provisions and what you think is important for clients to be aware of?

Jay Untiedt:
Yes, that's right. Marcy. First to address your question about unemployment benefits.

Before the CARES act, many self-employed individuals and independent contractors would not be eligible for unemployment benefits. Now, with the passage of the CARES Act, affected people in these categories can receive up to six hundred dollars per week for up to four months in federal unemployment benefits. And that's on top of state benefits that they may also be eligible for. The federal portion alone adds up to almost $10,000, so this is a meaningful amount. What's more, the CARES Act also extends healthcare benefits to a wider range of individuals that receive unemployment. And this could be very helpful for many individuals and families. Second, to address how the provisions in the legislation affect small business owners – I want to highlight that the CARES Act provides small business owners access to a whole host of lending options and, what's really great, is that several of these offer loan forgiveness flexibility. Now what does this mean for small business owners? This means that you may not have to pay back the loans but you have to meet certain criteria to qualify for loan forgiveness. So it's important that borrowers structure these programs correctly. One such loan is a small business interruption loan for businesses with fewer than 500 employees. These businesses can receive fee free loans of up to 10 million dollars that can be used to cover payroll, employee salaries, paid sick leave, mortgages, rents and other expenses. In my view, every business owner planning to retain or rehire employees by the end of June should look at this benefit very closely. There are also opportunities to consider for smaller businesses or sole proprietors without any employees. These individuals may be able to apply for an $10,000 economic injury disaster loan offered through the Small Business Administration. And these loans can often be forgiven. There are many, many, many businesses that can apply and the eligibility criteria is pretty easy. I do want to stress that this portion of the bill only has ten billion dollars appropriated for it. So with so many business owners likely to be interested in applying for this program it's important to begin working with your SBA lenders and apply very soon.

Marcy Keckler:
Great. Thank you, Jay, appreciate that. Lots of things for small business owners to keep in mind. So Amy, I'd love to turn to you and ask you to share some thoughts on the retirement plan provisions that are part of the new CARES Act.

Amy Diesen:
Well, there are a couple of very helpful retirement plan provisions. And the first one is the hardship withdrawal provision that allows individuals to take up to $100,000 from either their retirement plan or their IRA and this would waive the 10% premature withdrawal penalty on those distributions and even allow that individual to pay the taxes over three years. Those distributions would be eligible to be placed back into the retirement plan within three years as well, once the individual is finished utilizing those assets. The bill also suspends for everybody the required minimum distribution requirement for 401(k)s and IRAs in 2020. This would include an RMD that's normally due by April 1st for individuals who turn 70 and a half in 2019.

Marcy Keckler:
So I think that's a great reminder that this bill includes the ability to get at some money in your retirement accounts if you need to. You know, I would say that's probably not the, the first place to turn because you might have some impact on your overall goals, but it's great to know that there's this new flexibility and the fact that people who are retired don't have to take a required minimum distribution from their retirement accounts if they don't want to is really important. Amy, how do people qualify for a hardship distribution?

Amy Diesen:
Well, there are two ways to qualify and they're actually really broad. First, you, your spouse or a dependent would need to be diagnosed with COVID-19. The other way is if you've experienced some adverse financial consequence as a result of being quarantined, furloughed, laid off or having to work hours that are reduced or even being unable to work due to lack of childcare related to the coronavirus pandemic.

Marcy Keckler:
That's a, a really broad way to qualify and helpful to understand the flexibility there. So what should people think about if they are thinking about a potential withdrawal from their retirement account, Amy? I mean, what would you tell people to keep in mind?

Amy Diesen:
Now, obviously, if you need the money, it's good to know that you have options and we're grateful for those being available to us, but I would definitely say discuss the trade-offs with your advisor. The withdrawals now will lock in your losses. You will still owe those taxes on the withdrawals. And you'll have less time between now and when you retire for that money to grow so think about alternatives with your advisor. You might want to consider a home equity line of credit or getting cash from another area.

Marcy Keckler:
So great reminders and advisors can certainly help people come up with the right approach for their situation. Jay, I would like to turn back to you and ask if you could make a couple brief comments about what we know for students who maybe have had their academic year disrupted. We've experienced that in my family. What would you share as highlights from the legislation for people in that category?

Jay Untiedt:
Certainly relief for students and those with student loans is twofold in the CARES Act. First, if you have a federal student loan in repayment, the bill suspends payments on those loans for six months through the end of September. During this time importantly no interest will accrue. Now, this only applies to federal

student loans. Private student loans are not covered by this program, and it's unclear if consolidated federal loans held with private lending institutions will be included or not. For people with these types of loans it would be important to check with your lender to see what options are available for you. Finally, for students with Pell Grants, which are needs-based federal education grants, who attend universities that have canceled classes, these individuals will be allowed to keep the Pell grant money. So really another win for families that qualify.

Marcy Keckler:
Thank you, Jay. And, and we do know that the current environment is certainly causing a lot of economic disruption and pain for people and there are also some important incentives for charitable contributions. And this is obviously important. I know many, many of us are drawn to think about how we can help those in need. Amy, can you talk a little bit about how the provisions around charitable giving have been adjusted in this law?

Amy Diesen:
Yeah. It's a great benefit. The charitable contribution deduction has been expanded for 2020. So generally, taxpayers need to itemize their charitable donations in order for them to be deductible. But for 2020 even if you take the standard deduction, which most of us are doing now, cash donations of up to $300 will now be deductible. Also note, there's a separate regulatory announcement from the US Department of Treasury, which has extended our federal income tax filing and estimated tax payment deadline from April 15th to July 15th, and that includes your ability to make an IRA contribution. So you have until July 15th to make an IRA contribution and to file your taxes and many states are also following this expected program.

Marcy Keckler:
Thank you. Amy. Great reminder that there can be new reasons to think about giving to organizations that are helping the many people in need right now and that we do have a little more breathing room. I'm getting our income tax returns completed and filed and so until July 15th, and that, that includes making contributions to IRAs.

I want to say thank you to Amy and Jay. You've touched on some of the key and important provisions of the CARES Act. There is a lot more to know and understand but these are certainly some great highlights and for all of our clients, I want you to know that your advisor can help you determine how the CARES Act applies to your financial situation, which provisions affect you and your family and what you might want to do in terms of any adjustments to your financial situation. Your advisor cares about you, they're ready to help and we're here to help them. And we also care not just about your financial situation, but also about your well-being. So please continue to take care of your families. Stay healthy and we look forward to future conversations. Thank you.

Finally, before we leave, I'd like to share some important disclosure information.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Ameriprise Financial associates or affiliates. Actual investments or investment decisions made by Ameriprise Financial and its affiliates whether for its own account or on behalf of clients will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor's circumstances. Individual securities referenced are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell.

In general equity securities tend to have greater price volatility than debt securities. The market value of securities may fall, fail to rise or fluctuate sometimes rapidly and unpredictably. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole.

There are risks associated with fixed income investments including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities.

Past performance is not a guarantee of future results.

Ameriprise Financial, Inc. and its affiliates, do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

Investment products are not federally or FDIC insured, are not deposits or obligations of or guaranteed by any financial institution and involve investment risks, including possible loss of principal and fluctuation in value.

Investment advisory products and services are made available through Ameriprise Financial Services, LLC, a registered investment adviser.

Ameriprise Financial Services, LLC. Member FINRA and SIPC.