

With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

Congress Provides Improved Access to Cash in Retirement Accounts

How you may be able to take advantage of the new rules

As part of the recent \$2 trillion stimulus bill, Congress allowed Americans who have been economically affected by the coronavirus to use their retirement accounts for relief. The changes include helping investors access funds from their retirement accounts and suspension of required minimum distributions in 2020. These options provide increased flexibility in your financial planning.

401k Accounts

If your company allows borrowing against your retirement savings:

- The limit has been increased to \$100,000 from \$50,000.
- The previous limit of borrowing up to 50% of your balance no longer applies.
- Existing 401k loans due by December 31 can be deferred for one year.
- Take note, these loans must be paid off quickly (often in 60 days) if you separate from your employer.

IRA Accounts

- You may now withdraw up to \$100,000 without penalty regardless of your age.
- You will have 3 years to put the full amount you withdrew back into your IRA, well above normal contribution limits. There is no requirement to replace the funds if you aren't able.
- Distributions from traditional pre-tax IRAs are taxable as ordinary income, but now you can spread that tax payment over 3 years.
- No taxes are paid on Roth IRA withdrawals (up to your after-tax contribution amount), but you will have to use after tax dollars to replenish your Roth IRA.
- Suspension of required minimum distributions (RMDs) means account holders can choose to avoid selling equities at a loss.

While everyone's circumstances are different, if a change in income requires taking cash from savings, we provide a framework for decision making:

Step One - Tighten your belt and cut all unnecessary expenses to minimize withdrawals from retirement savings.

Step Two - If you have an emergency fund, now is the exactly the time to start using it for unavoidable expenses.

Step Three - Borrow or withdraw from retirement accounts if you need extra cash to make up a substantial, sudden loss in income and you have already taken the suggested steps above.

- **Borrowing from your 401k** – while this may seem appealing, it is one of the riskier strategies in these uncertain times. There is a risk of having to pay back a loan within 60 days if your firm lets you go. This is not optimal unless the loan is a small portion of your total 401k.
- **Withdrawing from your Roth IRA** – while there are no tax payments for withdrawals, this is not the best tax strategy when both your income and stock prices have fallen dramatically. *A Roth is the best place to hold equities at market lows as historically higher future returns will not be taxed in these accounts.*
- **Withdrawing from your Traditional IRA** – this strategy is likely to be tax efficient if your income has fallen substantially and lowered your tax rate in 2020. If needed, you can stretch the tax payments over 3 years.
- **Where do you get the cash if you need to tap your retirement accounts?** You generally want to avoid selling too many equities at lows and focus on withdrawing cash or selling short-term bonds. If you have several types of retirement accounts, it is possible to shift your cash allocation to the account where you want to take withdrawals and potentially increase equity holdings in the other accounts. Look for financial advice on achieving the appropriate equity allocation for you during this process.

While our government is trying to help people suddenly in need of cash, we urge you to minimize the use of these options - substantial retirement fund withdrawals do harm to your long-term financial plan. Try your best to limit withdrawals and pay back funds as quickly as you can. Market lows in equities historically offer substantial [future returns as markets recover](#).

The appropriateness of the suggestions mentioned above will vary with your particular circumstances. It is best to consult an investment advisor to determine the best course of action for you.



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