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Speaker 1

Welcome. My name is Andrew Baron, and this is Well... It Depends! The podcast where I present pros and cons of different financial decisions so that you, the audience, feel better informed when you're confronted with these decisions in your own life. In this episode, I ask the question, Should I borrow from my 401K? Well... It Depends! is sponsored by my firm John G. Ullman & Associates.

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We are a team of financial planners, research analysts, tax specialists and support staff, all working together to give our clients a comprehensive experience. If, after listening, you'd like to discuss your situation with one of our financial planners, including me, please email info@jgua.com. But before we begin a short disclaimer, this is being recorded on January 4th, 2023.

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The contents of this podcast are strictly for informational purposes only and nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting your advisor before implementing any strategies to ensure that your individual objectives are getting into it. Should I borrow from my 401K?

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Well... It Depends! Over the past 12 months we've seen persistent inflation and rising interest rates. If you happen to be in the market for a major purchase, maybe you're looking for a good place to borrow and heard about 401K loans. You should know that not all plans offer loan options, so don't think this is automatically available to you. If loan options are available, there are limitations to them.

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Such as being able to borrow up to \$50,000 or 50% of your vested balance, whichever is less. Your vested balance is 100% access to. This includes all of your personal contributions. But if your employer makes contributions on your behalf, these may be considered unvested. Depending on your plan, rules and your current years of service.

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You need to know that all loans are to be repaid over sixty months or five years. This is really important because you need to consider the likelihood of remaining with your employer during the duration of the loan. If you think that you may leave voluntarily or you may be laid off, the amount of the balance is suddenly due on termination.

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If you are unable to pay, the balance will be subject to taxes and 10% penalty if you're under age 59 and a half. Many people are also attracted to the feature that interest is paid directly into the 401K balance since there is no lender. But this isn't free money and instead you are required to pay the interest. Repayments are done by withholding on your paychecks.

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This can be substantial depending on the amount of loan taken relative to your income. You may be tempted to cease or reduce your contributions to your retirement accounts during their loan repayment, but this can fundamentally derail your retirement. So make that consideration before accessing the loan. You may find that there are better alternatives for both interest rates and loan terms, such as home equity or family loans.

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To recap, just because you can doesn't mean you should. You might see your 401K is a big pool of money, but even if you have access to it through a loan, it doesn't mean this should be your first option. Remember, this is for your retirement. Consider your ability to pay back the loan, especially if you were to suddenly lose your employment.

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This could be either through voluntary or your company layoff. Remember, in either case you would be responsible for the full balance due. If not, it is subject to taxes and 10% penalty if you're under age 59 and a half. Consider alternative lenders such as home equity or private and family loans. So and so the question, should I borrow from my 401K?

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Well... It Depends!

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