

# Financial Update

## Ideas and Action Steps for Achievers



**Les Jepsen**  
**Jepsen Financial**  
8075 9th Street Way N • Saint Paul • MN • 55128  
651-264-1979  
jepsenfinancial@gmail.com • JepsenFinancial.com

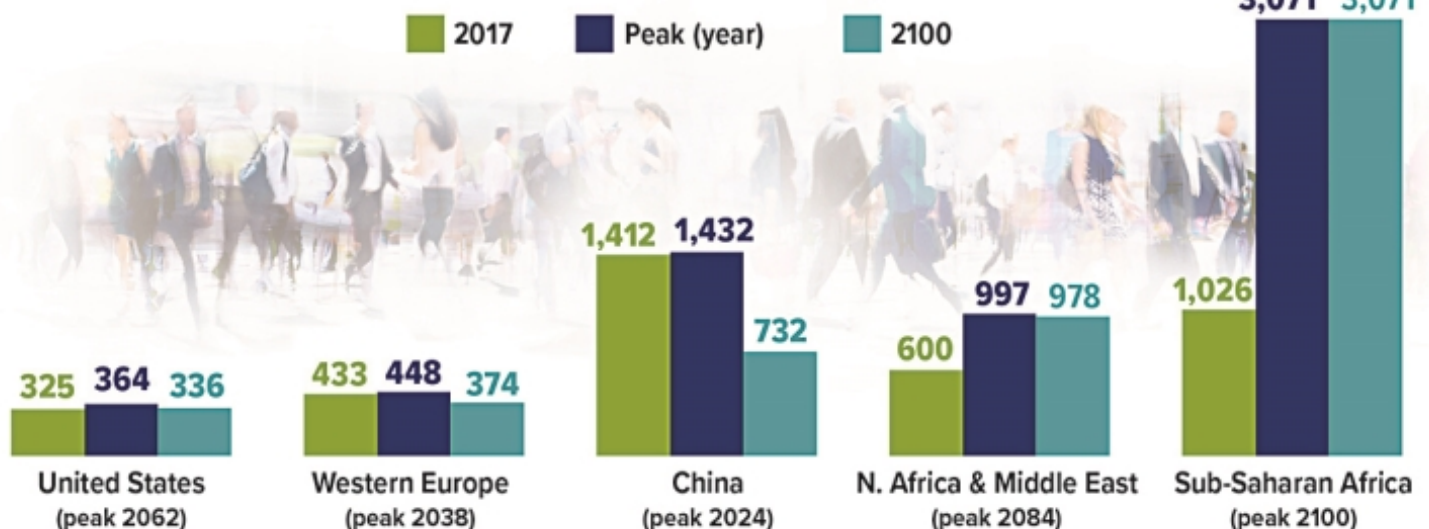


## Population Peaks

Global population is projected to peak at 9.7 billion in 2064 and decline to 8.8 billion by the end of the century, according to a study from the University of Washington Institute for Health Metrics and Evaluation. The reversal of population growth — already in progress in some countries — is due primarily to women's better access to education and contraception.

By 2100, 183 of 195 countries will not have fertility rates necessary to maintain their current populations, with 23 countries shrinking by more than 50%. By contrast, the population of sub-Saharan Africa is projected to triple, and almost half the world's population will live in Africa and the Middle East.

Population of selected countries and regions, in millions



Source: *The Lancet*, October 17, 2020

# A Financial Wellness Plan Can Help Pave the Road to Retirement

If we've learned any lesson over the past year, it's that no matter how carefully we plan and prepare, we'll likely encounter unexpected hurdles. While a global pandemic has certainly underscored the need to pay close attention to our physical wellness, it has also revealed the need to shore up our financial wellness.

According to PwC's 9th Annual Financial Wellness Survey conducted in January 2020, financial matters were the top cause of stress for employees even well before the pandemic hit in earnest. More than one-third of full-time employed millennials, Gen Xers, and baby boomers had less than \$1,000 in emergency savings. Only 29% of women said they would be able to cover their basic necessities if they found themselves out of work for an extended period, compared with 55% of men. And more than half of millennials and Gen Xers and 35% of baby boomers said they would likely use their retirement funds for something other than retirement, with most noting it would be for an unexpected expense or medical bills.<sup>1</sup>

Although tapping your retirement savings can help you get through a crisis, it can hinder your ability to afford a comfortable retirement. Having a plan to guard your financial wellness throughout your working years can help you avoid putting your retirement at risk.

## What Is Financial Wellness?

The Consumer Financial Protection Bureau (CFPB) defines financial well-being as:<sup>2</sup>

- 1) Having control over day-to-day and month-to-month finances. In order to achieve this, your expenses need to be lower than your income.
- 2) Maintaining the capacity to absorb a financial shock. This typically refers to having adequate emergency savings and insurance.

3) Being on track to meet financial goals, meaning you have either a formal or informal plan to meet your goals and you are actively pursuing them.

4) Having the financial freedom to make choices that allow you to enjoy life, such as a splurge vacation.

The CFPB has identified several key factors that contribute to an individual's ability to achieve financial well-being. Among them are: (1) having the skills needed to find, process, and use relevant financial information when it's needed; and (2) exhibiting day-to-day financial behaviors and saving habits.

## Assistance Is Available

Many employers have begun offering financial wellness benefits over the past decade. These programs have evolved from a focus on basic retirement readiness to those addressing broader financial challenges such as health-care costs, general finance and budgeting, and credit/debt management.<sup>3</sup>

If you have access to work-based financial wellness benefits, be sure to take time and explore all that is offered. The education and services can provide valuable information and help you build the skills to make sound decisions in challenging circumstances.

In addition, a financial professional can become a trusted coach throughout your life. A qualified financial professional can provide an objective third-party view during tough times, while helping you anticipate and manage challenges and risks and, most important, stay on course toward a comfortable retirement.

- 1) PwC, May 2020
- 2) Consumer Financial Protection Bureau, January 2015
- 3) Employee Benefit Research Institute, October 2020

## The Four Elements of Financial Well-Being

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Source: CFPB, September 2017

# Due Date Approaches for 2020 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2019 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate. The filing deadline for individuals is generally Thursday, April 15, 2021.

## Filing for an Extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*. Filing this extension gives you an additional six months (to October 15, 2021) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

## Due Dates for 2020 Tax Returns



**April 15, 2021**  
**To Do:**  
Most taxpayers must file tax return and pay tax or file for 6-month extension and pay estimated tax

**June 15, 2021\***  
**To Do:**  
Taxpayers living (or serving in the military) outside the U.S. on April 15, 2021, must file tax return and pay tax or file for 4-month extension and pay estimated tax  
\*Interest is due on taxes paid after the April filing date

**October 15, 2021**  
**To Do:**  
Taxpayers who filed for an extension must file tax return and pay any additional tax


Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

**Note:** *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic two-month extension (to June 15, 2021) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

## What If You Owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible.

If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

## Expecting a Refund?

The IRS has stepped up efforts to combat identity theft and tax refund fraud. More aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return. However, note that in 2020 the IRS experienced delays in processing 2019 paper tax returns due to limited staffing during the coronavirus pandemic.

So if you are expecting a refund on your 2020 tax return, consider filing as soon as possible and filing electronically.

# Tax Filing Information for Coronavirus Distributions

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation included a provision that allowed qualified retirement plan participants and IRA account holders to take penalty-free early distributions totaling no more than \$100,000 between January 1 and December 31, 2020. If you took advantage of this measure, here's what you need to know for tax filing.

## What Is a Coronavirus Distribution?

In order for a distribution to be qualified under the CARES Act, it must have been made to a qualifying individual before December 31, 2020. You qualify if you, your spouse, or dependents were diagnosed with the virus, or if you, your spouse, or someone who shares your principal residence experienced a pandemic-related financial setback as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of child care
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

## The Three-Year Rules

A key provision in the Act allows the distribution(s) to be spread "ratably" over three years for purposes of calculating tax payments. In other words, the total can be reported in equal amounts on your 2020, 2021, and 2022 tax returns. For example, if you received a

\$15,000 distribution, you could report \$5,000 in income for each of the three years. However, if you prefer, you can generally report the entire distribution in your 2020 tax filing.

Another provision allows you to repay all or a part of your coronavirus distribution to an eligible retirement plan within three years from the day after the date the distribution was received. Repayments will be treated as if you enacted a trustee-to-trustee transfer, and no federal income taxes will be owed. (A repayment to an IRA is not considered a rollover for purposes of the one-rollover-per-year rule.)

If you pay your income taxes prior to repaying the distribution, your repayment will reduce the amount of the distribution income you report in a subsequent year. Or instead, you may file an amended return, depending on your specific situation.

Consider speaking with a tax professional before making any final decisions.

## How to Report Distribution Income

If you received a coronavirus distribution(s) in 2020, you should use Form 8915-E, Qualified Disaster Retirement Plan Distributions and Repayments, to report the income as part of your 2020 federal income tax filing. You can also use this form to report any recontributed amounts.

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