

Should You Take Money From Your 401(k)? - Transcript

Tom Mullooly: In episode 201, we tackle the question of is taking money out of your 401k now, really a good idea? Stick around, we're going to talk about it.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 201. Because of the coronavirus and the CARES Act that came out of it, folks can now take money, while they're still employed, from their 401k plan. That was never ever an option before. The only way you could tap into the money without taking a loan was to leave the company, and then you could have access to it. But, during 2020, people under the age of 59 1/2 will not be charged the 10% tax penalty.

Now look, if you have no other source this money could really, really help. But there's three things you really should know. First, while there's no 10% tax penalty it is taxable income. It's just like earning a salary, so you need to be prepared to pay taxes on this money. Two, your future self is going to hate you because, in a sense, you're screwing your future self out of a possibly better retirement. And three, if you use the money to get rid of debt and lower your monthly overhead, that's very, very, very, very good. Did I say it's very good? It's very positive.

So, there are alternatives to taking a straight withdrawal from your retirement account at work. And talk to us, we can go through some different options that might be available to you. It all comes down to cash flow. Cash flow is so important that we stress managing cash flow when we're sitting down and doing planning work with our clients. Cashflow is probably the most important part of planning. And something like this, taking a withdrawal from your 401k, can be a huge boost for you if, and only if you use this withdrawal as an opportunity to change, to be a springboard towards some better money behavior.

Several folks that we've heard from recently were living just beyond their means, or they had an illness in the family, or some kind of catastrophe. So, this money can really, really help them out. But, if people use it and don't change their behavior about saving they're going to be looking for a bailout, again, in just a couple of years. A lot of people have gotten the message that, hey, retirement is going to be your gig. It's going to be all on you to save for retirement. But we see a lot of folks that are doing it backwards. They're saving money for retirement, they're saving money for a down payment, they're paying down credit cards, they're paying down student loans all at the same time. And all they're living on is ramen noodles.

That doesn't have to be you. So, you can do this, but you have to take on one or two of these things at a time, get them under your belt, and then move on.

Important lesson for 2020 and for episode 201, we appreciate you tuning in. See you next time.