Retirement Money vs. Home Equity - Transcript

Tom Mullooly: In episode 210 we talk about tapping into a retirement account versus a home equity.

Welcome to the Mullooly Asset show, I'm your host Tom Mullooly and this is episode number 210, thanks for tuning in.

We've had a lot of conversations lately about the Cares Act and the provisions that allow for withdrawals from your IRA and workplace retirement account. Is this a good idea? Well as we mentioned in a previous video your future self won't be happy if you're taking money away from your own retirement, you're kind of screwing yourself. So one of the alternatives that we've discussed with clients who were considering taking money out is to think about taking a loan. Now hold it you've said, Tom, we've done videos and podcasts and blog posts about don't take loans from your retirement account. But if your plan permits it under the Cares Act you can actually get longer repayment terms and this may wind up being a better option than having a taxable withdrawal. Lending it to yourself may wind up being a better deal than just taking the money out.

But I do want to be clear about something. These options about taking the money out or taking a loan from your retirement account, they should be viewed as the last resort and the next to last resort in terms of sources for money. One gentleman that we spoke with mentioned all the projects that he wants to do around the house and he planned to do this with the money that he was going to be taking out of his retirement account at work. I just brought up the point, I'm like, "Hey, have you considered doing a home equity loan?" He said, "Nah, I can't write that interest off any more since the last tax law change, that SALT provision" – SALT standing for state and local taxes, they're capped at $10,000 a year what you can write off, but what he missed was, and I think this happens a lot, people get confused.

The interest on home equity loans is still deductible if two things. One, if the money is used on home improvement projects and two, as long as the total housing debt, meaning your mortgage and a home equity loan, don't exceed $750,000 you can still deduct the interest. And like they say on the TV commercials, rates are at an all-time low. So it is something to think about before you rip up your retirement. Again, your future self is not going to like you for doing that. Look at the alternatives that you may have right under your nose.

That's the message for episode 210. Thanks again for tuning in.