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4 Steps to Protect Your Financial Health Today and Tomorrow**

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# 4 Steps to Protect Your Financial Health Today and Tomorrow

Way, way back at the beginning of the Common Era, Epictetus offered some advice that remains relevant today:1

“It's not what happens to you, but how you react to it that matters.”

In 2020, a lot has changed – and Americans are reacting. We’re adapting to pandemic conditions, hoping for economic improvement, positioning for financial market uncertainty, and coping with a lot of stress.

One way to address stress is to take positive action by conducting a year-end review of your financial plan. That may not sound like it will reduce your stress but taking control of something you can control may really help. You’ll be able to start the new year with confidence, knowing exactly what you need to do to protect your financial health today and tomorrow.

These four steps can help you get started:

1. **Assess your work and income situation**

Coronavirus has rapidly changed the business landscape. Some companies are at a standstill while others are busier than ever. Earlier in the year, *Gartner Research* reported:2

“Dramatic changes in customer demand are putting organizations under huge stress: Sharp declines in demand present serious financial challenges to many businesses, while those facing demand surges and resource shortage risk disappointing and disengaging customers.”

Think about your industry and your company. Will coronavirus have a short- or longer-term impact? How could your income be affected? If it could be affected, are there steps you need take to reduce income risk? What are they?

1. **Review your spending and expenses**

The end of the year is a good time to review spending and expenses, and make sure your spending plan is ready for the new year. If your income will be significantly different in the new year, your spending plan may change.

Typically, a spending plan keeps spending and saving aligned with income. If your income will be lower next year, you may need to reduce the amount you spend and save. If your income increases, you may be able to increase the amount you spend and save.

If you cannot find a way to align income and spending, taking a distribution from a retirement plan may be an option. The Coronavirus Aid, Relief, and Economic Security (CARES) Act eased restrictions on early distributions from eligible workplace retirement plans and IRAs.

Retirement accountholders may be able to take distributions of up to $100,000 from plan accounts without owing penalty taxes. Income taxes on the amount distributed could be paid over three years. This option may help people who have experienced adverse financial consequences fill income gaps because of the coronavirus.3

1. **Evaluate your financial plans**

It’s important to review your current financial plan to see whether and how progress toward your financial goals will be affected by changes in spending and saving. Sometimes, looking at current spending and saving decisions through the lens of your financial goals can help you decide how to modify your plans.

For instance, when income falls, some people choose to save less, knowing it will push their financial goals further into the future. Others decide to spend less so they stay on track to reach their goals. Often, people decide on a combination of reduced spending and reduced saving.

The choices you make depend on your circumstances. A family with students in college may not be able to significantly reduce spending, although more abundant financial aid may become available to them.

Similarly, if a family member has significant healthcare issues, spending reductions may be limited and they may have to save less. It’s the reason many plans may offer risk management solutions like long-term care or disability income insurance.

If you plan to take a CARES Act distribution, consider how it will affect your retirement goals. Do you have enough time before retirement to rebuild your savings? Will you need to retire later? Will you need to spend less in retirement? The answers to these questions may help you decide whether to take a distribution and, if you do take one, how much to withdraw.

1. **Conduct year-end tax planning**

Sound tax planning can help you reduce the amount you owe in taxes. This year, there may be additional considerations, including:

* **The Coronavirus Aid, Relief, and Economic Security (CARES) Act** tax provisions. Individuals should understand the refundable tax credit, which is also known as your stimulus check. The amount received was a credit against tax liability.4
* **Tax Cuts and Jobs Act provisions could end sooner than 2025.** Some generous tax provisions were made possible by the Tax Cuts and Jobs Act, which is set to expire in 2025, but could change before then depending on the government.

The Act is the reason the estate tax exemption is higher than it has been before. If you plan to gift large amounts or transfer significant wealth through your estate plan, confirming your plans this year could help you take advantage of current circumstances. *Accounting Today* reported:5

“The historically low interest rates and lifetime gift and estate tax exemptions present a powerful estate-planning opportunity. Many estate and gift tax strategies hinge on the ability of assets to appreciate faster than the interest rates prescribed by the IRS. In addition, the economic fallout of COVID-19 is depressing many asset values. There’s a small window of opportunity to employ estate-planning techniques while interest rates are still low and the lifetime gift exemption is at an all-time high.”

* **Unemployment benefits are taxable.** Any unemployment benefits received are considered to be taxable income. If you did not request that taxes be withheld, you may need to set aside funds to pay any taxes due, reported *CNBC*.6

Having a discussion with your tax or financial professional may help you minimize taxes owed this year.

2020 has been a year for the record books, often in unwelcome ways. The way you react to what has happened may significantly affect your financial health and well-being over the short-term and your ability to reach your financial goals over the long-term.

If you would like help with your financial plan, please get in touch.

Sources:

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4 <https://taxfoundation.org/cares-act-senate-coronavirus-bill-economic-relief-plan/>

5 <https://www.accountingtoday.com/list/top-10-year-end-tax-planning-tips> (*or go to* <https://peakcontent.s3-us-west-2.amazonaws.com/Peak+Documents/Dec_2020_AccountingToday-Top_10_Year-End_Tax_Planning_Tips-Footnote_5.pdf>)

6 <https://www.cnbc.com/2020/11/05/you-may-need-to-set-aside-money-for-taxes-if-youve-taken-these-steps.html> (*or go to* <https://peakcontent.s3-us-west-2.amazonaws.com/Peak+Documents/Dec_2020_CNBC-You_May_Need_to_Start_Setting_Aside_Money_for_Taxes-Footnote_6.pdf>)

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