Things to consider before touching your retirement savings

On March 27, 2020, the CARES Act was passed. This legislation allows individuals to borrow against or withdraw funds from their workplace retirement savings plans — such as the Concordia Retirement Savings Plan 403(b). Eligible participants faced with a COVID-19 related financial hardship are able to take an early withdrawal from their retirement savings accounts without the normal 10% early withdrawal tax penalty.

If you are experiencing financial stress, this may seem like a quick fix. But before making any decisions to tap into your 403(b) savings, it is important to understand the consequences of a distribution and consider alternatives. To help you make an informed decision, we want to highlight some things to consider before you make a withdrawal from your CRSP account or other retirement savings accounts.

- **Long-term strategy.** You invest retirement savings with the intention of providing the income you need in retirement, with a timeline based on your potential retirement date. Funds are invested over a long-term horizon, stretching through your working years to retirement. Cashing out in times of economic stress may mean selling your investments when they're at lower values (or prices) which may reduce your long-term investment strategy.

- **Potential lost gains.** Taking money from your retirement plan today means the money will not be able to grow to fund your future needs. Not only is your eventual account balance reduced by the amount you withdraw, but it's also reduced by the potential interest, dividends, and/or investment gains on the withdrawn funds. That can account for a meaningful portion of your account balance not being there in retirement.*

** You could withdraw $10,000 today. But what if you left that money in your retirement savings? Let's say you keep the $10,000 invested over the next 20 years and earn an assumed rate of return of 6% per year. Your potential accumulations could exceed $30,000! Ask yourself if an early distribution is worth missing out on thousands of dollars in potential growth.*

- **Tax factor.** Even though the 10% early withdrawal penalty is waived, the distributions are still taxable. The CARES Act allows plan participants to spread this tax burden over three years or replace the money withdrawn over the next three years to avoid these taxes. But be careful — failure to do so could result in unplanned tax liabilities. You should carefully consider the tax ramifications of early retirement withdrawals and seek professional tax advice as appropriate.

- **Saving for retirement.** Financial disruptions make it hard or impossible to save for retirement. If you withdraw funds now, will you be able to increase your saving rate enough to make up for the withdrawn money and the lost gains? Removing the assets may also further extend the duration of your working years.

Liquidity Checklist:

Before taking a withdrawal from your CRSP account or other retirement plan, consider the following options to help bridge a financial gap caused by COVID-19:

- [ ] Learn more about the CARES Act and the potential financial benefits that could be applicable to you, such as potential one-time payments to individuals and families, and mortgage and federal student loan payment relief options.
- [ ] Apply for unemployment benefits on your state's website. Almost everyone who has lost their income due to the COVID-19 outbreak qualifies for expanded federal unemployment benefits.
- [ ] Inquire about payment deferrals by reaching out to lenders on any loans you have including mortgages, auto loans, student loans, credit cards, etc. – before a payment is missed.
- [ ] Reach out to other companies to make monthly payments including utilities, cable and internet providers, cellular phone providers, and insurance companies to learn if they are offering deferred or modified payment arrangements.
- [ ] Take a look at your budget; can you cut out any unnecessary expenses?
- [ ] Use your Health Savings Account to help with eligible medical costs.
- [ ] Access your emergency funds *before* your retirement funds – you set it aside for a reason!
- [ ] Consider a loan against your CRSP account. A loan may help ensure the money is put back into your account, with modest interest. With a repayment schedule you may be more likely to repay the withdrawn amount than if you didn't have a repayment strategy.

We're here to help!

Don't try to navigate these rough financial waters alone, reach out to one of our Financial Wellness Educators if you have additional questions or concerns about your financial health: **MoneyMatters@ConcordiaPlans.org**.