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[00:00:00] Hey everyone, Charlie Epstein here and welcome to my yield of dreams podcast. This is the show that asks the questions. What does it take to pursue your life's passions? I mean, to really go for what you've always dreamed about to do what you truly love and why does so many people sell out their dreams and aspirations for job they hate and a paycheck.

[00:00:22] That's less than fulfilling. During the show I'm going to interview different people about how they've strived to go for their passions in life. And how do they balance that with the need to earn that paycheck. We're going to hold up in the light, your myths about money, not to try to change them, but to eliminate them.

[00:00:42] And have you begin to discern, where did these come from and how do they impact your life in the decisions that you've made and to see if you'd be willing to just let them go. And maybe replace them with a new money strategy that will produce a better result and ease your pain and suffering [00:01:00] about your money.

[00:01:02] So let's dive right into today's show.

[00:01:09] That is Charlie Epstein of Epstein financial welcoming you to his podcast, yield of dreams. I'm Patrice Sikora. And in this episode, we will dissect another of the cards and Charlie's myths about the money deck of playing cards, which you can get. And Charlie will tell you how, but Charlie myth or fact, if you are short on money, you can always take a loan on your 401k short on cash money.

[00:01:36] Yes. So folks, just so you know, we're talking about my desirement playing cards. And you can get a deck of these desire playing cards by going to Epsteinfinancial.com E P S T E I N. financial.com. And we will send you a free deck. We just asked you pay the little postage there, but we're looking at myth or fact card number 11.

[00:01:59] So I've [00:02:00] identified 15 myths that people have about their money, right? Patrice? Yes. And today we're going to go into the, if you're short on cash, you should always take a loan on your 401k. So folks, is that a myth? Or a fact you can always, or you should always, if you're short on cash, you can always take a loan on your 401k could in most cases, but is it the bright thing to do well?

[00:02:24] Is that a myth or a fact? Well, it it's, you cannot always, because in some cases it's not, it's not going to happen. So it's actually then a myth, Okay. Yeah. You may have a 401k. It doesn't allow you to take so today the single greatest savings plan in America is the 401k plan. And the majority of working Americans are participating in a 401k plan.

[00:02:48] So if you've been contributing, let's first, just kind of go over the regs about how to take out a loan on a 401k plan. So if you have an account balance, [00:03:00] That is a hundred thousand or greater. You can borrow 50% of your account balance up to $50,000. So if I had a hundred thousand in my 401k plan, I could borrow 50,000.

[00:03:12] If I had 50,000, I could borrow 25,000, 50%. If I had 10,000, I could borrow 50% or 5,000. Now you have to make sure that the company that you work for that's sponsoring the

401k plan. Has a loan provision and that's different than a hardship withdrawal. So we'll talk about both of those today, but let's say you want to do some repairs on your house.

[00:03:40] You want to buy that dream car or a motorcycle, or you want to take a trip and you're thinking, okay, I've got all this money in my 401k and why, why wait until I retire to enjoy this money? I think I'm just going to take some out. And after all Charlie, it's my money. And [00:04:00] the documents says I'm borrowing my own money, but, and I'm paying it back to myself with interest.

[00:04:09] Why, why isn't this a good deal? What's the, but the but is because you're taking it out and then you're putting it back in. It's you're putting it in pre tax with after tax funds. Right. So if you put your money in before tax, you got a tax deduction. Yeah. That's growing tax deferred. And when you take it out of your desire means you'll pay taxes, but you're right.

[00:04:31] So let's say I borrow $50,000. I like that number. It's around number and I'm in a 30% tax bracket. So I get the 50,000 no tax. I feel good. Now you have five years to pay it back. It has to come through payroll deduction and you have to pay an interest rate. Maybe it's 3%, right? Yeah. Now you can check with your company, excuse me.

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[00:04:56] So let's see, [00:05:00] 53,000 at 3%. That's 1500 of interest and just doing simple math. So whatever you have to pay back, but as Patrice just pointed out, Wait a minute, but wait, you've got to pay that money after tax. So if you're in a 30% tax bracket, what's it going to cost you to pay back $50,000? Well, you're going to have to earn about $70,000 because 30% of 70 is 21 to pay back 50,000 plus the interest.

[00:05:34] So it's actually costing you 33%. Taxes 3% in interest. You know what I say, go borrow money from the mob. Well, you could probably get money at 20, 20% from the mob or get in line for 20%. They may not give you five years though, to pay it back. And you don't need any collateral because they got your knees and your shoulder, man, that's your collateral, [00:06:00] but it's 20%, 20%.

[00:06:02] But what if you, you could take out a personal loan. Seriously. It's an option. Well let's now let's talk about alternatives right now. What if your company didn't have a loan provision and all they had was a hardship provision. So under a hardship provision, you have to go to your employer and prove you have a hardship, which is first-time home medical bills, college tuition, that kind of thing.

[00:06:28] Polar gets to decide whether you can take the money, but let's say they do. Now, when you take that money out, you don't get to pay it back and you have to pay taxes on the whole amount. So if you took out the 50,000 and you were in a 3% tax bracket, you're not going to end up with 50,000 again with little less than 30.

[00:06:49] So again, you got to take out 70, 72000 to net out 50,000. This is expensive money folks. That's the point I'm trying to make people don't take into account the [00:07:00] cost of money and what go ahead. What if you don't repay on time? Well, if you don't repay, then you default on the loan. It'd all become taxable, right?

[00:07:13] Ouch. So what are the alternatives? Well, let's just add the hardship distribution. Well know that I'm going to pay tax on all that. Right? How about don't touch your 401k. How about your 401k money is meant to create a paycheck for life. When you finally decide I'm done working and you're in your desirement years, that's what that money is meant to do.

[00:07:34] So alternatives are maybe you own a home and you can do a home equity line at 3%. And if you're going to make repairs on your home, you can deduct that interest. I will give you an example. There's a client the other day, and he's about two or three years from retiring. And his big goal is to have his home mortgage paid off.

[00:08:00] [00:08:00] There is that other myth that we talked about, I have to have my home mortgage paid off in order to be happy when I retire, but forget that for a moment. So, but I asked him some more questions and he said, well, my mother's 92 years old. When she passes away, we're going to sell this big house. I said, Oh, The house that they are in?

[00:08:22] Yes, probably in three or four years, but he wants to pay off. He goes, but I have just about three years left on my mortgage. I just have to have that paid off. I said, okay, but you're going to sell the house. He said, yeah. But before we do that, we're going to do some renovations. I said, well, tell me more about that.

[00:08:37] Well, we're going to do the kitchen and we're going to do the bathroom because the realtor said, in order to get top dollar value for a house, we better update our kitchen and our bathroom. Well, I said, you'll never get back the money you put into your kitchen or your bathroom. That is the worst thing you can do.

[00:08:55] But go ahead. How much is that going to cost? You said 50,000. Ooh, [00:09:00] I should. Okay. Where do you want to take the money from, for this is why I'm going to take it from my 401k. Now he's over 59 and a half. Okay. What's so important about sixties. What's so important about that. He doesn't have a 10% penalty.

[00:09:15] When he takes that money out. I said, so let's do some math here. You need $50,000. You're not going to borrow the money. You're just going to take, I said, how much are you going to take? He says 50,000. I said, but Lenny you're in a 30% tax bracket. If you take 50, 30 times 50 is 15,000, you're only going to get $35,000.

[00:09:39] I said, you're gonna have to take out 80,000. To net that 50,000, you know, 75, 80,000, I say, let's say it's 75,000. You pay 25,000 tax. You have your 50. I said, have you got a heat lock? He goes, what's that home equity line a line of credit? He goes, no, [00:10:00] he said, don't hear me out. There's no, no, I want the house paid off.

[00:10:03] I'm going to have it paid off in three years. And now you want me to take out a home equity line. You're killing me, Charlie. You're killing me. Humor me folks humor me. You go to the bank today, you get a $50,000 line of credit. It's probably less than 3%, but let's lose 3%. So that's and I said, Linda, you're not going to pay this 50,000 back.

[00:10:24] Now. He wanted to puke. I said, hang on 3% of 50 is $1,500 a year of interest. All you're going to do is pay the interest and you get to deduct the interest because you're doing a home improvement. Any itemizes. So 30% of 1500 is about four 50. So let's say the interest is a thousand dollars. So for the next three years before you sell the house, it'll cost you a $3,000 for that 50 gram versus 25,000 in taxes, then you sell the house [00:11:00] and you pay off the home equity line.

[00:11:02] He said, yeah, but I just, I just I've always wanted to just. Have the house paid off. I said, okay, stupid. It costs you $25,000 versus 3000. He says, I need to think about this. And I said, we'll take your medication and call me in the morning. Did he call you? Or we have a follow-up meeting to talk about some of the planning that he has to do, but I mean, that's, that's crazy folks use the assets you have.

[00:11:34] So psychology trumps economics every time. And the psychology is here is he just has a myth and a belief that his home has to be paid off for him to be happy. Even though he's going to sell the house and downsize, Hey, you, you put me through this a couple episodes ago. And I was the same way I fully believed it's paying off the house was the right thing.

[00:11:52] And now it's like, what, what was I thinking? Yeah, I remember that car. It's a dead asset. The equity in your home is a dead asset, folks. We want to. [00:12:00] Ignite your assets. We want to get your assets, you know, you're all saying, Hey, I want to earn more in my 401k. I want to earn more on my IRA. I want to earn more on my bank deposits.

[00:12:07] Well, why don't you want to earn more on the equity in your house, which is dead asset. So back to the 401k plan, the worst single worst thing you can do is borrow money on your 401k plan. It's the most expensive money you'll ever buy, period. So you would tap into your savings first, before even 401k, I would tap into savings.

[00:12:32] I would tap into other investments. I would take out a home equity line. I would borrow from my neighbors and my family. Well, I would sell that old car. That's been sitting in the driveway for 50 years. Tractor couldn't go to the lawn tractor. It's fine. Get rid of the cow. Let's talk more though. About the hardship distribution.

[00:12:56] There were a couple of things that you essentially, you were saying buying a home yet. [00:13:00] Tuition, medical expenses. The one that got me was funeral or burial expenses. It's your account, your bearing. I mean, how can you borrow money to bury yourself? Isn't that great. I don't get that. And then, I mean, you know, hardship is basically whatever your employer wants to call a hardship.

[00:13:17] I mean, there's certain code regs that you're listing. Go ahead. And is that totally up to the employer? But at the end of the day, it will be, but go through the list. Oh, uh, emergency home repairs. Oh. Cost to prevent getting evicted or foreclosed. Yeah. How long does it take to get the distribution from a 401k?

[00:13:37] If you apply for a loan though, I mean, you could be out on the street before it came through three to five days. Oh, that's all technology. All right. And the cares act, the cares act. Did that change things? Yeah. So the cares act basically said, if you took out a loan, you wouldn't have to pay the interest for a year, giving you some [00:14:00] flexibility on the hardship and that kind of thing.

[00:14:02] But we're almost done with that this year. So we're coming race if you, you know, if you need to do it. All right. Cool. Very good. Yeah. I get nothing else. You'd tell me more. Tell me more about this 401k. You got nothing more, nothing more. Now the key is stay away from your 401k money folks. That money was meant for the future.

[00:14:21] Now, if we want to talk about contributing to your 401k, we're into my ten one now philosophy, which is on average, you've got to save 10% of your gross pay. Really should be now 15% soon as I say that half of you go, I was no way I can save 10%. That's your gross pay. Yeah. But some people say, look, I got other bills, you know?

[00:14:45] And I said, well, how much can you saved? Can you save percent, 3%, 1%. I don't care, whatever percentage you can pay, contribute that amount. And then every year just increase it by 1%. Until you get to 10 and do it [00:15:00] now. So ten one now save 10. If it can increase by 1% and start doing it now and compound interest, which is the eighth, one of the world will grow your money exponentially.

[00:15:13] Now you've got a choice. Do I put my money in the 401k pre-tax and get a deduction today or do I put it in after tax into the Roth account? Have a grow tax deferred and never pay any taxes when I take the money out. Which do you think is better? Can you convert well, forget converting for a moment? Well, let's talk about new money depending on the tax bracket you're in right now versus where you will be, would seem to me to make the difference, the decision.

[00:15:43] Right? So the question I ask people is, do you think taxes are going up or down in the future? They're going up? No question. Absolutely. I just saw a chart the other day. So this is the lowest tax rates have ever been. And in the 1930s taxes, we're the highest [00:16:00] marginal tax rate was 90% to fifties and sixties.

[00:16:05] It was 70% highest marginal rates, 70% Reagan got it down to 39.6. And mr. Trump got it down to 36%. So this is the lowest taxes have ever been and will ever be because whoever gets in the white house is going to raise taxes. I mean, we have a candidate that's basically sitting in his bunker saying I'm going to raise taxes for everybody over 400,000.

[00:16:35] Read my lips. Everybody's taxes are going to go up under this administration if uncle Joe gets in. But because of the deficit taxes are gonna go up. So now the question is, does that mean I'm going to be in a lower tax bracket when I retire? Hmm, maybe, maybe not, but I'm a big believer in do a hundred percent of your contribution to the 401k plan and the after [00:17:00] Roth account.

[00:17:01] And here's why it's a simple analogy. Imagine you have a bag of seeds in your hand, and you're going to go across the street to a field and plant the seeds and 10, 20, 30, 40, 50 years from now, you're going to harvest the crop. Which do you want to pay taxes on the little seed going in the ground or the big harvest coming out, seed seed, seed, seed, seed seed.

[00:17:21] Now every account we'll say, take the deduction today because the value of a dollar today is worth more than, than the value of dollar tomorrow. I don't buy that also for most of you, you've been putting your money in pre-tax already, so you probably have a sufficient amount of money. 20, 30, 50, a hundred. You know, the average 401k account balance is little over a hundred thousand today.

[00:17:43] That's all. Yeah. I'm surprised to be worse than that. It used to be like 50,000, but you know, if you're in your forties and fifties and you've already got money in a taxable bucket, I say now put a hundred percent into the [00:18:00] Roth bucket. So when you get to 62, 65, 68 or 70, let's say. You're 65. You want to retire?

[00:18:08] Well, if all you did was have all your money in that taxable, pretax, 401k bucket, it's all going to be taxed when you take it out. If you have some money in the Roth bucket you could live. Tax-free from 65, 66, 67, 68, 69, 70 71 in 72 that's eight years. How would you go about doing that? Take your social security at 66.

[00:18:32] Take money out of your Roth account. Both of those are tax free for the next eight years. You thumb your nose and uncle Sam, I'm paying no taxes. Now at 72, that bucket of 401k money, that's never been taxed. The government's gonna say we want some of that. And there's a required minimum distribution, which the government says based on your current age and account balance and how long we think you're going to live, this is [00:19:00] how much money you have to take out every year.

[00:19:02] To Roth or not to Roth. That is the case. It sounds like it isn't a popular in the eyes of man. It doesn't sound like it. I don't think so anymore. I used to, I used to hedge. I used to say, well, if you're young, do 50 fit, now I say, boy, if you're 20, 30 or 40, it's a no brainer. Yeah. You're going a hundred percent Roth.

[00:19:24] Now people will come to you and say, would I have no other deductions? I say, well, Go refinance your house and pull the equity out. And there's your deduction. And what about, what about converting over to a Roth 401k? So pros and cons. I think everybody should look at their account balances today and say, if taxes are going up, and this is the lowest tax rates are ever going to be now is the time to convert your Roth money.

[00:19:55] The problem is you have to have. Cash outside of [00:20:00] your retirement plan to pay the tax. So let me give you an example. Say you have a hundred thousand in your IRA or 401k. You're in a 30% tax bracket and you want to convert it to a Roth. You're going to pay 30% or 30,000 in taxes today. And people say, well, I'll just take it out of my retirement money to pay the tax.

[00:20:20] Well, no, if you take it out of your retirement money, you're going to pay tax on top of the tax. So, what you want to do is convert that hundred to the Roth and then reach into another bucket of money savings investments and pay the 30,000 out of that. Now it's all about compound interest. Do you have enough time for that 70,000 to grow, to make up for the 30,000 in taxes?

[00:20:47] But if you didn't convert, you're going to pay tax on all that money at a higher rate in the future. So, um, yeah, we're having this conversation with a lot of our clients now is the time to consider converting [00:21:00] right. Your money, like before the end of this year, which doesn't give you a lot of time, but get cracking.

[00:21:07] How long does it take to do that? Is that a lot of paperwork? No, you just, you do the conversion. So maybe that takes a couple of weeks and then you're going to get a 10 99 next year for this year for the tax bill or you. Right. So you can either withhold for the taxes, which you don't want to do with your retirement money, or simply tell your record.

[00:21:29] Keeper, do not take the tax out. I will pay the tax next year out of a different bucket. Now you don't have to do it all at once. You could tear it. You could say I'm going to stretch. Converting all of my money over a two, three, four five-year period of time. But if tax rates go up, you're missing that opportunity.

[00:21:51] So this year and possibly next year, I mean, we'll know after November, well, we won't know officially after election day because it's then going to take [00:22:00] it'll take awhile next two years for them to find the balance, count the balance and burn the balance or dumped them in the water. Well, Recommend everybody talk to your financial advisor or your accountant.

[00:22:15] If you've got money that you consider in a convert and now is an opportune time, you know what these are, these are those opportune moments that you want to take advantage of. I know it was going to ask you, you're talking about would take, you know, do it on the staged process. When do you think tax rates are going to go up?

[00:22:31] So if the Dems take the white house and they hold Congress, and let's say the Senate holds, you know, you still have a you know argument back and forth. But if you look at Ray and it took Reagan two and a half years to get his economic reconciliation bill through which lowered taxes, it took Trump about a year and a half and it was pretty fast for him to get his tag bill through to lower taxes.

[00:22:57] So if [00:23:00] damn sweep and they own the white house, they own Congress and they own the Senate. No, they could make a tech tax law change this in a year. Uh, but typically it takes longer than a year to get that kind of change to happen. So you might have this year and next year without taxes going up and then going now, you still have state taxes, right?

[00:23:26] So a lot of people are living in hot. You know, where the States are raising tax. I mean, California is 13.3%. Chicago, Illinois is going to a. Graduated tax already at nine something New Jersey, New York. I mean, so don't forget, you're not only going to pay tax on the federal rate. You've got to pay tax at the state rate.

[00:23:49] And what if you're somebody that was thinking about moving to a non tax state? I'm going to move to Florida. We've got a place in Utah. There's an opportunity to save whatever [00:24:00] your state taxes are. So there's a lot of variables. Take into account. If you'd like to reach out to us for some help in answering those questions, you can reach out to me@epsteinfinancial.com.

[00:24:13] You'll also get your free desirement deck of cards so you can pick your top three priority goals. Your top three desirement dreams, go through the myths of money. That is a precursor to having a conversation with me. And then you can reach out to me personally 413-478-8580.

[00:24:34] And we're here making money, funny, making money fun and helping you make your money work as hard as you do. Actually, it should be working harder than you actually. It wasn't funny money. It was money as fun, right? Yes. That's what you like money fun. Right? And that is Charlie Epstein of Epstein financial and to be alerted to new episodes of Charlie's yield of dreams podcast.

[00:24:59] Just subscribe [00:25:00] using the subscribe button on this page. And of course you can also share with the share button. I'm Patrice Oh, share with us. We respond to your comments and we appreciate your listening to the podcast and let's make sure we all talk again later. Absolutely. And, uh, you'll be listening to the music to the podcast by a great musician that Dietra Martinez, amazing percussionists born in Cuba.

[00:25:26] And actually it's part of his new album coming out, but the cut that you're listening to also includes a somewhat unknown English guitarist by the name of Eric Clapton. They actually flew over to London and cut this album. So check out. But Martinez and you will hear him. Momentary. Thanks Patrice. Thanks everybody.

[00:25:54] And we'll see you on the next episode.

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