Consider This Program

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On This Show:

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Show Notes:

Topics Include:

- Distribution & Loans
- The CARES Act with Guest, Darren Hardesty
- The Payroll Protection Program with Jamie Burton

Distribution & Loans

Normally under the rules prior to the new CARES Act, anybody who would make a withdrawal from an IRA or a qualified plan and was under the age of 59 and a half, not only would have to pay tax on that distribution, they'd also have to pay a 10% penalty as an early withdrawal. For 2020, that 10% penalty has been waived between January 1st of this year through December 31st of 2020. We also must remember though, you can only withdraw a maximum equal to $100,000 or less out of your IRA or a qualified distribution plan or a combination of the.

If your income has been disrupted this year and it's going to be a lot lower this year than what it would normally be, you want to take that money out of the IRA this year. If you don't need it, you may want to be doing a Roth conversion because your income is so much lower.Take advantage of those lower income brackets.

Normally when you take a disbursement from a defined plan, if you were not rolling it into an IRA or such, and we're receiving a check, 20% mandatory federal tax would have to be withheld. That is also being suspended at this time. If you take that distribution, all of that money's coming to you at the same

time. Yeah. They're doing everything they can to get money in the hands of people as quickly as they can.

How could you get a distribution out of our 401k if you needed it? An inservice distribution is allowed during this time. The other fabulous thing about it is the taxes. It is taxable still. You have the ability to spread that tax burden over a three year period. Wow.

What would happen if I took the money out and I wanted to put it back in? You can do that as well. There is a three year window that you can do that tax free. It's not like a payroll reduction where you can pay it back in over a three year period. You've got three years to get it back in, but you can only essentially make two installments.

In the past, if you wanted to make a loan out of your 401(k) or 403(b), you were limited to 50% of the vested value with a maximum withdrawal of $50,000. Now, no matter how much was in your plan, the new rules (because of Covid-19) say that you can have the amount of $100,000 or 100% of your vested balance, whichever is lower. Normally the maximum repayment for a 401(k) loan is five years. That has been extended a year as well.

The CARES Act with Guest, Darren Hardesty

After reading through all the documentation and some of the summaries from what we have seen in the CARES Act, it's pretty clear that the spirit of this provision for student loan borrowers is to make sure that their situation is no worse than what it was before the shutdowns all began. Our government has tried their best to make sure that anybody with student loans, one of the 44 million Americans with student loans, hopefully can come out of this whole ordeal no worse off than what they were. The main group of people who are going to benefit from this is anybody with a federal student loan. Just because you have a student loan that they're going to qualify. You should call your loan provider or go to your loan provider's website. All of the lenders are very much aware of this taking place right now. Make sure that your forbearance for this six month period is set up. Some are automatically being set up, but some are not.

A lot of people have what's called a Perkins loan or a federal family education loan. They look like they're owned by the federal government, but they are not. Also, private loans do not qualify, but still, most loan providers right now are providing some hardship for forbearance. That doesn't mean that the interest will not accrue during that forbearance, but if you need help with that, that is something that you may qualify for.

It doesn't mean that it won't impact your credit because you might have a ding on your credit if you try to renegotiate or delay. I can't tell you that for sure. If you call your credit card company for instance right now and try to get a lower interest rate that does not go against your credit score. If you try to change the amount of your minimum monthly payment or the amount that you owe, that does.

What does the relief look like? There's six months of relief. The bill was passed on March 27th, so the six months are going all the way up to September 30th. During those six months, no interest is going to accrue on any of these loans. You can still make interest free payments though.

This will count towards any loan forgiveness programs that you're attempting to qualify for. Public service loan forgiveness program is probably the most popular. Also, if you've had trouble making payments and you're in a current loan rehabilitation program, this will qualify towards making those payments as well. So if you're somebody who's been struggling to make payments on time and you've been working through this rehabilitation program to get your credit back where it needs to be, these six months will count towards that and voluntary debt collection. If your loan is to the point where the government's taking money out of your bank account to make these payments, this is also going to be suspended during this time.

The bill was passed on March 27th. The relief start date has now been retroactive to March 13th for these student loans. Many people make payments at the end of the month. If you are one of those people who has made a payment on or after March 13th, you can call your provider and get a refund, which means that essentially if you're one of those people, you actually get seven months of relief rather than six.

The average student loan debt in our country is about $37,000 at about 5.5% interest. It looks like about $400 a month for about $2,400 over the six month period for the average person with a student loan. That's also about $1,100 in interest that will not be accrued during this six months. You could go spend that money, but don't get used to spending it. You could save this money up or use this money towards something you haven't been able to afford and just use this as an opportunity to stimulate the economy with that money. Another thing is to invest it. A Roth IRA would be a great place to put that right now.

Continued Conversation with Darren Hardesty

The next three would start with just saving it and putting it towards an emergency fund. If this whole crisis has taught a lot of people anything is the value of having a three to six month or more emergency fund in the bank to provide some relief. Take advantage of the saving opportunity and do that. The next thing is if you are wanting to continue your payments, this is a great chance to pay off the principal on your debt. This is roughly $1,100 in interest saved for the average student loan holder. If you're able to

pay an additional $1,100 down that you would have taken another six to 12 months to actually pay, that's another really good option. This next one I have to give credit to Chris Rogers. You can pile up the money for six months. Just stick it in the bank account and just keep it there. At the end of the six months, if there's no other pressing need you could just take that money out and make one lump sum payment on the debt at that time. Just make sure you do that before the September 30th deadline to make sure that that money goes in without interest. Make sure you're doing something responsible with it.

I can't overemphasize enough though that if you're not making the payments, do not get used to spending the money. When we talk to people about retirement, we tell them: it's not about replacing your income when you go to retire. It's about replacing your standard of living. All of a sudden you've got extra money in your bank account that you're used to going toward a debt and suddenly you get used to having that extra money and extra $50 in your purse or your billfold. You're going out to eat on it or you're doing something with it. You will wreck your standard of living when we get back to the normal way of life.

Those loans have to be paid back at some point in time. This is not a forgiveness of the debt. It's just a delay. It would not shock me at all to see this get extended again. They're already working on another stimulus package in Congress right now. This one will probably be a little more muddied and more political.

The Payroll Protection Program with Jamie Burton

The payroll protection program was put in because they're wanting to make sure that small businesses can stay open, keep their employees, and be able to pay their employees. What a lot of the small businesses are finding is that they're not making money right now. It's hard to keep the employees on. This is helping them keep their employees, keep them paid, keep the businesses open and get through this hard time. It's for small businesses with less than 500 employees. They can apply for a loan and they figure out their average monthly payroll costs. This loan will give them two and a half times that average monthly payroll cost so they can continue to pay their employees.

It's a forgivable loan. There's a list of different things that this loan can be used for. Payroll is just one of them. They can also use it to pay for group health insurance premiums, salaries, rent and mortgage towards their businesses (as long as they are already paying rent towards them), utilities and other business interests. As long as it's used towards the list of things that these loans are allowed to go towards, it's 100% forgivable.

What if they don't use it for those things? If they don't use it for those things, then they have six months before they have to start paying this loan back. When they do, it has a 1% interest rate, paid back over two years. If you're a business owner, you really need to start working with your banker.

There's a lot of different caveats to it. I would definitely start by talking to your banker, see if you're qualified, see what all you need to get applied for for this loan and go from there. There's just a lot of different things that go into it.