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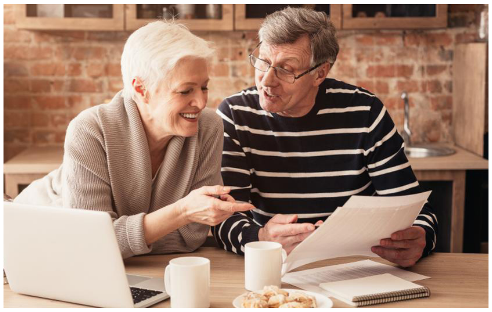
CONSIDER THESE THREE STRATEGIES IF SECOND STIMULUS FUNDS ARRIVE



By: Chris Carosa - June 19, 2020

You live in a world at odds with itself. One day the economy looks good and the market's up. The next day the economy is doomed and the market's down. If this concerns you, rest assured you're not alone.

"The world still hasn't returned yet to its normal routines," says Ryan Moore, Founder and CEO of Kingman Financial Group in San Antonio. "Many people are still struggling with not only fear, but also opportunity. A second stimulus package would allow many to remain safe and plan a little further ahead."

While nothing is sure in Washington until an actual bill is signed into law, there's been talk of a coming second stimulus among all parties, from the President to the leaders of the House and Senate. Even the Federal Reserve recently sent out signals that we shouldn't expect a quick turnaround.

"With unemployment the highest since the Great Depression, ordinary people are hurting," says Michael Tove, President of AIN Services in Cary, North Carolina. "Clearly, they need help and a second stimulus package would provide some relief. If there is a second stimulus package, retirement savers, like anyone struggling financially, need to be mindful of how to use the funds."

One thing to consider within the context of a second stimulus is its ability to yield a significant positive long-term impact via strengthening retirement saving. "Anything that makes it easier for employers to continue matching and other employer contributions will help the retirement security of Americans," says Stacey S. Hyde of Envision Financial Planning in Memphis.

You shouldn't overlook this. It's too easy to get distracted by the headlines that will surround the passage of a second stimulus bill. The very concept of "stimulus" entails spending. A stimulus, by definition, provides an immediate shot in the arm to the economy.

But you don't have to (and maybe shouldn't) limit your thinking to the short-term. By allocating any money received through a new stimulus to your retirement, you'll be helping yourself live more comfortably when you do retire.

"Should a second stimulus package pass, it's important for retirement savers to ensure that every incoming dollar has a purpose in mind," says Michele Lee Fine, Founder and CEO of Cornerstone Wealth Advisory in Jericho, New York. "It could be earmarked for short-term living expenses and opportunities, or long-term savings and growth. While many have been understandably nervous about their cash flows and income, this second proposed stimulus package could be positioned mostly or all for retirement. Money grows in two ways, either 'man at work' or money at work. If incomes are lower now because of lower revenues, sales or opportunities, then it's important to be even more mindful of how much you're saving, spending and putting away for the future."

Even though you may not know what form a second stimulus package might take, you serve yourself best by preparing for all scenarios. For example, the stimulus can be a direct payment. It could be an indirect payment like a payroll tax deduction. If might also appear under the guise, as it was in the first stimulus, as a way to take premature distributions from your retirement account.

"There are a few strategies retirement savers could consider," says Paul Swanson, VP Intermediary Distribution at CUNA Mutual Retirement Solutions in West Chester, Pennsylvania. "If individuals used payments from the first package to help with immediate needs, they could consider using any payments from the next one for future retirement needs. If relief comes in the form of a payroll tax reduction, it will be easy for this to be absorbed into a normal monthly cash flow. Look closely at how much extra is in each paycheck and purposefully set that excess aside (whether it is systematically invested or accumulated for a single investment later). If a second stimulus package offers easier access to retirement accounts like the first package, individuals should be sure to use those options as a last resort to prevent financially hurting their future retirement self."

Regardless of how any second stimulus plan is worded, the bottom-line is you'll be seeing more money coming into your bank account. Here are three strategies to think about before the money arrives. Considering them now makes it more likely you'll be making the prudent financial choice and not a knee-jerk decision when the money suddenly appears.

Strategy#1: Plug The Leak By Addressing Current Needs

Look, you can't eat future returns. If there are immediate needs, take care of those first. "Anyone who receives stimulus money should prioritize its use to first pay for essentials such as food and utility bills," says Tove. "Depending on individual circumstances, any money left over should go toward reducing debt, especially high interest debt."

You may have been thinking of tapping into your existing retirement plans for needed cash. Alternatively, you might be thinking your cash flow situation requires you to quit diverting a portion of your paycheck towards retirement saving. A second stimulus, if used instead to pay for these urgent expenses, will allow you to continue to keep plugging away at saving for retirement.

"If possible, do not lower or stop your retirement contributions," says Jason Field, Financial Advisor at Van Leeuwen & Co. in Princeton, New Jersey. "Use the stimulus for everyday expenses instead of not saving for retirement. Investing the stimulus would be an ideal long-term strategy, even if that is not what the Congress intended. Try to avoid spending all the money on a big purchase that is not necessary, especially if cash is tight around the house. Don't look at another stimulus as 'free money,' rather think of it as money you earned that the government is letting you have back."

Strategy #2: Prevent Unexpected Leaks By Building Up An Emergency Fund

You might not have a pressing need right now, but what happens if you have one in the future? That's what your emergency fund is for. If you don't have a sufficiently endowed emergency fund, that could be something you could use your second stimulus money for.

"If the money is not needed for bills, step one is to fund your cash emergency fund," says Dennis Morton, Jr., Founder and Principal at Morton Brown Family Wealth in Allentown, Pennsylvania. "Liquidity is king at times like this so don't rush to over fund retirement plans now if the budget will be tight. There will be time to make up later."

Your second focus, therefore, is to fill the coffers of your rainy day fund. Most financial planners say you'll need to have anywhere from six to eighteen months' worth of expenses in your emergency fund. You may need more (though probably not less). It all depends on your specific circumstances and the level of cash flow risk you might be exposed to.

Once you've accomplished this, then you can look at the third strategy. "For those who are still working and/or already have a good amount in an emergency fund, a second stimulus could be put toward an IRA contribution in part or full of the amount received in the stimulus," says Craig Mazzini, Institutional Retirement Consultant at Unified Trust Company in Lexington, Kentucky.

Strategy #3: Grow Your Retirement By Meeting Your Company Match Or Contributing More

This strategy is similar to the Christmas Bonus strategy. You never can count on a Christmas Bonus because, well, that's the whole point of a bonus. You only get it if things happen (like record sales) and you won't know for sure that those things will happen until they happen. As a result, you don't (and shouldn't) include any potential Christmas Bonus when building your annual cash flow budget.

It's the same thing with the second stimulus money. It's a bonus, an unexpected gift. You can spend it all on a soda (and perhaps Krabbie Patties), but you're better off using it to your long-term advantage. And, by all means, think twice before biting that hook with the wormy premature withdrawal on it. That defeats the whole benefit of compounding.

"If possible, continue to make contributions to retirement accounts and try to avoid taking distributions other than Required Minimum Distributions," says Robert Sichel, Partner at K&L Gates in New York City.

Indeed, the nature of the stimulus might produce an immediate additional bonus you're not even expecting, but only if you use it to save in your retirement account.

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