COVID-19: What Should I Be Thinking About Today?

The coronavirus pandemic has turned the markets – and our daily routines – upside-down, with few signs that either will be returning to “normal” anytime soon. So what should you be thinking about now when it comes to your money? Here are some suggestions on how you can regain some financial control in these unprecedented times.

Assess Your Immediate Cash Needs

Use this time to re-evaluate your budget and sources of income. By taking stock of your most pressing financial needs and how your monthly expenses have changed, you can start making plans that better reflect the times we live in.

- *Has your spending changed during the crisis?* If you’re stuck at home, chances are you’re not spending as much money on entertainment, such as concerts, movies and dinner out. If you find you have additional room in your budget, consider moving that extra cash to your retirement accounts or increasing the buffer you’ve built up in your emergency fund.
- *Have shelter-in-place orders affected your income?* Thousands of businesses across the country have reduced hours, furloughed employees or even gone out of business due to the COVID-19 pandemic. If you’ve seen a reduction in income due to the recent downturn, you’ll want to explore the resources available under the CARES Act and discuss your options with your advisor. If you need to generate additional cash, you and your advisor can discuss where it might make sense to sell positions from your taxable investment accounts.
- *Do you need to change your short-term plans?* If your immediate plans involved making a major purchase, financing an education or entering retirement, take a moment to re-evaluate against the current backdrop. Depending on your situation, you might be able to

proceed as planned, or you might be better off revisiting your time horizons and expectations. If the current environment is causing you to course-correct, remember: Smaller changes to your budget for a longer period of time tend to be more successful than a one-time, drastic cut to spending. In other words, you'll likely see a better outcome making a small decrease in spending of 2–5% over the long term than a one- or two-year spending cut of 20–30%.

Explore Debt Refinancing

In response to the COVID-19 pandemic and unexpected price war between two foreign oil superpowers, the Federal Reserve cut interest rates to 0%, prompting many banks to lower their own interest rates in turn.

If you have outstanding debt, this could be an opportunity to refinance on more favorable terms. Here are some suggestions before you do:

- If you have outstanding credit card balances at high interest rates, it's worth considering transferring these balances to cards with lower rates. Just be mindful of your ability and tolerance to open new lines of credit – this strategy is not suitable for everyone.
- If you have healthy credit, you might want to consider a personal loan. They tend to carry lower interest rates than credit cards and may be an option to help pay down current balances.
- If you or a member of your family has been impacted by COVID-19, you might consider paying off outstanding debt through a penalty-free withdrawal from an existing retirement plan. While this strategy has a three-year repayment timeline, you would be giving up growth on your retirement savings, so you'll want to consider it in your financial plan to see if it's right for you. Be sure to consult with your Baird Financial Advisor before making any decisions.
- With mortgage rates below 4%, this might be an ideal opportunity to lock in a lower interest rate and reduce your monthly mortgage payment. Before you commit to refinancing, though, make sure it's right for your personal situation. For example, while a half-point shift in interest rate can help free up cash, you should be mindful of the fees that can come with it, such as appraisal, application and loan origination fees. Especially if you have any plans to sell in the next few years, refinancing may not be worth the short-term benefit.

Stay on Top of Changes to Higher Education

With the passage of the CARES Act and so many college students now learning from home, it's worth reviewing how the virus has affected student loan and education expenses.

- *Your federal loan payments have automatically stopped.* Federal student loan borrowers have automatically been placed in an administrative forbearance until September 30, 2020, meaning you can stop making payments without risk of default or added interest.

Any suspended payments will still count toward income-driven repayment plan (IDR) and public service loan (PSL) forgiveness.

- *For certain federal loans, the interest rate has temporarily been reduced to 0%*. If you have a direct loan (defaulted or nondefaulted), an FFEL Program loan (defaulted or nondefaulted) or a Perkins Loan, your interest rate has been automatically reduced to 0% until September 30, 2020. Note that this only applies to federal loans.
- *If your college student moved home and you were refunded room and board, you have some decisions to make.* If you withdrew funds from a 529 account that were since refunded, you run the risk of paying taxes and penalties on the distribution. You would have three options to avoid taxes and penalties in this scenario: apply the room and board reimbursement money toward rent (note: living off campus includes living at home), apply the money toward other qualified education costs or recontribute the refunded amount back into your 529 plan within 60 days. Your specific 529 plan would have more details.
- *Your state's 529 contribution deadline might have changed.* If you contributed to a 529 plan or took a 529 withdrawal last year, you'll need to reconcile your tax filings. While the passage of the CARES Act pushed the due date for your federal tax returns to July 15, not all states have followed suit. Your state's tax-filing deadline can be found on your state's Department of Revenue website, and your 529 contribution deadline can be found on the 529 plan's website. Your Baird Financial Advisor can also provide some guidance here.

Stay Vigilant Against Grifters

No matter how dire the situation, it seems there will always be scam artists using it as a pretense to steal your money or identity. The COVID-19 pandemic is, unfortunately, no exception. Here are some tips on how you can stay safe:

- *Be wary of communications from a governmental agency or health organization.* Soon after the crisis started, scammers started sending out fraudulent communications pretending to represent such legitimate organizations as the Social Security Administration, the Department of Health and Human Services, the World Health Organization and the Center for Disease Control. If you think the communication might be legitimate, verify independently (using phone numbers or URLs not provided in the original communication) before proceeding.
- *Watch for the warning signs.* Two things nearly all fraudulent communications have in common: They want you to reveal personally identifying information (such as your Social Security number, financial information or usernames and passwords), and they want you to take action immediately. Be suspicious of any communication issuing you a "warning" and urging you to "act now."
- *Hover before clicking.* Most email programs will allow you to access additional details simply by moving the mouse over something you'd otherwise click on. By hovering over links or the sender's address, you might receive more information verifying or refuting the communication's legitimacy.

It seems with each passing day, new uncertainties arise over the human and economic toll of the COVID-19 pandemic.