



This Publication Brought To You Courtesy Of:

STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER,[™] Practitioner

4225 Executive Square, Suite 1030
La Jolla, California 92037-1486
Phone: (858) 678-0579 • Fax (858) 546-0792

www.CarterFinancialLLC.com



CLIENT BULLETIN

Fiscal Stimulus March 2020

➤ *Uncle Sam To the Rescue*

Congress passed and President Trump signed into law the largest economic relief bill in U.S. history late last week, a \$2.2 trillion whopper called the “Coronavirus Aid, Relief, and Economic Security Act” or “CARES Act” (<https://www.documentcloud.org/documents/6819239-FINAL-FINAL-CARES-ACT.html>). The intent is to combat the devastating effects of COVID-19 and social distancing on the U.S. economy and provide a financial bridge to people who are economically at risk (source: www.congress.gov).

➤ *Just a Band-Aid*

The measures in the CARES Act cannot prevent the economy from falling into recession, nor can they prevent the unemployment rate from soaring in the weeks and months ahead. The goal is to put the economy in a state of “suspended animation” by allowing unemployed workers to pay their bills and help large and small businesses avoid bankruptcy despite being deprived of revenues. It should be noted that the one-time stimulus checks and temporarily enhanced unemployment benefits appear to be based on the hope that the need for social distancing will fade substantially by the summer. If this does not turn out to be the case, we expect that Washington will follow up this bill with a further fiscal package to maintain workers and businesses. The goal is to get through to the point where social distancing has its intended effect and/or medical science can produce and distribute a vaccine.

➤ *Stop the Bleeding*

For the economy, this bill could help limit the damage to upcoming Gross Domestic Product (GDP) reports and limit the rise in unemployment. It is worth noting however, that one provision in the bill could actually **increase** unemployment. The **average weekly unemployment check** paid in **January** of this year was **\$385**. The CARES bill adds \$600 to each of these checks through July. For many workers, this could make their unemployment benefits exceed their normal working income which could provide a temporary incentive for the employee (in conjunction with their employer) not to work. Unintended consequences like this are unavoidable in an 880-page bill drafted in a couple of weeks (source: www.congress.gov).

➤ ***The Main Provisions***

- One-time stimulus checks amounting to \$1,200 per adult and \$500 per child up to certain income limits, to be distributed as soon as possible.
- \$250 billion to be spent on expanded and extended unemployment benefits, adding \$600 per week to every unemployment check for 4 months; expanding the program to cover contractors and the self-employed and extending the program to 39 weeks from 26 weeks.
- \$500 billion in a fund to help distressed businesses, cities and states. Includes \$25 billion for passenger airlines, \$4 billion for cargo airlines, \$17 billion for firms deemed important for national security and \$425 billion for other businesses, cities and states. All of this will be overseen by an inspector general and a congressional oversight committee.
- \$349 billion in small business relief, largely in the form of “forgivable loans” for spending on payroll, rent and utilities.
- \$150 billion in direct aid to state and municipal governments.
- \$340 billion in other spending, including \$117 for hospitals and veteran’s care.

(source: Congress.gov).

➤ ***Pay the Piper***

Of course, our federal government does not have \$1 available to help stimulate the economy, let alone \$2.2 trillion. They have been overspending for years and are \$23 trillion in debt. Now, however, is not the time to get on that soapbox with much economic pain to come and many people just trying to keep body and soul together. The bill will eventually come due, however. When the spending associated with the CARES Act is included, this year’s federal deficit will grow from the \$1.015 trillion (4.6% of GDP) projected just two months ago to well over \$3 trillion, more than 15% of GDP (source: Congressional Budget Office and Government Accounting Office).

➤ ***What It Might Mean to You***

The law is so long and wide-ranging that it will take some time to digest, but some of the provisions that may affect you personally include:

- Required minimum distributions from retirement accounts for people in their 70s or older are suspended for 2020.
- The IRS extended the deadline to file and pay 2019 taxes to July 15th, 2020.
- The deadline for making contributions to IRAs and Health Savings Accounts has been extended to July 15th.
- Americans can withdraw money from tax deferred accounts without penalties under the new law. Investors of any age may take as much as \$100,000 from retirement accounts this year without paying an early withdrawal penalty. Of course, taking money out of retirement accounts now puts someone at peril in the longer term. As a result, this particular provision should be used as a last resort only.
- 401(k) loan provisions are relaxed.

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