Get Back on Track After Financial Setbacks

The past 12 months have been pretty challenging for everyone, in one way or another. And if you've been affected economically by the COVID-19 pandemic, you're looking forward to brighter days. But how can you bounce back from a financial setback?

Here are four key steps:

• *Replenish your emergency fund.* In normal times, you should ideally keep three to six months' worth of living expenses in an emergency fund, with the money held in a liquid account. This fund can be used to pay for unexpected costs such as a large medical bill. But the past year has not been normal. If financial circumstances forced you to tap into your emergency fund to meet daily expenses, you may now want to rebuild this fund, assuming you have once again reached a degree of economic security. You don't have to rush to replenish the full three to six months' worth of expenses all at once – just try to put away money gradually each month. And even relatively small amounts of savings can help boost your financial stability.

• *Reduce your debt.* Pandemic-induced financial pressures may have led you to take on more debt than you'd like. Nonetheless, don't be discouraged – your situation can be greatly improved with patience and discipline. First, assess how much debt you have and determine where it's coming from – credit cards, student loans, car payments and so on. Then, develop a repayment plan you can manage, starting with the highest-interest-rate debt. However, while it's important to pay down your debts, you still may want to prioritize your emergency savings, perhaps by putting away at least a minimal amount, such as $500. And you'll also still want to contribute enough to your 401(k) or similar plan to earn your employer's matching contribution, if one is offered.

• *"Recontribute" to your retirement plans.* As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act last year, if you were financially affected by COVID-19, you could withdraw up to $100,000 from your IRA or 401(k) without incurring the typical 10% early withdrawal penalty if you were younger than 59½. In addition, the amount withdrawn can be included in income over three years, allowing you to spread the taxes due over this three-year period.

While you aren't required to "recontribute" these funds, you may want to do so – for a couple of reasons. First, by repaying some or all the funds taken out, you can reduce your tax liability. And even if the withdrawal was not taxable, as is the case for Roth IRA and Roth 401(k) accounts, under certain conditions, you'd benefit by making the recontribution, because the money would then resume its potential tax-deferred growth. The longer the money sits outside your retirement accounts, the slower your progress toward your retirement goals.

• *Revisit your retirement plan contributions.* You may want to resume your schedule of regular contributions to these accounts, if it was indeed interrupted. And, again, you don't have to instantly reinstate the largest possible contributions. Even if you start by investing smaller amounts, it can ultimately help you accumulate valuable resources for the retirement lifestyle you've envisioned.

It's never fun to go through financial stress. But by making the moves described above, you can show the resilience you need to get back on track toward all your important goals in life.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

April 5, 2021
553 words