Navigating The COVID-19 Pandemic: How To Deliver Value For Clients

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We've all heard about the "New Normal", but what does that mean? What does the future hold and what can we do to make sure our profession and our clients are prepared? It's clear that your services as a financial advisor are needed now more than ever before. Luckily, the AALU/GAMA team is here to help! The following piece will help guide you in your financial advice to your clients to ensure minimal pain and alterations to their savings and planning goals.

Advisor Checklist: Order of Operations

Topline: It is important to be sensitive to client needs, and to reassure them that we are all in this together. Clients are hungry for information in the current environment, and advisors should utilize all media channels. Our **COVID-19 Action Center** has a number of resources that explain how to access the programs established by recently passed legislation.

First Line Concerns:

>> Business As Usual: If the client's financial situation has not changed and income is stable, keeping with the current plan is the first priority. Emotionally connecting with our mutual felt stress will allow the client to continue all current strategies – savings, debt repayment, and spending.

>> Steps if Cash Flow has been Impacted:

1. Reduce Spending: Reducing variable costs is the first line of budget defense in this crisis. Entertainment and travel expenses will naturally be reduced, but Amazon and other convenience services are all too easy to rack up. Utilize an aggregator tool like Money Guide Pro or e-Money to help track your client's spending.
2. Debt Deferment: The CARES Act allows debt deferment for items such as student loans and mortgage payments, with no adverse impact on credit ratings.
    a. **Student Loans:** Federal Student loan payments have been automatically suspended until September and all accruing interest waived. Privately refinanced student loan lenders are also offering 60-day deferments. Borrowers must contact these lenders and specifically note they have been impacted by COVID-19 and are requesting 60-day deferment.
    b. **Mortgages:** Mortgage companies are suspending payments for up to 60 days, potentially even longer in some cases, which are tacked on to the end of the loan, as opposed to a balloon payment at deferment end. Interest suspensions are up to lenders, though it is safe to assume interest will still accrue.
    c. **Credit Card/Consumer Debt:** Credit companies should be contacted for more details. They vary widely in their deferment COVID-19 policies.

3. Savings Rates: The last resort item is to reduce savings rates.
    a. **Cash Transfers:** Reduce any cash transfers from checking accounts to money markets or cash savings instruments. Cash sent automatically from a paycheck to a money market account can be stopped or directed toward a primary checking account.
    b. **Qualified Plan Contributions Above The Match:** Reduce 401(k)/403(b) contributions to the match. Contributions can be made up later in the year.
    c. **Non-Qualified Investments:** Reduce, not eliminate, non-qualified equity savings. Now is the opportunity to buy low.
    d. **Permanent Life Insurance:** Consider using APL or policy loans to fund premiums if cash flow is extremely restricted. It is wise to establish a line of credit for the client for peace of mind.

Other Considerations:

- Young Americans over the age of 17 that have not filed a W-2 for 2018 or 2019 are still eligible for the $1,200 rebate payments. The IRS has set up a website where individuals can apply: **https://www.irs.gov/coronavirus/non-filers-enter-payment-info-here**.
- For those receiving rebate checks in the mail, make sure the IRS has the correct address on file.

Getting Over The Hurdle: Helping Clients Avoid Mistakes & Continue Planning

The key in this environment is to help clients overcome their fears, especially the tendency to rush into cash. Even families with significant cash reserves often express an interest in increasing liquidity during a crisis. Yet this is rarely the best policy. Emergency savings are meant to be spent in an emergency, and the current pandemic certainly qualifies. Marketplace opportunities remain, including the option to buy low on assets.

- Avoid Asset Sales: Given the recent volatility in the market, clients want to avoid selling assets and locking-in losses unless it's absolutely necessary.
- Avoid Withdrawals from Qualified Plans: The CARES Act provides incentives for investors to access funds in qualified plans, but this should be a last resort. There are tax consequences to pulling out the funds, even if recontributed, in addition to the opportunity costs. Replacing money in a qualified plan is likely one of the last things an investor would do, and removing that money from an account that allows for tax-free growth can costs investors tens or hundreds of thousands of dollars over a lifetime.
- Make Clients Aware of Life Insurance Options—Policy Loans: Many clients are unaware that they can take an interest-free loan from a permanent life insurance policy up to basis, or they have forgotten since the initial purchase—accessing instant cash. Make clients aware of their options, ask if they need access to funds, and walk them through the possibilities. Policy loans can be used to make payments that would have come from asset sales or qualified plan withdrawals, including the payment of life insurance premiums to avoid lapse and covering payroll while waiting on SBA loan assistance or other funding options.
- External Lines of Credit: If policy loans are unavailable, many banks will extend a line of credit based on the value of a permanent life insurance policy. These can be set up for businesses, which means that interest expenses are deductible. Clients will have access to an interest-free checkbook as a safety valve.