5 Truths about Money During the Pandemic

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While many people talk about the health crisis brought on by the outbreak of COVID-19, that is not the only challenge causing stress. People are also worrying about their finances, both short-term and long-term. Recent statistics revealed that nearly 40 million people had lost their jobs since the pandemic began.

Here are 5 truths about money during the coronavirus pandemic:

The stimulus. In late March, U.S. President Donald Trump signed into law an unprecedented $2.2 trillion stimulus package to help keep the economy alive amid the deadly coronavirus outbreak that has shuttered countless businesses and put millions of Americans out of work. The Coronavirus Aid, Relief and Economic Security Act or CARES, contains $560 billion that directly benefit individuals in the form of cash payments of up to $1,200. The legislation also expands unemployment and paid sick/family leave benefits, waives penalties on some early retirement withdrawals, and offers student loan relief and protections for renters. The stimulus is widely seen as a lifeboat; in other words, a fairly short-term solution to financial problems. Advisors suggest that people should use the money to consider their personal-finance needs first, like paying bills and boosting emergency funds.

The impact. Experts, including Benjamin Lockwood, a Wharton professor of business economics and public policy, are worried about the impact that the coronavirus crisis will have on income inequality, which refers to the distribution of wealth and is also sometimes called the income gap. Typically, it means that there is a large gap between people who have money and those who don't. Will income inequality increase? For Lockwood, this question is especially important because even though America enjoyed record low unemployment before the pandemic, there were already economic red flags. An increasing number of people — about 40% of the income distribution — were a paycheck away from homelessness, hustling gig jobs without benefits, working without paid sick leave and living in a general state of financial despair. "Despite how good things looked at the outset, we were actually still pretty fragile in the face of something like this," Lockwood said. While the stimulus will help some people pay bills or pay for their car to get to and from work, the longer-term effects could cause that income inequality gap to widen.

Relief from retirement funds? Millions of Americans find themselves strapped for cash with reduced work or lost jobs as the coronavirus pandemic hurts the economy. The Coronavirus Aid, Relief and Economic Security Act offers some help with the promise of direct checks of $1,200 for individuals ($2,400 for couples) with an additional $500 for each child, and expanded unemployment insurance benefits. It also opens up a bigger cash window by waiving the 10% penalty on withdrawals of up to $100,000 from 401(k) accounts by those below 59.5 years of age. But should you actually use the money squirreled away in your retirement fund to help you get through this crisis? Olivia S. Mitchell, a Wharton professor of business economics and public policy who is known for her research on pensions and finances, cautions against it. "Withdrawing assets from retirement plans should be a last resort, done only after using up the household's emergency funds, taking a bank loan, or borrowing from family if possible," she said during an interview on the Wharton Business Daily radio show on SiriusXM. "It has tax consequences, and it may lead to a much poorer retirement." Those premature withdrawals will not just erode individuals' retirement nest eggs: Those who lose their jobs after they withdraw from those retirement funds will have to either repay that amount within three years or pay additional taxes.

Longer-term look. For many, the level of financial stress will depend on employment trends as the pandemic crises eases and the economy improves. Nothing is a sure thing, suggest researchers. Industries like the leisure and hospitality sectors have been especially hit hard (think hotels and restaurants). Wharton management professor Matthew Bidwell said, "It will take the economy "a while" before it bounces back to pre-pandemic levels. Many people are likely to be rehired after the social distancing restrictions ease up. However, Bidwell did not expect *all* laid-off workers to regain their jobs. “[That is] both because business owners do not want to fully staff up until they know what demand will be like, and because some of their businesses may have gone bankrupt or closed down in the meanwhile.” Still, the hope is that generous unemployment benefits will help people pay for rent, food and health care in the short-term and ideally return to the longer-term stability of their jobs once the quarantine is lifted. “Whether this will be a temporary blip is, of course, the multi-trillion-dollar question,” said Bidwell.

Social Security shortfall. Social security, the federal U.S. program that provides money to senior citizens who are no longer working through taxes collected from the nation’s employees, could run out four years sooner than predicted, according to an analysis by the Penn Wharton Budget Model, which provides economic forecasts. Revenue into Social Security has been steadily declining since the start of the coronavirus pandemic, partly because “the loss of jobs, especially concentrated among low-wage workers, reduces payroll tax revenues.” The Penn Wharton Budget Model previously predicted that Social Security would run out in 2036. Its latest report predicts either 2034 or 2032, depending on the type of recovery we have coming out of an economy impacted by COVID-19. The Budget Model’s report on “The Impact of the Coronavirus Pandemic on Social Security’s Finances” provides all the details.