Financial Planning During the Global Pandemic

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We are all finding ourselves in uncharted territory in many different aspects of our lives today. As the country and the world struggles through the COVID-19 health crisis and resulting financial implications, we have been focusing on what we CAN control. While everyone’s situation is unique, there are a number of planning strategies and ideas that you should consider right now.

Cash Flow

The centerpiece of developing a financial plan is to understand your cash flow and this becomes even more important in times of emergency.

1. Expenses - Your spending patterns have likely changed as a result of “stay at home” orders, but many of your fixed expenses have not gone away. Now could be a great time to take a close look at your expenses and to understand what they really are. You can also identify what expenses are most important and which could be reduced, if needed.

2. Income - With business grinding to a halt, many companies are implementing layoffs and furloughs or reducing salaries. If you are retired and living off your portfolio, dividends are likely to be cut and interest rates have already dropped sharply. If you have kept your expenses manageable, you might be able to withstand a drop in income. If not, are there other things you can do to bring in additional income?

3. Cash Reserve - It’s never too late to reassess your cash reserve. If you are still working, it is important to have enough cash to cover your basic living expenses for 3-6 months if you were to lose your job. If you are retired and living off your portfolio, you should have enough cash to cover your expenses for 2-3 years, the average length of a bear market.

4. Taxes - While most 2019 tax returns and payments are now deferred until July 15, 2020, it’s important to figure out where you stand now. If you have refunds, you can file now to claim those refunds. If you owe, you can set aside the cash you will need in July.

5. Debt - With interest rates at historic lows, you should explore the possibility of refinancing any debt you have. The mortgage market is a little crazy right now so a refinance might be difficult, but it is worth exploring. This could help you with your cash flow in this critical time.

Investments

Good investment strategies remain the same in bear markets as they do in bull markets. You should always start with your financial plan and determine what rate of return you need to earn and how much risk you are willing and able to take. Developing an asset allocation plan that is appropriate for you and sticking with that plan through up and down markets is critical. While you generally do not want to make any drastic

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changes to your portfolio in these volatile times, there are some proactive strategies you should consider now.

1. **Tax Loss Harvesting** - You can take advantage of the drop in values to harvest capital losses that can be offset against capital gains now and in the future. You do have to be careful to avoid the wash sale rules.

2. **Trim Concentrated Holdings** - Many people have large positions in stocks or funds that have significant unrealized gains. Those gains might be smaller now and the tax hit to trim the positions less.

3. **Consider Rebalancing** - With the decline in the stock market, most diversified portfolios are likely below their target stock allocation so you might want to consider adding back to the stock side in the coming weeks and months. You want to be cautious about rebalancing in a volatile market and understand that stocks could always fall further from their current levels.

4. **Exercise Stock Options** - If you have exercisable stock options, now may be a good time to exercise them when stock prices are lower and the tax impact will be less.

### Planning Strategies

There are a number of other planning strategies that you should consider right now.

1. **Suspend Required Minimum Distributions** - If you are taking Required Minimum Distributions (RMD) because you are over 70½ (or now 72 going forward under the SECURE Act), those RMD’s have been suspended for 2020 due to the crisis. Unless you need the distribution for cash flow, it probably does not make sense to take it this year. If you have already taken it within the past 60 days, you can roll the full amount back into the IRA to avoid tax.

2. **Roth Conversions** - These can make a lot of sense when the value of your IRA is down. While you will pay tax currently when you convert an IRA to a Roth, future distributions would be tax-free and you will not have to take RMD’s in the future. It is quite possible we will have higher tax rates in the future, especially with the impact of the stimulus required to help our economy through these times. Taking advantage of low asset values and low tax rates now could benefit you in the future.

3. **529 Contributions** - Funding 529 plans now for your children or grandchildren, while markets are down, can be a good strategy. Paying higher education costs is still a significant commitment and getting the future appreciation to work for you is an important part of this strategy.

### Estate Planning

We currently have a unique combination of much higher Federal estate tax exemption amounts ($11.58 million per person), very low interest rates, and a depressed stock market. These exemptions are set to return to the old levels ($5 million, adjusted for inflation) in 2026, but that could happen sooner if there is a change in leadership in Washington.

Looking at your overall asset sufficiency and goals for your estate are the starting points for this analysis. If you are in a position where you are comfortable that you have enough assets to meet your needs during your lifetime, you should be looking at ways to shift assets to the next generation and reduce your estate tax. Some things we are talking to clients about include:

1. **Trusts** - Consider transferring assets to a trust, like a Spousal Limited Access Trust (SLAT), to remove the assets and future appreciation from your estate. One of the nice things about this approach is that, in a worst case scenario, your spouse could still have access to these funds.

2. **Gifting** - Make gifts to the next generation through an entity like a Family Limited Partnership (FLP) or LLC. Using this strategy enables you to still maintain control over your assets while shifting the wealth to the next generation. You may also be able to take advantage of valuation discounts for the interests transferred.

3. **GRAT** - Take advantage of low interest rates and depressed asset values by shifting assets to a Grantor Retained Annuity Trust (GRAT). The current low interest rates will make the “hurdle rate” for the underlying assets much easier to exceed and the appreciation can then shift to the next generation.

3. **Intra-Family Loans** - Take advantage of intra-family loans with the current low interest rates. These can be a great tool to help family members buy a house or for other purposes and with the IRS required rates being so low now (.91%-1.44%) they can be a win/win for families.