

EPISODE 1085

[ASK FARNOOSH]

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FT: Welcome to So Money, everybody. It is Ask Farnoosh Friday, August 21st, 2020. I'm your host, Farnoosh Torabi. Welcome to the show. Welcome to Friday. We have questions today concerning the best places to store your cash. Listener is wondering about collecting unemployment, while also on the paycheck protection program. How does that work?

Before we get to that, I wanted to just give you guys some updates. The So Money Equity Learning Scholarship, I have a name for it now. It's this scholarship I've been talking about on the podcast for some weeks. It now is official. I have a learning scholarship set aside. It's \$2,500, but likely will be increasing as many of you have reached out expressing interest in supporting the scholarship through either donations, offering virtual tutoring services.

My goal is to spend the next week getting applications, finalizing those applications, reviewing the applications and hearing from you, if you'd like to support this. Ultimately, help as many families across the country as possible. If you're interested, farnoosh@somoneypodcast.com. If you're interested in applying, or learning about to how to apply, send the application to a friend, e-mail me. I'll send you that link. It's a Google form that I created.

Very informal. I'm not going to do a background check on these families. I trust that everybody who is applying really needs the money. To make it a little bit more straightforward, the funds are probably going to go directly to the tutoring service, so that the family never has to worry about making those payments themselves getting the money and then making the payments. That's just going to be taken care of.

It'll be \$2,500 worth of tutoring for that family. As I said, probably more than one family at this point. We've raised thousands of dollars in just 24 hours when I posted this on Instagram. The outpouring of support was just – I mean, I was in tears. This is maybe the beginning of something even bigger. I'm thinking, do I start a 501(c)(3)? How do I make this a little bit bigger?

Do I partner with a not-for-profit? If you have more experience in this stuff, please let me know. I've never really – I mean, I've obviously contributed to causes before. I've helped raise money, but I've never thought about the next level, which could be setting up a 501(c)(3) and not-for-profit, making this more official, how to scale this. Let me know if you've got ideas on that end.

If you'd like to help me out with a contribution, I would love to hear from you as well. Farnoosh@somoneypodcast.com. Applications are due by next Friday, so one week from today. I will be announcing the recipient, or recipients the following week, on September 1st, so that we can get this hopefully going in time before the majority of the school years begin across the country. I know some kids have already started in the hot states, like California. I hope that this will meet these families' needs in good time. Why don't you give an update on that?

If you didn't catch my Bloomberg article this week and I'm writing for Bloomberg now, I'm an opinion columnist there. Apparently, my opinions are counting for something these days. I wrote about the case for discretionary spending during the pandemic recession. It actually stemmed from a question on this show. A listener wrote in and said, "Hey, I've been thinking about doing a home renovation, a kitchen remodeling. We've been saving for this. We even got a HELOC prior to the pandemic," because now you can't get really home equity lines of credit. They're they're scarce. "I don't know if I should continue to do this. It seems like a really weird time to be spending."

I thought, hmm, that's an interesting thing to say. "It's not like we don't want to spend, because we don't have the money. No, we have the money, we have all of our ducks in a row, we want to do this. It would make us happy. We're still having second thoughts." I wrote a piece called why spending money right now isn't a terrible idea. Now there are some caveats to this. I assume you don't have credit card debt. I assume you have your rainy-day reserve. I assume you are contributing to all the things, retirement and you have income. You're rarity right now and that you've got everything going on and haven't really been hurt financially, because of this pandemic.

You want to buy a new car, so maybe you want to buy a house, maybe you want to get a new kitchen, maybe you want to buy a laptop. We just bought a mattress. Actually, we bought a bed and we bought a new laptop. It took months for me to make this purchase, these purchases. I

had the money, but I was like, "Let's just see how the world – how everything just works out." There was so much uncertainty. I bought a house in the pandemic. Ironically, I was too scared to buy a laptop in the pandemic.

I think this is an interesting thing. It's so emotional. As humans, we don't make rational decisions every day, especially when it comes to our money. In this article, I suggest you check it out. If you are that person who's in that camp of like, "I want to spend, but I'm not sure." I give you the rationale for spending. Basically, my argument is that if you have liquidity, you have cash, so this expense is not going to severely compromise your rainy-day reserve, you'll still have a six-month rainy-day reserve. Maybe you'll have a five-month rainy-day reserve after you buy the XYZ thing. You have a job, so you can commit to replenishing that.

Right now, it's taking about 16 weeks on average for someone to find a job who is unemployed. If you have four, five, six, 10 months of savings that should be enough for most people. If you're there, you can check off that box. You're warmer to making this purchase with certainty, without buyer's remorse. Then how is this product service, purchase going to benefit you? Is it going to make you happy? I know money doesn't buy happiness, but frankly, it can buy a lot of peace right now, flexibility. Money can lead to conveniences, to make life better right now. People are stressed. That's account for something.

If it's my new bed that's going to help me feel I'm going to sleep better at night, or my laptop, which I'm literally – this is one of the last episodes that I'll be recording on my 2011 MacBook Air. I finally splurged on the latest MacBook Air. I haven't configured it all yet, so you know how that goes. It takes days or whatever. My husband's dealing with that. I can't be bothered.

I've had this laptop for almost 10 years. I'm really looking forward to not having this very loud fan and having more space, memory for the videos that I want to create and my pursuits for this business. The laptop will be more than a return on my investment. Thinking about in those terms, what are you going to get in return for this expense? What's it going to give you?

If you're going to remodel your kitchen, that's a great way to increase the value of your home, if you do it without blowing your budget, if you do it the smart way. Of course, we're spending a lot more time in our kitchens. I'm cooking every day now. It's so nice to not be able to use my oven

as a shoe rack, like I was in New York City. My microwave, I actually use it now. It's not just a storage for my kids' books. Seriously.

These are the considerations and the article goes on, but check out bloomberg.com and search Farnoosh and you'll quickly get to that article. The case for spending in a recession. By the way, you'll be helping the economy. You'll be helping GDP.

Okay, let's go to the mailbag. I want to get to our questions. I picked three questions this week. They're all quite meaty, so just three as opposed to the usual five. First up is Crystal who writes in on Instagram, which says, "Hey, Farnoosh. Recently been listening and making money moves on my time and to ensure that I'm saving within my means. I've done really well in eliminating my consumer debt over the last year, taking advantage of my employer-backed 401k, HSA and throwing money into my savings accounts. I've also managed to get my husband on board with his own savings and thinking more long-term."

"I'm noticing I don't like the amount of interest my cash savings is yielding on a monthly basis. I prefer to have a certain amount liquid in case of emergency, but I'm wondering if you have any resources on high-yield savings accounts that still make accessing money fairly simple and penalty-free."

All right, Crystal. Thanks for your question and great work getting out of consumer debt, filling all of these retirement buckets, 401k. Then you sound like you're really working well in your savings, and your husband too. That's always a good thing. I get this question quite a bit on and offline. Where should I park my money? In fact, my husband I had this conversation the other night, because it's annoying. We've got quite a bit of money in savings, especially after selling our Brooklyn apartment. We are in a good place liquidity-wise.

It's frustrating that where we've got the money now is earning next to nothing, when it could be earning a little bit more than next to nothing. Then we consider the trade-offs. Yes, I guess we could move the money to another account, where the marketing right now says you can earn 0.5%. I have actually not seen more than 0.5%, 0.6% on a high-yield checking account. Not talking about CDs, or money market. These checking accounts that often are offered by online banks that are typically higher in the marketplace, because online banks don't have the

overhead that a brick and mortar bank does. They can pass on that savings more directly to consumers, to savers, in the form of higher interest rates, savings rates.

You might see XYZ online bank offering 0.5%, 0.6%. That is down actually from where it was, say five months ago, where you could probably find an online savings account, high-yield for over a percent, maybe 1.50%, maybe even 2%. A lot of these rates, again, they're not set in stone. They can change. You're going to make the effort to move your money to this other account that might be earning at the end of the day, might get you a few more dollars. We're talking dollars. We're not talking hundreds of dollars. Unless, look, if you've got several hundred thousand dollars, millions of dollars in cash.

I'd be worried less about this question and I want to focus more on why aren't you investing that money. You don't need that much money in savings, unless you're planning to buy a mansion with cash, which is a whole other episode. Back to this issue, I don't know if it's right now really "worth it," to keep moving your money around, your daily savings from one high-yield checking account to another, because over there, they're offering me extra 0.25%. What is that really at the end of the day? What is that? Is it worth your time, right?

Also, it's no guarantee. You could go there and then in a month, you're back to where you were. I say, the most important thing when you're choosing right now a bank account to store your rainy-day money that you might need to access if you lost your job next week, God forbid. But let's just say, that's why it's there, that it is easy to access. It's not going to require a three-day period for you to withdraw the money. You can get it right away. You can go to an ATM and withdraw. You can transfer that money within minutes, to let's say, your traditional bank account, where you can then write checks and you can transfer money and you can go to the ATM.

That's important. It's FDIC insured obviously. Let's hope. That means it's got a insurance cap of up to \$250,000 to ensure that if that bank goes under, the savings will not disappear. That's most important. If I were to tap my good friend, Ramit Sethi, a lot of you guys listen to me and you also subscribe to Ramit's work, he's the author of *I Will Teach You To Be Rich*. He's been on this show a number of times. He says, he gets this question a lot too and he gets really annoyed, but he's like, "Listen, these are small potatoes, small financial concerns. Focus more on the bigger wins." What are the fees that you're paying in your retirement portfolio?

I did this change to my retirement portfolio a number of years ago. I was working with a financial planner and I was like, "I want all of the funds that have management fees of more than 1.50% on a page to see. I want to understand why we're investing in them. If there's really no point, if there's a comparable index fund to this, then I want to switch." I think I reduced my average fee in the portfolio by something like half a percent. That's tens of thousands of dollars. That's hundreds of thousands of dollars, potentially. That move in the long-run saved me a lot more than these little moves of moving a six-month rainy-day reserve from one online bank to another.

Another way to think about a big win, I like to say is can you get more money at work? 10% more at work right now, because you're let's say, taking on the roles and responsibilities of multiple people in this recession. If your company has laid people off, that may immediately seem like a dead-end conversation with your boss to make more money. My advice is don't go and ask for the raise the same day they're laying people off, or the week later. Give it a couple months. If you're still there, what does that mean? It means they value you a lot and you're probably doing more work at this point and making the same amount of money.

Now, are you going to go in and ask for everybody's salary? No. You're going to ask for 10%, 15% percent more, because that is still a benefit to your company. They just let go, let's say a dozen people. That's millions of dollars. They give you an extra \$15,000 or whatever it turns out to be. This is the math you want to present to your boss. "I'm doing the work of four other people. I'm happy to do it. I love my job. See a future here, but I would like to get compensated. Now I know we're not in the booming years, but we just did save millions of dollars. I know that it was to "save the company." I'm part of that equation. I'm helping you save this company."

If you can even show that you've brought added value to the company in the last few months, even better. That's going to drive your point home, to the point where they probably can't even argue with you. If they're not going to give you the raise at that point, I don't know what to tell you. It's a weird place to work. Don't give up on the raise this year. I'm going to actually write about this from Bloomberg next. This has been helpful for me to think through this out loud with you.

I do think that there's room for making more money this year. It's not all negative. Thinking about how you can create steps to bring in the thousands of more dollars into your life, that's the way we want you to think on So Money. We don't want to think about 0.2% on a savings account, where you've got a few thousand dollars. You want to think about 0.5%, 1% on an investment portfolio that's earning – that's going to grow to be hundreds of thousands of dollars. That's substantial.

A friend of mine renegotiated her property taxes. Maybe not right now is a good time to do this in some cities and towns, because home prices are going up. If you're in a part of the country where home prices have actually fallen, maybe wait till next year when I think when the bubble is going to burst. Then why are you paying the same property taxes? If your town has reassessed your home to be less than what it was last reassessment, why are you paying the same taxes? Know what the comps are. What were the home prices in the last six months? If you were to sell your home today based on comps in the last six months in your town, would it be more than what you paid for it or less?

You can actually go to the town court and fight this. My friend saved \$5,000 a year on her taxes, because she did a little bit of homework. She went on Zillow. She talked to a few real estate agents. Brought in the right paperwork into court and got the money. This is how we want you to think. I appreciate this question.

I've had this question. I was talking about this with my husband the other night. Our checking account is earning nothing, but it's small potatoes. It's like what? \$50? \$10? \$2? I know it's annoying, because you want to feel you're optimizing your finances. Why would you not be in the savings account that's earning the most? If it's convenient, if it's FDIC insured, because the rate could change. It's not guaranteed.

Now if you wanted to put some of this into a CD, okay that's different. Then you've got a guaranteed interest rate, but of course you have to be okay with not needing this money. If you're talking about liquidity being important to you, you don't want to have that money in the CD. Crystal, I appreciate the question. Thank you for listening. Congrats on the wins. Keep them up.

Next is Casey. “Hey, Farnoosh. Love the podcast. I’ve been listening to your podcast since January and I’ve become totally obsessed with personal finance. I’ve got a money question. I just listened to a recent episode where you mentioned not paying any student debt during the forbearance. Well, I graduated in 2017 with \$40,000 in student debt and I have been paying this down quite aggressively. I am down to \$3,000 left and I’m trying to decide what to do next. I’m torn between just biting the bullet and paying it off before the interest resumes in January, or dragging it out a while.”

“Now for background, I’m turning 25 this month. I’m an internal auditor making \$65,000 a year in Charlotte, North Carolina. I’m contributing 12% to my 401k, \$8,000 to my HSA and about \$8,000 in my investment account. I don’t have any other debt. What should I do next?” All right, so I want to just give some people the background. In the CARES Act, the government allows those who have federal student loans to suspend their payments, initially was through September, now they’re saying it’s going to be till January. You basically suspend your loan payments. We’re talking federal student loans. There’s going to be a temporary zero percent interest rate on the loans. You have the choice still to contribute if you want, but it’s going to be an automatic suspension.

You don’t have to call your lender and let them know you want to opt in. They’re just going to opt you into this, but you can always contribute during this deferment period, this suspension period. Some want to contribute, because it’s an opportunity for the first time ever to really pay your student loans interest-free and get ahead. We talked about this last week too. A listener wrote in with a similar question.

There’s always exceptions to this. The advice recently from the financial planners who’ve been on the show and I tend to agree, is that if you have a lot of student loan debt, federal student loan debt and you have been benefiting from this forbearance since the CARES Act was passed, and now it seems like you’re going to benefit from this not just through the end of September, but till January, don’t freak out and try to pay it down.

If you’ve got other things you have to do, like save up for a rainy day, invest in your retirement account, pay off other high-interest debt, those should take precedence. The other reason why the advice is not to rush to pay this down so quickly is because there seems to be more

assistance coming through the pipeline. We don't have crystal balls. If you've been following any of the election, or the political debate is that the student loan debacle, this 2 trillion dollar mess that we got ourselves in in this country, seems like there's more people in agreement now that we need to come up with something to create more flexibility around this, to just reduce the debts, to eliminate some of the debts in some cases.

We have an election. We have potentially new laws going to be made in the next year. It would be a bummer if you paid it all down and then you discover later, they're like, "Oh, maybe I didn't have to." In your case, you're so close to the finish line, you've got \$3,000 left to pay. It sounds like you really do have all of your other ducks in a row. You have all your other financial responsibilities taken care of. I would say, if this is going to buy you some peace of mind and this feeling of renewal and being able to get ahead with your financial life. Stress is worth noticing. It's not nothing. If a financial move is going to not just benefit you monetarily, but will also give you a better night's sleep, that is worth a lot.

Casey, to you I would say in your specific case, you're so close to the finish line, why not? Are you going to regret that if in six months, the government's like, "All student loans are forgiven," which I don't think that's going to happen. I don't think you're also going to be part of the cohort that's going to get a lot of assistance. You have a job, you have assets. I think if anyone is going to get their loans forgiven, it might be people who are below the poverty line, not making money in an industry that's obliterated, because of the pandemic and there's no jobs for the foreseeable future. Sounds like you know this would make you happy, that this would make you feel you're getting ahead, so do it. You have my blessing.

Last but not least, Shizuka, what a cool name, on Instagram writes in. By the way, follow me on Instagram @FarnooshTorabi. We've got 25,000 followers now. Woohoo! It's all relative. Some people have 2 million followers in the financial advice space, some have two. "I love our community on Instagram. Every single person is engaged." I mean, look, we raised thousands of dollars through Instagram over 24 hours. The scholarship continues. Anyway, join me @FarnooshTorabi on IG. That's also a great place to send me your questions through direct message. Shizuka hit me up there.

She said, "Hey, Farnoosh. I've been listening to your show for about two years. Thanks for the great advice and the inspiring interviews. I have a PPP related question that is a paycheck

protection program.” She took out a loan as a sole proprietor in July and she has a loan that will cover her for 10 weeks for her salary. She can use the whole amount as owner compensation replacement and get forgiveness. It's no longer going to be a loan, it's going to go towards payroll, so it will be basically forgiven. Question, how do these loans, these PPP loans and unemployment benefits mix? She said, “Obviously, I’m not going to seek or receive unemployment benefits for the 10 weeks that I’m getting the PPP, but do I have to wait a full 24 weeks before I can receive unemployment benefits?” Because I guess, her schedule C salary is a 24-week covered period.

“I’m hoping I’ll have enough work soon, so I don't have to receive unemployment, but would like to be aware of my options.” Shizuka, the best person to answer this question, everybody, you got this, is an accountant, or someone who is doing your bookkeeping; CPAs, bookkeepers. They are the ones who should know this. They should know this in their sleep, because this directly impacts their work. They're in the business of needing to know.

Basically, my understanding is this. If you're a sole proprietor after your paycheck protection program coverage ends, which in your case it sounds like 10 weeks, then at that point you can collect unemployment benefits, if you still need it. If you show on payroll that this PPP lasted you a full 24 weeks, even though the PPP was intended for 10, but you stretched it for 24, because that's technically really what it did for you, I’m not sure that if you start collecting unemployment, let's say at week 16, even though the PPP technically is over, but the money's still benefiting you, is kosher.

I’m just logically thinking. How would the IRS think about this? Always a good question to ask yourself when you don't know the answer to a tax question. How would the IRS feel about this? How would they feel about I took this grant, essentially, this free money from the government. It was labeled as a 10-week offering, but I was able to and I showed on my books that it paid me for 24 weeks. I’m claiming income for 24 weeks. Oh, but then I’m also on unemployment starting at week 11. You're double-dipping, essentially.

Maybe there's a work around. Maybe it just means you report things differently. At the end of the day, if you are covered then I would hope that everyone just does the “right thing.” If you know that collecting unemployment at week 11 is going to be gravy for you and it's a cherry on top,

because this PPP has really – you can stretch it, because it's actually 24 weeks of income, then I think you know what you got to do.

Again, check with someone who's is much more attached to this stuff. I don't have an intimate relationship with PPP. As far as what is said is sometimes different than what is actually done in many cases. People, there's always tax loopholes and things like that. I would talk to a professional who would be able to answer this more definitively. That's my 2 cents.

Now in general, how the paycheck protection program and unemployment mix, I was reading about this on none other than a bookkeeping website, again, the bookkeepers know, called [bench.co](https://www.bench.co). Any of you subscribe to Bench? Bottom line is you cannot collect both at the same time, which you know. The recommendation though was that if you still have some work coming in and you have the ability to earn some income over the next few months, then if you're choosing between the two, get the PPP. It's usually a better option. It's usually more money, especially now with the additional \$600 a week of unemployment benefits, from the federal government through the CARES Act, gone. It's ended in July.

The PPP typically gives small businesses and self-employed people loans that are two and a half times their monthly payroll costs. The loan can be forgiven if you're using it for payroll costs, if you use at least 60% of it for payroll costs and that it becomes a grant and you don't have to repay the grant. Now the latest deadline for PPP was August 8th, so it was over a week ago. I'm crossing my fingers that more money is going to come our way this fall. The unemployment numbers overall better than they were in April, but on a weekly basis it's not all moving in the right direction. We've got some weeks where we've got more unemployment claims in the week prior. It's still a very uncertain landscape for jobs.

In the meantime everybody, I hope you have a great weekend. Thank you for tuning in. E-mail me farnoosh@somoneypodcast.com if you'd like to learn more about the equity learning scholarship of \$2,500, whether you'd like to apply, contribute to the scholarship, or if you're a tutor, or you're in the education world and you have some resources that I can take advantage of and give to these families, let me know, farnoosh@somoneypodcast.com. We're going to be finalizing everything next week at the end of next week, so please hit me up soon. This is time sensitive and I hope that we'll help a lot of families and make this a thing.

Thanks for tuning in, everybody. I hope your weekend is so money.

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