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The Navigator

A QUARTERLY NEWSLETTER FROM THE COMPASS WEALTH GROUP

CARES ACT: RETIREMENT PLAN RELIEF PROVISIONS

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. This $2 trillion emergency relief package represents a bipartisan effort to assist both individuals and businesses in the ongoing coronavirus pandemic and accompanying economic crisis. The CARES Act provisions for retirement plan relief for individuals under federal tax law are discussed here.

For those seeking access to their retirement funds, these include special provisions for coronavirus-related distributions and loans. For those seeking to preserve their retirement funds, certain required minimum distributions from retirement funds have been suspended.

CORONAVIRUS-RELATED DISTRIBUTIONS

A 10% penalty tax generally applies to distributions from an employer retirement plan or individual retirement account (IRA) before age 59½ unless an exception applies. Due to the coronavirus pandemic, the penalty tax will not apply to up to $100,000 of coronavirus-related distributions to an individual during 2020. Additionally, income resulting from a coronavirus-related distribution is spread over a three-year period for tax purposes unless an individual elects otherwise.

Coronavirus-related distributions can also be paid back to an eligible retirement plan within three years of the day after the distribution was received.

WHAT DOES "CORONAVIRUS RELATED" MEAN?

For purposes of the distribution and loan rules described here, "coronavirus related" applies to individuals diagnosed with the illness or who have a spouse or dependent diagnosed with the illness, as well as individuals who experience adverse financial consequences as a result of the pandemic. Adverse financial consequences could include quarantines, furloughs, and business closings.

See disclaimer on page 3

LOANS FROM QUALIFIED PLANS

Qualified plans such as a 401(k) can allow an employee to take out a loan. These loans can generally be repaid over a period of up to five years. They're also generally limited to the lesser of $50,000 or 50% of the total benefit the employee has a right to receive under the plan. However, for a coronavirus-related loan made between March 27, 2020, and September 22, 2020, the loan limit is increased to $100,000 or 100% of the amount the employee can rightfully receive under the plan (whichever amount is less). In the case of a loan outstanding after March 26, 2020, the due date for any repayment that would normally be due between March 27, 2020, and December 31, 2020, may be delayed by coronavirus-related qualifying individuals for one year, and the delay period is disregarded in determining the five-year period and the term of the loan.

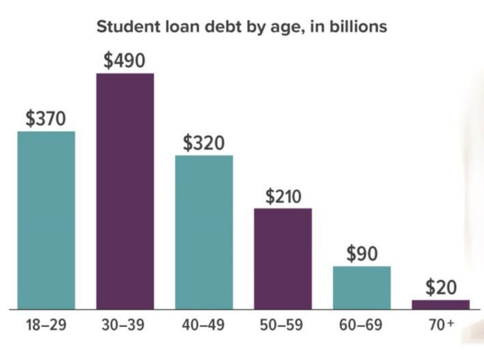
MOST REQUIRED MINIMUM DISTRIBUTIONS (RMDS) SUSPENDED FOR 2020

RMDs are generally required to start from an employer retirement plan or IRA by April 1 of the year after the plan participant or IRA owner reaches age 70½ (age 72 for those who reach age 70½ after 2019). If an employee continues working after age 70½ (age 72 for those who reach age 70½ after 2019), RMDs from an employer retirement plan maintained by the current employer can be deferred until April 1 of the year after retirement. (RMDs are not required from a Roth IRA during the lifetime of the IRA owner.) RMDs are also generally required to beneficiaries after the death of the plan participant or IRA owner. A 50% penalty applies to an RMD that is not made.

The CARES Act suspends RMDs from IRAs and defined contribution plans (other than Section 457 plans for nongovernmental tax-exempt organizations) for 2020. This waiver includes any RMDs for 2019 with an April 1, 2020, required beginning date that were not taken in 2019. This one-year suspension does not generally affect how post-2020 RMDs are determined.

STUDENT DEBT: IT'S NOT JUST FOR YOUNG ADULTS

Recent college graduates aren't the only ones carrying student loan debt. A significant number of older Americans have student debt, too. In fact, student loan debt is the second-highest consumer debt category after mortgage debt. In total, outstanding student loan debt in the United States now stands at approximately $1.5 trillion, with the age 30 to 39 group carrying the highest load.



COPING WITH MARKET VOLATILITY: CONTINUING TO INVEST MAY HELP YOU STAY ON COURSE

In the current market environment, the value of your holdings may be fluctuating widely — and it's natural to feel tentative about further investment. But regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom-line number on your statement might not be quite so discouraging. And a basic principle of investing is that buying during a down market may help your portfolio grow when the market turns upward again.

If you are investing a specific amount regularly regardless of fluctuating price levels (as in a typical workplace retirement plan), you are practicing dollar-cost averaging. Using this approach, you may be getting a bargain by continuing to buy when prices are down. However, you should consider your financial and psychological ability to continue purchases through periods of fluctuating price levels or economic distress; dollar-cost averaging loses much of its benefit if you stop just when prices are reduced. And it can't guarantee a profit or protect against a loss.

If you can't bring yourself to invest during this period of uncertainty, try not to let the volatility derail your savings program completely. If necessary to help address your concerns, you could continue to save, but direct new savings into a cash-alternative investment until your comfort level rises. Though you might not be buying at a discount, you could be accumulating cash reserves that could be invested when you're ready. The key is not to let short-term anxiety make you forget your long-term plan. We're here to help and to answer any questions you may have.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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- **Financial Planning**
- **Retirement Planning**
- **College Planning**
- **Portfolio Management**
- **Charitable Gift Planning**
- **Business Planning**
- **Long-Term Care, Life & Disability**

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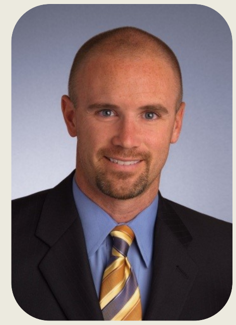

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