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Coronavirus and Retirement Accounts: Your Questions Answered

For most of us, the coronavirus (COVID-19) pandemic has created unprecedented financial and emotional burdens. As a result, we've been forced to look at retirement saving and investing through a new and unusual lens, prompting us to ask questions we haven't previously posed.

Below, we provide answers to common questions you may have about your retirement accounts during these historically uncertain times:

Q: Watching my 401(k) balance go down is making me anxious. What should I do?

A: Your feelings of worry are completely normal, even though this situation is *anything but* normal. Dips in your 401(k) or workplace retirement savings account balances can stir up negative feelings, causing many investors to reach for the panic button. Now, more than ever, it's important to remain calm and disciplined to carry out your long-term approach.

In general, the biggest risk investors face is overreacting to events, such as the ones we are experiencing now, and the market volatility they cause. Here are two tried-and-true principles to stick with as you manage your response to short-term market noise:

1. **Resist the urge to sell.** Even though your 401(k) account likely lost value recently, it pays to stick to your plan. Allowing emotions to drive your decisions could mean missing out on potential gains when the market stabilizes.

2. **Don't try to time the market.** When you stray from your well-thought-out plan and instead chase higher returns, your 401(k) account performance may get worse, not better. We know past performance does not guarantee future results, and, when it comes to various asset classes, there is no discernible pattern of winners and losers. Consequently, you have a better chance of doing well by holding a wide range of investments and maintaining a long-term focus.

Q: Should I stop contributing to my 401(k) plan?

A: No! Although it's completely natural to feel uneasy when looking at your account balance right now, this is not the time to stop contributing to your 401(k) plan or other retirement savings vehicles. Short-term decisions could do long-term damage to your savings progress, not to mention leave valuable employer-matching contributions (if your employer offers them) on the table. Further, if you reduce your contribution rate, you also reduce your ability to benefit from the magic of compound interest (which, simply put, is the money you earn on the money you've already earned).

Everyone's circumstances are different, however. If you decide that stopping your 401(k) contributions is the best fallback option to ease your financial burden, try reducing them fractionally instead of completely. If you were depositing 10 percent of your salary, for example, reduce it to a percentage that solves your short-term challenges but allows you to make meaningful deposits into your account. You can then resolve to start contributing again as soon as the storm blows over.

Q: I'm feeling the financial squeeze from COVID-19 and I need money; can I take it out of my 401(k) plan?

A: Yes, there *are* ways to take money out of your retirement accounts if you are affected by the COVID-19 pandemic. Any decision to do so, however, should be weighed carefully and done as a last resort. If tapping into your 401(k) or other retirement accounts provides you the financial lifeline you need, here are options to consider:

1. **Take advantage of legislative relief.** The Coronavirus Aid, Relief, and Economic Security (CARES) Act, a stimulus relief package signed into law in March 2020, waives the 10 percent early withdrawal penalty tax normally assessed on pre-age 59½ withdrawals, up to $100,000, across all retirement plans, such as 401(k)s, 403(b)s, and IRAs. To qualify for relief, you, your spouse, or a dependent must have been diagnosed with COVID-19 or you must be facing adverse financial circumstances arising from COVID-19, such as being quarantined, being laid off, or having work hours reduced.

2. **Borrow from your plan.** You might determine that taking a loan from your retirement plan (if your employer allows it) is a better choice than outright withdrawing money. If you meet one of the criteria above, you may take the lesser of $100,000 or 100 percent of your vested account balance (under normal rules, you may take out 50 percent of your vested account balance, up to a maximum of $50,000). It's important to note that the increased loan limits are only available for loans made from March 27, 2020, to September 22, 2020. The CARES Act states you may delay the loan repayment for a loan that is due for repayment between March 27, 2020, and December 31, 2020, for up to one year (provided your employer has agreed to the suspension of loan repayments).

3. **Seek other options.** Alternatively, there are options to withdraw retirement funds on a penalty-free basis, regardless of whether you have been affected by COVID-19. If you are a Roth IRA owner, for example, you can withdraw your Roth contributions at any time without having to pay taxes or penalties. Further, if you've converted a traditional IRA to a Roth IRA, you can withdraw those converted Roth dollars penalty free if you're older than 59½. If you're younger than 59½, converted Roth dollars that have aged 5 years may also be withdrawn without penalty. There is another option, if you own a Roth account in your 401(k) plan and meet the required conditions: your Roth 401(k) contributions and earnings can be withdrawn without paying taxes and penalties if you are older than 59½ and have held your Roth 401(k) account for at least 5 years.

Q: My account value is down significantly from last year; do I have to take required minimum distributions (RMDs) from my retirement plan?

A: The CARES Act lets you waive an RMD you were required to take in 2020. Because RMDs are calculated on your account value at the end of the previous year—when account values were likely significantly higher than they are in current depressed market conditions—not taking an RMD in 2020 could allow you to avoid withdrawing an inflated amount and paying a bigger tax bill.

Here's how the waiver works: Generally, when you turn 72 (or 70½, if you reached that age on or before December 31, 2019), you must take an RMD from your IRA, 401(k), 403(b), or other qualified retirement plan. If you were required to take an RMD in 2020 (either from your own IRA or defined contribution plan, or as a beneficiary taking life-expectancy payments), the CARES Act waives that requirement (you aren't required to exercise the waiver).

Q: I understand the various options available to me, and I have a lot to think about, but I'm still not sure how to make the right choice. Can I get help?

A: You're right; you have many important options to consider. And choosing the right course of action, which may include taking no action at all, isn't always easy—especially when you are under stress. If you're uneasy about making these decisions on your own, your financial advisor or retirement plan advisor can provide guidance tailored to your financial situation.

4 Reasons to Consolidate Retirement Accounts

Did you know Americans change jobs an average of 12 times in their lifetime? If you have changed jobs and left behind 401(k) accounts with prior employers, you know firsthand that managing retirement accounts spread among different custodians and financial services providers can be a big headache. Let's look at four reasons why consolidating your retirement plan accounts may be the cure.

1. **It's easier to keep track of one account versus multiple accounts.** No matter how many retirement accounts you own from previous employers, managing all your retirement assets in one account saves you valuable time, effort, and feelings of frustration. Imagine having just one of everything—one statement, one password, and one account number—instead of several! Consolidation also makes it simple to track your progress toward savings goals and manage your investment options.

2. **You could pay less in fees.** Your 401(k) plans incur various investment, custodial, and administrative charges; the more accounts you own, the more fees you'll pay. By consolidating accounts, you may be able to reduce those charges, which otherwise could eat away at your balances over time. Also, some fees are charged based on the amount of assets; your combined account balance may meet minimum asset thresholds, thus qualifying for potential fee reductions.

3. **It will make things simpler for your loved ones when you pass.** As uncomfortable as it is to think about the prospect of passing away, making it as easy as possible for your loved ones to administer your estate is an important planning consideration. By consolidating your retirement accounts, it may alleviate the need to chase down multiple account statements, call various custodians, and coordinate payments to your beneficiaries.

4. **You'll reduce the risk of missing RMDs.** Generally, when you turn 72, the IRS requires you to take an RMD each year. Failing to take your RMD on a timely basis results in a hefty penalty: 50 percent of the amount you failed to withdraw! Forgetting to take an RMD could be a costly mistake; having fewer accounts makes it easier to keep track.

In most cases, account consolidation can be accomplished by rolling your old retirement account into your new employer's retirement plan or an IRA. By doing so, you'll preserve the account's tax-favored status and steer clear of early withdrawal penalties. To initiate the rollover process, contact your employer's Human Resources or Benefits department to find out how to roll old 401(k) accounts into your new account or, alternatively, contact your former employer's custodian to learn its requirements for rolling those assets into your new employer's retirement plan.

Stress Relief Tips

During a crisis, heightened feelings of stress and anxiety are normal. If left unchecked, however, they can lead to many health problems. That's why, especially in times like these, we need to make reducing stress a priority.

To help you cope with the current challenges and uncertainties, especially when you may be working virtually or in an unfamiliar work environment, here are simple things you can do to relieve anxiety and manage stress. By focusing on a few small changes, you can help yourself stay healthy—in mind and body.

Stay Social Through Technology

With today's technology, you don't have to be face-to-face to connect with family, friends, and work colleagues. Make a point to reach out to them regularly via phone, videoconference, or social media. It's a good idea to share how you're coping with your emotions—don't hold everything inside.

Enjoy the Benefits of Exercise

When a crisis disrupts your routine, it's a good time to try something new. If social distancing guidelines are limiting your contact with others, why not take advantage of the great outdoors? A good way to get started is to take a 15- to 20-minute walk a few times per week. If you don't have a regular exercise routine, start slow and easy with something your doctor would endorse.

Stick to Regular Mealtimes and Healthy Snacks

Nutritionists recommend eating a variety of foods, especially whole grains, fruits, and vegetables. If you normally have good dietary habits, don't fall victim to skipping meals or breaking your snacking rules now. If you tend to eat less healthfully, it may be difficult to make a major change at this time. Try focusing instead on one or two steps you can take to improve your diet—and encourage friends and loved ones to do the same.

Be Sure to Get Enough Sleep

Lack of sleep affects health, mood, and ability to focus—all factors you need to be at your best. Make a serious effort to get a good night's rest—which means no jumping out of bed at 2:00 A.M. to check email. If you aren't sleeping as deeply as normal, try to at least find time to relax and disconnect.

Remember to Take Deep Breaths

The internet is a treasure trove of information on how to improve your breathing—especially when you're stressed. Although all these instructions can be useful, you are unlikely to learn deep-breathing techniques right away. For now, simply being aware that stress tends to make you breathe more shallowly may help you reverse the tendency. Taking just a few deep breaths three or four times during the day may be the best thing you can do right now.

Make Small Changes and Enjoy the Benefits!

With all the advice above, remember to use good judgment. If you have doubts about making changes or have health concerns, contact your doctor or another health professional. That said, these stress management tips are within your control. By making small changes, you may find your mind and body thanks you. And you may be better prepared to cope with the challenges of this—or another—crisis.

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