USI ADVISORS, INC.

MARKET & LEGAL UPDATE
JUNE 2020 REVIEW

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"Markets on A Wild Ride in June"

After two straight months of advances, markets were quite volatile in June. The Dow Jones Industrial Average (DJIA) started off the month with 6 straight days of gains, hitting a high of 27,580 on June 8th amidst the optimism that came along with the slow and steady reopening of the economy, progress on vaccine development, the Fed's "do whatever it takes approach to support the economy", and unprecedented fiscal stimulus. Since then, the DJIA experienced a choppy ride, closing the month at 25,812 as optimism faded following a significant rise in coronavirus cases in the United States shortly after reopening parts of the economy. Arizona and Texas have been hit hard, with Arizona's intensive care units filling up and Texas Governor Greg Abbott saying his state would be reversing its reopening process by closing bars and limiting restaurant capacity following a surge in coronavirus cases. Moreover, it is estimated that the number of Americans who have been infected with the coronavirus is likely 10 times higher than the number of cases reported, according to CDC Director, Robert Redfield. With seemingly no end in sight to the pandemic, and ultimately economic instability, markets began to worry.

In addition to the coronavirus fears, jobless claims in the U.S. continued to be a thorn in the side of the economy. As economists expected a slowdown in claims, it was rather disappointing to see another 1.48 million Americans filed for unemployment benefits in the week ending June 20th. This exceeded expectations of 1.32 million. Moreover, the prior week's reading was revised higher to 1.54 million from the previously reported 1.51 million claims. More disturbing is the fact that more than 47 million Americans have filed for unemployment benefits over the past 14 weeks. The thought that the reopening the economy would temper the unemployment claims has not come to fruition as of yet.

Market Return Indexes	June 2020	YTD 2020
Dow Jones Industrial Average	1.8%	-8.4%
S&P 500	2.0%	-3.1%
NASDAQ (price change)	6.0%	12.1%
MSCI Eur. Australasia Far East (EAFE)	3.4%	-11.3%
MSCI Emerging Markets	7.4%	-9.8%
Bloomberg Barclays High Yield	1.0%	-3.8%
Bloomberg Barclays Aggregate Bond	0.6%	6.1%
Yield Data	**June 2020**	**May 2020**
U.S. 10-Year Treasury Yield	0.66%	0.65%

Another issue that was scrutinized by the markets was the Federal Reserve Stress test results which were released towards the end of June. The Federal Reserve indicated that it would restrict dividends and share buybacks on financial companies for the third quarter. Dividends will be capped at either the amount paid in the previous quarter or the quarterly average of income made over the last four quarters, whichever is less. Regarding buybacks, the nation's eight largest banks had previously committed to halting share buybacks for the first and second quarters. The move, intended to "ensure large banks remain resilient despite the economic uncertainty from the coronavirus event," was viewed negatively by the market and the market fell as a result, particularly the financial sector.

Outside of the United States, news was also far from positive. The World Health Organization said the global pandemic's hotbed is now in Latin America, which reported over 100,000 fatalities with a week to go in June. Outbreaks have also been reported in Germany, Australia, China, and South Korea. Moreover, strict quarantine measures put in place to curb the spread of the coronavirus in the United Kingdom led to economic activity in the country contracting by an astounding 20.4% in April (a record) compared to the previous month.

After a quick start and lots of optimism in the first week, it seems reality set in rather quickly and markets realized that all was not well. Coronavirus fears, economic turmoil, continued social unrest and ongoing tensions between the world's two largest economies, the United States and China, seemingly outweighed any relatively positive news released during the month. Add in China's recent border dispute with India and its actions relating to Hong Kong, and China is causing quite a bit of turmoil on its own. To top it off, the virus is still spreading and without a vaccine, there doesn't seem to be an end in sight. As such, the resulting economic impact is still largely unknown so the volatility and market fluctuations we experienced in June may be the norm, not the exception, going forward.

LEGAL UPDATES

IRS Releases CARES Act Guidance on Coronavirus-Related Distributions, Loans and Required Minimum Distributions.

Notice 2020-50 Guidance for Coronavirus-Related Distributions and Loans from Retirement Plans Under the CARES Act.

On June 19, 2020, the Internal Revenue Service ("IRS") issued guidance to clarify many outstanding issues regarding Coronavirus-Related Distributions and Loans, including expanding the definition of a Qualified Individual, clarifying the self-certification procedure, reporting of Coronavirus-Related Distributions ("CRD") and recontributions, and resuming Coronavirus-Related Loan ("CRL") repayments.

Qualified Individual

Under the CARES Act, an individual is a "Qualified Individual" for the purpose of receiving a CRD or CRL only if the individual, individual's spouse, or the individual's dependent tests positive for COVID-19, or if the individual experiences certain adverse financial consequences. However, the CARES Act left open the possibility that the Secretary of the Treasury could include other factors that would determine whether someone is considered to be a Qualified Individual. IRS Notice 2020-50 expands the definition of a Qualified Individual to include the following:

1. Individuals who, due to COVID-19, had a reduction in pay (or self-employment income), a job offer rescinded, or a start date for a job delayed;
2. Individuals who suffer adverse financial consequences as a result of COVID-19 due to the fact that their spouse or household member (as defined below) has been quarantined, furloughed, laid off, had their work hours reduced, incurred a reduction in pay, was unable to work due to lack of childcare, had a job offer rescinded, or a start date for a job delayed; or
3. Individuals who suffer adverse financial consequences due to the fact that a business owned or operated by the individual's spouse or household member either closed or reduced hours due to COVID-19.

For purposes of applying these additional factors, a "household member" of an individual is defined as someone who shares the individual's principal residence. For example, a partner, roommate, or boarder, etc. may be considered household members if their income contributes to the household.

Notice 2020-50 also confirmed that beneficiaries can be considered Qualified Individuals if they meet the definition above. However, only spousal beneficiaries may recontribute a CRD; non-spousal beneficiaries do not have the option to recontribute CRDs.

Self-Certification

The CARES Act provides that individuals can self-certify to their employers, who allow CRDs and CRLs, that they are "Qualified Individuals" for the purpose of receiving a CRD or CRL. However, the CARES Act did not define the requirements for self-certification, specifically whether the employer has an obligation to confirm the individual's qualification and need. IRS Notice 2020-50 confirms that the actual knowledge standard applies to participant self-certification as a Qualified Individual, meaning that absent actual knowledge a plan administrator may rely solely on an individual's self-certification in making and reporting a CRD, or in permitting a CRL to be obtained from the plan. The purpose of self-certification is to limit the liability of the employer, and instead place the liability with the individual recipients when they file their taxes. Individual recipients are entitled to treat the distribution as a CRD for federal income tax purposes only if they meet the eligibility requirements. Additionally, regardless of whether the employer adopts the CRD CARES Act provision, individuals may still treat any distribution that they are otherwise entitled to receive as a CRD for tax purposes if they are Qualified Individuals.

Notice 2020-50 also confirms that CRDs and CRLs are not "need" based. For example, Qualified Individuals experiencing adverse financial consequences are permitted to receive CRDs without regard to the Qualified Individual's need for funds, and the amount of the distribution is not required to correspond to the extent of the adverse financial consequences experienced by the Qualified Individual.

Tax Reporting of Coronavirus-Related Distributions

For the Plan Administrator: IRS Notice 2020-50 provides tax reporting instructions for plan sponsors who allow CRDs. If the plan sponsor is treating the payment as a CRD and no other appropriate code applies, the plan administrator is permitted to use distribution code 2 (early distribution, exception applies) in box 7 of Form 1099-R. The plan administrator is also permitted to use distribution code 1 (early distribution, no known exception) in box 7.

For the Individual Recipient: IRS Notice 2020-50 further clarifies that an individual who receives a CRD must decide in the first year how he or she wants to pay the income taxes, either all in year one of the distribution, or ratably over three years. The individual cannot later change his or her tax treatment of the CRD, excluding recontributions. Also, if the individual dies prior to paying all taxes owed on the CRD, the remaining CRD income taxes will be paid in the year of the individual's death. IRS Notice 2020-50 further advises that a Qualified Individual should use IRS Form 8915-E to report any CRD received by the individual, which is a new form created by the IRS for this purpose.

Recontribution of Coronavirus-Related Distribution
The CARES Act provides participants with the option to recontribute CRDs, or a portion thereof, back into the plan (or into another qualified plan or IRA account) within three years of the distribution. Such recontributions, if made, will be treated as a direct rollover contribution to an eligible retirement plan. The recontributions can be made at any time prior to the end of the three-year period and may be made in one payment or multiple payments so long as the total amount does not exceed the original distribution amount, excluding post-distribution earnings. If a participant recontributes a CRD, the distribution will be treated as though it was recontributed in a direct trustee-to-trustee transfer so that the participant will not owe any federal income taxes on the distribution. IRS Notice 2020-50 further advises that IRS Form 8915-E should also be used by Qualified Individuals to report any recontribution made during the taxable year.

IRS Notice 2020-50 also clarifies that the plan administrator of an eligible retirement plan may rely on an individual's certification that the individual satisfies the conditions to be a Qualified Individual in determining whether a prior distribution was a CRD for the purpose of accepting a "recontribution", unless the plan administrator has actual knowledge to the contrary.

Coronavirus-Related Loan Repayments
IRS Notice 2020-50 provides guidance on how to resume delayed loan repayments under the CARES Act. More specifically, while the IRS recognizes that there may be additional reasonable, yet more complex, ways to administer and resume the loan repayments, Notice 2020-50 provides a safe harbor method for resuming the loan repayments. Pursuant to the safe harbor method, any delayed loan repayment by a Qualified Individual beginning on or after March 27, 2020 and ending on or prior to December 31, 2020 (i.e., the suspension period) must resume as of the end of the suspension period (January 2021) and the term of the loan may be extended by up to 1 year from the date of the loan was originally due to be repaid. Additionally, any subsequent repayments of the loan shall be appropriately adjusted to reflect the delay and any interest accruing during the delay.

IRS Notice 2020-50 further clarifies that Qualified Individuals will be eligible to defer or delay their respective loan repayments only if the employer has adopted the Coronavirus-Related Loan provisions (and specifically the loan extension provision).

Notice 2020-51 Guidance on Waiver of 2020 Required Minimum Distributions.

On June 23, 2020, the IRS released Notice 2020-51 which provides further guidance regarding Required Minimum Distributions ("RMDs") from defined contribution retirement plans and IRAs that were waived under the CARES Act. Consistent with the legislative intent under the CARES Act, the IRS will permit participants who receive RMDs in 2020 to rollover such amounts within 60 days of the distribution to an eligible retirement plan or IRA. In the event that a participant previously received an RMD in 2020 without having had the opportunity to rollover such amounts within the 60-day rollover period, Notice 2020-51 also extends the 60-day rollover period deadline until August 31, 2020. In other words, 2020 RMDs can be rolled over until the later of August 31, 2020 or 60 days after the date of distribution.

If you have any questions or would like additional information regarding the CARES Act and the recent IRS guidance, please contact your USI Consulting Group representative.

For previous market commentaries please click here.

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