Ep. 244: JPM Coin, Repaying Student Loans, Retirement Savings Help - Transcript

Tom Mullooly: Welcome to the Mullooly Asset Management podcast. This is episode number 244. Thanks for tuning in. I'm one of your co-hosts, Tom Mullooly, and today I'm sitting with Tim Mullooly.

Tim Mullooly: Hey, everybody. How's it going? Filling in for Brendan today.

Tom Mullooly: We have a couple of items in the news that I think we want to talk about. Let's kick it off with what JP Morgan had to say recently about their crypto.

Tim Mullooly: JP Morgan's rolling out their new bank-backed cryptocurrency. They're calling it JPM Coin. They're trying "transform" business payments.

When Bitcoin was all the craze, Jamie Dimon was one of the most vocal people bashing it and saying that it was a fraud. Now, they're coming out with their own coin. I guess the difference is these coins are bank-backed, but I thought, and feel free if you're listening out there to correct me if I'm wrong, I thought one of the biggest advantages to Bitcoin and these cryptocurrencies was that they were unregulated and they were not associated with the banks or the government or anything like that. Having a bank backed cryptocurrency that defeats the whole purpose of cryptocurrency. It is regulated. It's not unregulated.

Tom Mullooly: Forgive me for saying this, but when I read this, the first thing that popped into my mind, like you know how you used to read the cartoons in the paper and they would have a little bubble over someone's head of what they were saying? I could just picture this cartoon image of Jamie Dimon saying, "Wait, we can make money on this?"

Tim Mullooly: Right.

Tom Mullooly: "Let's push a product."

Tim Mullooly: Yeah. It said in the article and I guess Dimon has been saying that they believe in the blockchain technology, but they believe in regulated versions of it, obviously so the banks can make money off of it. It's like, yeah, this is great. I like the idea, but we need to find a way to make money on it first and then we'll believe in it.

Tom Mullooly: Then, we'll believe in it.

Tim Mullooly: Yeah.

Tom Mullooly: Right?

Tim Mullooly: Who knows what other big banks are going to jump in on this, but in the coming months, they're going to slowly test out this JPM Coin. I feel like it's an extremely watered-down version of the original idea of what these cryptocurrencies was going to be, which is a lot of times what happens to a lot of ideas out there.

Tom Mullooly: They go through a lot of change before they become widely accepted.

Tim Mullooly: Yeah.

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Tom Mullooly: Talking about believing in something, we also seemed to see the same story. Seven out of 10 people believe they're going to be financially better off next year.

Tim Mullooly: Yeah. This was an article in CNBC. It said, "For the first time since 2007, over half the public has reported a generally positive state of current finances," which I find to be interesting, to put it nicely. We hear all these articles and these cases about how no one has any money saved for retirement, credit card debt is skyrocketing, student loan debt is ballooning out of control, but for some reason, people think they're going to be better off next year than they are right now. I guess it's always good to be optimistic, but you should also be realistic at the same time.

Tom Mullooly: It's interesting that they say, "For the first time since 2007, over half the public has reported a generally positive state of their current finances," and I think back to people telling me in 2006 and 2007, "I'm finally digging out from that recession in 2001 and 2002," or "I'm finally getting back to even after getting wiped out from all those dot com stocks that melted in 2000," and just as people are starting to get back on their feet, 2008 recession, 2009 still in a recession. In fact, the recession technically started in October 2007. I get a little antsy when I hear that people are starting to feel good about their finances because that tells me that the party's about to end.

Tim Mullooly: I agree, but I also think that that's exactly why the writer of this article chose to put that date in there. Readers are going to have that reaction and be like, "Oh, the first time since 2007. You remember what happened after that."

Tom Mullooly: Right.

Tim Mullooly: When in reality, yeah, that is what happened in 2007-2008, but that doesn't mean that it's going to happen exactly the same way as it did in that, you know, a recession is coming in 2020

Tom Mullooly: No, we don't know when it's going to-

Tim Mullooly: ... be coming.

Tom Mullooly: We don't know when it's going to begin, but I think it's important when we read these kind of things to remind our listeners that they should always be looking to patch the leaks in their boat no matter what the economy's doing.

Tim Mullooly: Right.

Tom Mullooly: If you find money leaking out of your monthly expenses unnecessarily, it's never a bad time to say, "Hey, do we really need this?"

Tim Mullooly: Yeah, in fact I think right now and when things are good is the best time to do it. Obviously, when things turn bad or there is a recession, you need to do that kind of thing, but it's better to start getting used to patching up these leaks in the boat, like you're saying, while things are good.

Tom Mullooly: I just think it's a mindset thing because I think that there's still a lot of folks out there who say, "When I get back on my feet, I'm getting that Yukon Denali."

Tim Mullooly: It's that thing of lifestyle creep.

Tom Mullooly: Yeah.

Tim Mullooly: Things are going well, people are making more money, the stock market has, apart from the last couple months of 2018, has been going up the last couple years. People think that they can expand their lifestyle a little bit and they forget, they put the blinders on. They forget that there's always going to be downturn. It's cyclical.

Tom Mullooly: Let's swing from when things are going good to when things are going bad and you have things like mandatory wage garnishment.

Tim Mullooly: Yeah. There's a new proposal coming out to have student loan payments taken right from your paycheck. There are two sides to it, obviously, from the people who have ... from the borrower's standpoint, some people think that that's unfair to have it automatically deducted from your paycheck, but from the people who gave you the loans in the first place, it's comforting to know that the money is going to come back regardless unless you decide to not earn a wage.

Tom Mullooly: I don't know how to really take that. I see both sides of the argument where people are saying, "Hey, I object to this coming out." I object to FICA taxes coming out, but it's part of the deal.

Tim Mullooly: Yeah.

Tom Mullooly: I think if you ... I don't want to get into a political debate about this, but you can't legislate good behavior. We want everybody to do what they're supposed to do, just do it.

Tim Mullooly: Right. You would think in a normal world that if an adult person takes on a loan, regardless of if it's a student loan or a car loan or a mortgage, you're accepting the responsibility to pay that back.

Tom Mullooly: Right.

Tim Mullooly: You have to pay the loan back. That's how it works and if you don't, there are consequences. There was a quote in the article that just left me shaking my head. It said, "Critics of the proposal said that payments should always be voluntary and people need the flexibility to default on their loans." What?

Tom Mullooly: If they default on their loans, then they're going to have mandatory wage garnishment. That's going to happen because you can't get these things discharged. I mean, technically you can, but the chances of that happening are very small.

Tim Mullooly: Yeah.

Tom Mullooly: It can be done, but the odds are you're going to have some kind of situation where you're going to have wages garnished from your paycheck. There's also the income-based payment plan, which we actually talked about on one of the very first podcasts how you can sign up for ... This works great, I think, if you're going to law school or going to med school. You can sign up for an income-based repayment plan where you pay 10% of your income each year. It's set based on what you earned the year before and instead of having a normal 10-year payment schedule, you have a 20-year repayment schedule and the deal is after 20 years of payments, you're going to be in your early 40s. After 20 years of payments, you either satisfied the loan or what happens is once you've made 20 years of payments, the government writes off what's owed on the remainder.

One thing that just popped into my head when we were talking about this, what if they were to make student loan payments pre-tax and have it come out like a FICA payment or a 401K contribution? Why can't they do that and just say, "Hey, we encourage you to get work after you graduated from school, you have these loans that you got from the government. We'd like you to pay them back. We're going to give you an incentive. Pay them back pre-tax." Why not? It lowers their taxable income; the money comes out. There's an incentive to do this.

Tim Mullooly: Yeah. It will probably get tweaked a little bit before ... if it all becomes a law, so maybe that will be one of the tweaks that they make along the way. For me, if you're going to take on a loan, you should plan on paying it back. That's regardless of-

Tom Mullooly: It's the morally right thing to do.

Tim Mullooly: Yeah. I mean, if it's student loans or a car loan or a mortgage-

Tom Mullooly: I saw an article in Forbes that talked about if you save too much, too early in the year, it could actually hurt your retirement. This is kind of a mathy thing.

Tim Mullooly: Yeah, you're right. It was. They had to do a pretty in-depth math example, so we'll try and explain it as best we can.

Tom Mullooly: Without making this sound like a post from Epsilon Theory, ...

Tim Mullooly: Right.

Tom Mullooly: ... which are 4000-word posts. They're awesome.

Tim Mullooly: Yeah, they're really good.

Tom Mullooly: They take a long time to get the story going.

Tim Mullooly: Yeah. If you make, you know, there are contribution limits on 401Ks. This year for people it's $19,000. Let's say you raise your contributions per paycheck to a hundred percent ...

Tom Mullooly: Meaning you accelerate it into your next paycheck or the first paycheck of the year.

Tim Mullooly: Right, yep. Let's say per paycheck you get $20,000. You're making a good amount of money. Your entire first paycheck will go to your 401K and that will max you out for the year, so you won't be able to make any more contributions for the rest of the year.

Tom Mullooly: Right.

Tim Mullooly: The way that some employers match their employee's contributions is per paycheck.

Tom Mullooly: Right.

Tim Mullooly: If you max out your yearly contributions with one paycheck, they're only going to send one match in and it's capped at ... company matches are usually like 3%, 4%, 5%.

Tom Mullooly: Right. In your example, if someone were to make $20,000 and they contributed $19,000 ... we're making this simple because we're eliminating FICA and all that other stuff.

Tim Mullooly: Right.

Tom Mullooly: Just say that you made $20,000 on your first paycheck, $19,000 went into the 401K, if they're doing a 5% match, they're only going to match 5% on $20,000. That's a thousand dollars versus, I mean, you can up to $280,000 as your income that's eligible for a match, so if this company were matching 5% of your eligible compensation, and you stretch this stuff out over a year, $280,000, that's 14 grand that you could get in a match versus the thousand you took by accelerating everything into January.

Tim Mullooly: Right. You, as an individual, will be contributing the same amount of money over the stretch of the year, but just in smaller installments, so that you can continue to get that thousand-dollar match each time you put money in versus just getting it that one time.

Tom Mullooly: Right. It's important to understand that some companies match this way, not all companies match this way, so you really have to read the fine print. It might be a good idea to sit down with your advisor or your financial planner to talk about something like this because this actually can have a huge impact on the money that you're putting away for retirement. It's funny how, I mean, other than what we talked about at the top of the show with Jamie Dimon and Bitcoin, all of these things come down to saving more money and putting more money away for retirement. People who believe that they're going to be financially better off next year managing your cash flow with student loans, this same article from Forbes where we have all these things.

There was another article about ... this was in the Wall Street Journal recently about can the government help you save for retirement. Personally, I think we may be able to do an entire show off of this post. It was unbelievable-

Tim Mullooly: Yeah, it was really good.

Tom Mullooly: ... the stuff that they wrote in this, but they're talking about some potential policy changes to watch for in 2019. US is facing what they call an estimated retirement savings shortfall of $4 trillion. Some of the points that they brought out, about 32% or about a third of private sector workers lack access to any kind of retirement plan at work.

Tim Mullooly: Right.

Tom Mullooly: They're going to try and address this. California, Illinois, and then there was another state, ...

Tim Mullooly: Oregon.

Tom Mullooly: ... Oregon, have programs now that require employers without plans to automatically enroll employees into IRAs.

Tim Mullooly: Right, with low cost mutual funds. It kind of, it's not a 401K, but it's better than nothing.

Tom Mullooly: Better than nothing.

Tim Mullooly: Right.

Tom Mullooly: Now, New York City and New Jersey are expected to have a similar kind of legislation coming maybe as soon as this year.

Tim Mullooly: Right.

Tom Mullooly: I know Connecticut and Maryland were also talking about it, Seattle. There's a few other states, Vermont, Missouri. There's a couple of other states that are looking to do something like this and basically, it was a congressman from Massachusetts who said, introduced this about a year ago and he said, "Most businesses with more than 10 workers that don't have a retirement plan to offer, they should automatically enroll their employees into something."

Tim Mullooly: I mean, it said that the first couple of states that already have it, the employees can opt out if they want and it's not a perfect fix. It's not the same thing as having a 401K because 401K you can put $19,000 in, whereas an IRA, right now you can put $6,000 or so.

Tom Mullooly: $6,000 or $7,000 if you're over 50 years old, so it's better.

Tim Mullooly: It's significantly less, but it is better than not contributing anything at all.

Tom Mullooly: Right.

Tim Mullooly: Another way that they were talking about the government helping save for retirement is by boosting individual savings rates. Like I just said, the limits for this year are $19,000, $6,000 in an IRA. A lot of people they said fall short of those limits though because a large number of companies automatically enroll their employees in the 401K at 3% of their salary or less unless the employee chooses otherwise. Most employees, unless you're plugged in and you know it's going on in that case, they won't think twice about it. Whatever the company sets them up for is fine. In terms of their salary and how much they could be saving, that's not nearly ... 3% is not nearly enough to be maxing out every year and making the most of the 401K if they even have one.

Tom Mullooly: Here's the scenario that I see. If you're say someone who's making $35,000, you're going to have, at 3% enrollment, you're going to have about a thousand dollars a year going into this plan. Say you leave your job after you're in your fourth year, you've got maybe $3500 in this plan. You look at this and say, "I don't know if I want to roll this over into my next 401K at my next job. You know what? Even after paying a penalty, 10% would be $350, it's taxable income, so I'm probably going to wind up with about $2800. You know what? I'm going to put that in my pocket."

Tim Mullooly: Yeah. If that's the thinking, too, then you might as well just not contribute to the 401K and address more current cash flow needs if there are some with that $3500-$4000.

Tom Mullooly: You really, you would be better off if that were your game plan, you'd be better off opting out of the enrollment because then you wouldn't be paying that penalty.

Tim Mullooly: Right.

Tom Mullooly: It would still be taxable income to you, but they talk about these MEPs, this Multiple Employer Plans, how they're saying that small companies can band together in states to form these plans. The original idea behind that was to save money on costs, but the costs of establishing and running a 401K plan is really pretty low. I don't think it's the cost that's keeping employers from doing this. It's the fact that, hey, I want to attract good talent, I want to pay these people, but it's going to cost me 3% more or 5% more to put money into a retirement plan.

Tim Mullooly: To offer a match. Yeah.

Tom Mullooly: Yeah, and then offer them a match on top of that.

Tim Mullooly: Right.

Tom Mullooly: Like, okay, if someone's getting paid $30,000, 3% would be $900, so how do you give someone a job offer and say, I want you to start working here for $30,000, but you're really only going to get $29,100 because I'm going to take 3% and put it into a retirement account for you.

Tim Mullooly: Right.

Tom Mullooly: They're going to be like, "No, I'm going to take the $30,000 job across the street."

Tim Mullooly: Yeah. Who knows if these changes will work or not? Ultimately, I feel like the underlying idea is good-hearted. They mean well. Like we said about the student loan bill or proposal, it will probably get tweaked a bunch.

Tom Mullooly: Yeah. They have good intentions, but I just don't know if it's really going to work because I know some of the things that they're kicking around are things where employers can make a matching contribution for employees who are trying to pay off student loans. How do you police that? I just don't understand the logistics of how that would even work.

Tim Mullooly: Yeah, I don't understand that, so they would, the employers would contribute to their 401K account in the same amount that they're making student loan payments each month?

Tom Mullooly: Well, I guess the logic is that, hey, I can't contribute to my 401K at work because I'm paying off a student loan, but if you're going to make a matching contribution for participants, some of these safe harbor rules that they have for 401K plans mean you have to make contributions for people who aren't even participating anyway in your plan.

Tim Mullooly: Yeah.

Tom Mullooly: There's other things, like retirement, taking distributions from these plans, that are, I mean, they're just going off the rails with some of these things. They're talking about putting annuities into some of these plans.

Tim Mullooly: Yeah. We've talked about it before with annuities in retirement plans. It's a tax deferred vehicle inside a tax deferred account. It doesn't really make a lot of sense. These people just have their money tied up and they're complex. People get confused enough by 401Ks in general. They don't need to be confused by annuity inside of their confusing 401K.

Tom Mullooly: Someone's going to make a lot of money selling annuities into these plans.

Tim Mullooly: It sounds like, yeah.

Tom Mullooly: Can we get an equity index rider on that? They also talked about folks that have less than $100,000 actually waving the required minimum distribution. I'm okay with that because we wind up doing small distributions every year for folks that have less than a hundred grand in a retirement account, but they talk about why people should be able to not have to make these distributions, so they can hang on to the money for emergencies. What the hell are they talking about? You can tap into that anyway.

Tim Mullooly: Right. The money can already ... yeah. If they're of that age and they can take an RMD, they can already access the money, so it's not protecting it anymore. Who's to say that, they're assuming that people take the RMDs and just essentially piss them away.

Tom Mullooly: Right.

Tim Mullooly: You can take the RMDs and put it in the bank and save it for emergencies.

Tom Mullooly: Yeah, that's-

Tim Mullooly: It doesn't mean you have to go out and buy-

Tom Mullooly: And spend it.

Tim Mullooly: ... a new coat with your RMD every year. There's no requirement on what you spend your required minimum distribution on.

Tom Mullooly: No. It's not a required minimum spend.

Tim Mullooly: Right. Yeah. You can just take the money and put it in the bank for emergencies. You don't need to leave it in the plan.

Tom Mullooly: I had to find some way to get that, what the hell, in there. It's almost every podcast now. What the hell? I don't understand what ... I mean, if these legislators should really read the rules and understand these plans before they start popping off with these crazy statements because they sound like jackasses when they talk.

Tim Mullooly: Yeah.

Tom Mullooly: Oh, well. Well, that's going to wrap up episode 244. Thank you for listening and we will catch up again next time.