
Covid-19: Meeting Immediate Financial Needs

The Covid-19 pandemic currently sweeping the world has left many Americans struggling to make ends meet. While the federal government works to create, and then implement, a longer-term relief package, many immediate financial needs can be met from two primary sources: (1) personal financial resources, and (2) existing government relief programs.

Personal Financial Resources

Potentially, there are a number of personal financial resources that might be used¹:

- **Personal savings:** Some individuals will have personal savings (an emergency fund) that will allow them to survive financially for a period of time.
- **Credit cards and existing personal lines of credit:** Those with credit cards and other existing lines of credit (a home-equity loan, for example), may be able to access these resources to pay bills. Un-employed borrowers will likely find it difficult or impossible to establish new borrowing arrangements.
- **Cash value life insurance:** Certain types of life insurance policies develop “cash values” which the policy owner can access through withdrawals (a partial or complete policy surrender) or policy loans.²
- **Deferred annuities:** Many deferred annuities allow an owner, prior to annuitization, to withdraw all of the funds in the annuity (complete surrender), although a surrender charge may apply. Partial withdrawals may also be allowed, sometimes without a surrender charge.³
- **Withdrawals from retirement plans:** Some individuals may be able to withdraw funds from retirement plans such as IRAs or 401(k)s. With the recent, significant market declines, this may not be the best time to sell retirement assets. For those under age 59½, there may also be an additional 10% federal penalty tax, unless an exception applies.

¹ Some of the options discussed here have federal income tax implications. State or local income tax law may vary.

² Policy withdrawals will reduce the death benefit available under a policy. If an insured dies with a policy loan outstanding, the policy’s death benefit is reduced by the amount of the loan balance. Excess use of withdrawals and policy loans can result in a policy lapsing; such a lapse can result in unexpected, negative income tax consequences.

³ Funds withdrawn from an annuity prior to annuitization are considered to be made from interest or other growth, taxable as ordinary income. If the annuity owner is under age 59½ at the time of the withdrawal, a 10% federal tax penalty may apply to the earnings, unless an exception applies. Withdrawals from the owner’s initial investment are received tax-free.

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Personal Financial Resources (continued)

- **Existing disability insurance:** For those unable to work because of Covid-19, an existing disability insurance policy, either a group or an individual policy, can provide at least a partial replacement for lost income.
- **Ask for forbearance:** Recognizing the nature of the current crisis, a landlord or other creditor may be willing to temporarily forgo or suspend rent or other debt repayments. It doesn't hurt to ask.

Existing Government Relief Programs

There are a number of existing government relief programs, usually administered by state or local governments, which may come into play. Note that the benefits available, the requirements needed to qualify, and the benefit amounts payable will vary from locality to locality.

- **Unemployment insurance:** Individuals who have lost a job or had hours reduced because of COVID-19 may be entitled to file a claim for unemployment insurance. This could also include a parent forced to stay home to care for dependent children because of a school closure.
- **Disability Insurance:** A worker who is unable to work because of being ill or due to a COVID-19 quarantine may be entitled to file a disability insurance claim.
- **Paid family leave:** An individual who is unable to work because he or she must provide care for a medically ill or quarantined family member because of COVID-19 may be able to claim paid family leave.

Seek Professional Guidance

A panicked response to the current crisis may create unforeseen problems which will last long into the future. The advice and guidance of appropriate financial, legal, and tax advisors is strongly recommended.