

Make Lemonade out of Lemons:

3 Ideas for Making Your Finances More Sound in a Time of Upheaval

The recent COVID-19 crisis has created enormous upheaval and economic turmoil. There is no doubt, these are trying times for many people. As is often the case, situations like these cause us to reflect on our current mode of operation and makes us reconsider new ways of doing things. Or, at the least, it forces us to ask ourselves what we can be doing to make a bad situation a little better. Here are three ideas for doing just that!

1) Take advantage of your changed spending habits.

No doubt, you aren't spending today the way you were 3 months ago. A client recently mentioned to me that her credit card bill last month was the lowest she can ever remember it being. "I haven't gone anywhere, haven't eaten out at a restaurant and I barely even fill my gas tank these days."

So, what could you do with the extra cash you are saving because of social distancing and reduced social movement? There are several ways you can help yourself financially. First, pay down any high credit card debt you may have. Anything over 6% interest is considered high today. So, accelerate your payments and take this opportunity to eliminate any high interest debt. This would include student loans as well.

Alternatively, you could save more. Build up your emergency/opportunity saving fund to 3-6 months' worth of your take home pay. Having this buffer makes you a much better long term investor as well. The more you have in savings, the better prepared you are to weather the temporary ups and downs of the investment world. A solid amount of rainy day savings, allows you to comfortably keep your investment money at work over time.

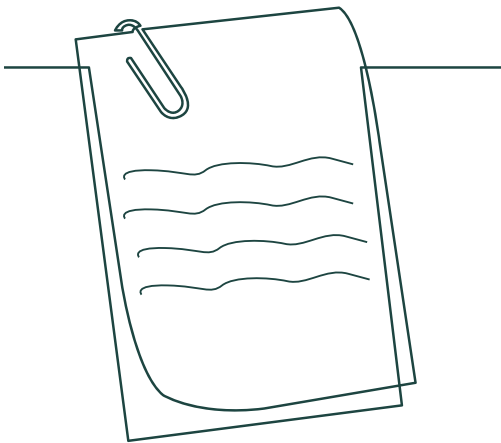
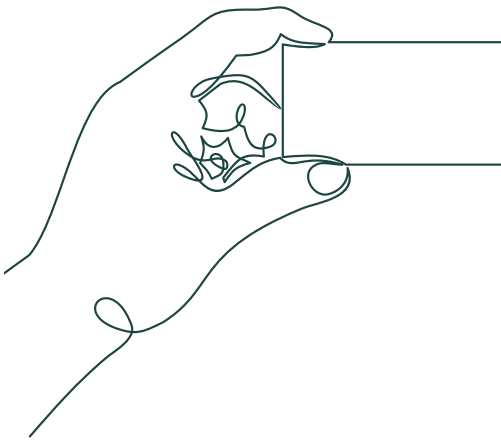
If you're feeling good about your savings funds, then add some of your extra cash to your retirement plan at work. Make sure, at the very least, to contribute the amount necessary to get the full match that your employer may provide. Matching funds from an employer are "free money" because they add it on top of your salary....but only if you contribute. So, make sure you get all that you can.

2) Consolidate and simplify!

Take the extra time you may have these days to organize your finances. First, review your current spending. Look at your credit card and bank statements and identify all the automatic payments coming out of your accounts. Do you NEED all of the services you're paying for? Are you USING them? It's easy to get in the habit of just mindlessly paying on autopilot. But, make sure you're actually putting that money to good use. If not, then cancel those subscriptions and use your money for something more meaningful.

Next, gather up all of your accounts – bank accounts, mutual funds, retirement plans, IRAs, insurance policies, etc. Are there any accounts that you can consolidate? Keeping track of multiple investment accounts and insurance policies is time consuming and can often distract you from being able to really understand what they are all doing for you. Where possible, bundle various insurances with one carrier to maximize your savings and combine like-registered accounts into one account. For example, you can easily combine all of your IRAs into one place. Or combine investment accounts that are registered in your name or the name of your spouse and you.

Final idea: Make a summary of what you have and where it all is. You may know all of this information in your head, but probably no one else does. And, if we've learned one hard lesson during the pandemic, illness can hit out of nowhere and can put people out of action. So, prepare a summary of what you have so someone you trust can help you if need be. We typically suggest a spouse, a sibling, a life partner, a trusted friend or a Power of Attorney to be that person.



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3) Options if you lose your job.

One of the worst economic consequences of COVID-19 is the huge loss of jobs that have occurred. Work routines have been upended and employers and employees are scrambling for how to deal with this upheaval.

Maintain health insurance if you can. The double whammy of losing a job and then being uninsured in a national health crisis is alarming. If you were covered under your former employer's plan, you will be extended the option to pick up your prior coverage under COBRA. However, this option often tends to be prohibitively expensive. Don't forget, in this situation, you can always use the public program created under the Affordable Care Act. It won't be the same coverage you had, but it may be much less expensive. See healthcare.gov

In addition to health care benefits, you'll want to pursue unemployment benefits as well. This is typically done through either your employer's HR department or the state office on unemployment.

Also pay attention to other benefits that may be available from former employers. If you are older than 55 then you may have preferred access to a 401k account or pension. Check to see if these funds are accessible and what the restrictions may be. Typically, the IRS will waive the 10% penalty for early withdrawal (pre-age 59 1/2) in cases of involuntary termination.

For those who are in strong financial shape, consider leveraging your lower-than-normal income this year to take advantage of a Roth IRA conversion. This maneuver involves converting a Traditional IRA (where typically there has been no income tax incurred before) and making it a Roth IRA (where future withdrawals will be tax-free if you meet certain requirements). The idea here is to see if you can pay tax now at a lower tax rate and avoid paying tax later when the tax rate might be higher.



No doubt, this virus situation has forced us all to re-consider how we do things. Take this opportunity to make your financial situation a little better than it was!

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