MARKET COMMENTARY MARCH 27, 2020

How the U.S. Economic Stimulus Package May Affect Investors

By Schwab Center for Financial Research

Congress this week approved a $2.2 trillion economic stimulus package, which the president signed on Friday. Will it rescue the economy?

The huge spending package will help, but it’s hard to gauge its ultimate effectiveness when the severity of COVID-19’s economic impact remains to be seen, says Schwab Chief

Investment Strategist Liz Ann Sonders.

“Fiscal ‘stimulus’ at this stage is really a rescue or triage mission,” Liz Ann says. “It’s unlikely to actually stimulate growth, at least until the country is no longer shut down. Rather, it is meant to cushion the economic blow from the virus-containment policies.”

That said, it was important for the federal government to act quickly and decisively, Liz Ann says.

“Estimates are that the plan will add up to 10 percentage points to real gross domestic product, but that’s likely to be swamped by the expected decline in GDP, at least in Q2,” Liz Ann says.

The 880-page Coronavirus Aid, Relief and Economic Security (CARES) Act includes multiple provisions that will affect Americans and markets. Major features include:

- direct payments of $1,200 to individuals ($2,400 to couples), plus an additional $500 per child, for individuals earning less than $75,000 ($150,000 for couples);
- increased and extended unemployment benefits;
- more than $375 billion in grants and loans for small businesses;
- up to $500 billion in aid for large businesses, including $25 billion set aside for airlines;

- $150 billion for states and municipalities;
- $180 billion for hospitals and other public-health purposes.

Below, Schwab experts provide their perspective on how some of the hundreds of provisions in the 880-page legislation are likely to affect investors or the markets.

TOPIC	DETAILS	SCHWAB EXPERT PERSPECTIVE
RMD waiver	Required minimum distributions (RMDs) from retirement accounts are waived for 2020.	“RMD amounts are calculated based on the value of the account at the end of the previous year. Because most accounts have seen a steep decline in 2020, the amount of the required withdrawal would have been a much larger percentage of a retiree’s account. Congress recognized that and made the decision to allow retirees to keep that money in their accounts, potentially recouping some of the

		market losses when the economy turns around. No retiree will have to take an RMD from either an IRA or a 401(k)-type plan this year." *-**Rob Williams**, VP for Financial Planning, Retirement Income and Wealth Management, Schwab Center for Financial Research (SCFR)*
Hardship withdrawals and loans from retirement accounts	Consistent with past disaster-related legislation, the draft would waive early-withdrawal penalties on coronavirus-related distributions from retirement accounts up to $100,000. It would allow tax payments on distributions to be spread out over three years and would allow individuals to return distributions to the retirement account over three years, with	"This provision offers individuals impacted by the coronavirus an opportunity to take what's known as a 'hardship withdrawal' from their retirement account without the usual penalties that come with early distributions. Individuals would still have to pay taxes on that withdrawal, however, the taxes would be spread over three years. While it is positive that

such redeposits not subject to annual contribution limits.

The bill also increases the limit on loans from certain retirement plans from $50,000 to $100,000, and allows borrowers to skip payments for 2020, thereby extending by one year the repayment timeframe.

individuals have this option, it's important to realize that just because you *can* make a withdrawal does not mean you *should* take one. The tax implications are potentially significant. Individuals should only use this option as a last resort. Consider other potential sources of funds before withdrawing from your retirement savings. Doing so could put you significantly behind in your retirement saving goals.

As for retirement plan loans, you pay no taxes on the amount you initially receive. However, if you're not able to pay back the loan—with interest—in the time allotted, a big tax bill could be due. Savers should use caution before utilizing this option and consider tapping other assets within their

		bank or brokerage account first." – ***Hayden Adams,*** *Director of Tax and Financial Planning, SCFR*
$150 billion for states and municipalities	The bill includes $150 billion earmarked for direct aid to the states. States will each receive at least $1.25 billion in aid, and that number will rise depending on the population of each state. The bill also gives the Federal Reserve the authority to provide up to $454 billion in loans, loan guarantees and other investments to provide liquidity to the financial system to support states or municipalities by purchasing new issues or secondary issues, or making	"The direct aid to states should also help support the municipal bond market. Presumably states would use those funds instead of having to issue bonds to fill budget gaps. The size of the Federal Reserve's authority to provide loans and other support to states and municipalities should help some states and municipalities address financial pressures, potentially lowering borrowing costs. In addition, the Federal Reserve is authorized to accept municipal securities

loans secured by collateral.

with short-term maturities as collateral for loans under the Money Market Mutual Fund Liquidity program. This is already helping to bring liquidity to the market for short-term municipal notes."

-***Kathy Jones***, *SVP and Chief Fixed Income Strategist, SCFR*

Aid for small companies	The bill includes $377 billion in loans and grants to small businesses. Loans would be forgiven if the company keeps employees on the payroll for the duration of the crisis.	"About half of all Americans work in companies with 500 employees or fewer, and it's those small businesses that have been hit hardest by the restrictions in place in so many parts of the country. Extending cash and credit to these businesses is critically important because many have little to no cash cushion and limited access to credit." *–**Liz Ann Sonders**, SVP and Chief Investment Strategist, Charles Schwab & Co.*

Aid for large companies	The bill provides $454 billion in loans large businesses (as well as states and municipalities) whose operations have been impacted by the coronavirus. For corporations who receive a government loan, there will be stipulations about stock buybacks and limitations on executive bonuses. There are additional funds specifically for companies deemed critical to national security, as well as funds for airlines, airline contractors, and cargo carriers.	"The Federal Reserve will use these funds to help launch the two new credit facilities meant to help the investment-grade corporate bond market function properly. The additional aid for airlines and those deemed critical to national security may help some of those companies with sub-investment-grade ratings that have not been able to borrow money due to lack of demand or surging borrowing costs." *-**Collin Martin**, Managing Director and Fixed Income Strategist, SCFR*
Expansion of unemployment insurance	The new rules ease the application process for benefits, which can be done from home online or via telephone. Individuals can apply	**"**As many as 50% of Americans live paycheck-to-paycheck or have little to no emergency savings. The expanded

through their state. Each state runs its own unemployment insurance program.

The bill also eliminates waiting periods, so that unemployment benefits reach affected workers more quickly. It gives states greater flexibility to address coronavirus-related unemployment, to account for employers that are temporarily closed and employees who are quarantined or who must leave a job to care for a family member. In addition, federal law does not require an employee to quit in order to receive benefits due to the impact of coronavirus.

When in doubt, contact your state for details.

unemployment benefits, combined with direct payments to low- and middle-income Americans, will help cushion the blow of the sudden changes so many Americans are experiencing."

-Liz Ann Sonders

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