EPISODE 1341

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1341, Ask Farnoosh.

[INTRO]

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FT: Hey! Welcome to So Money, everybody. It is Friday, April 8, 2022. I'm Farnoosh Torabi and this is Ask FarnooshJoining me on the show today will be Georgia Lee Hussey, founder of Modernist Financial in Portland, she is a certified financial planner, friend of the show. She and I are going to tackle your questions that have come in through the various pipelines about how much to save in your 30s, what's a good number, how to Invest appropriately by this age. Another question here about refinancing a car and how that may or may not hurt your credit score, more importantly, the opportunity to qualify for a good mortgage and the best way to handle money decisions with aging parents. A listener is looking to help her parents relocate, maybe get a new house. What's our advice for her?

Before we get to that, and also the reviewer of the week, our iTunes reviewer of the week, I have a cautionary tale for all of you regarding Bitcoin, and an online scam that my dad actually experienced earlier this year. I just wrote about it for CNET. You can check it out. I've got the link in the show notes. But the bottom line is that, he had his E-TRADE ccount hacked by somebody who got his login information via a phishing scam. It started with a phishing scam, an email arrived, it looked like it was from Amazon. My dad up was prompted to follow some links, he went to provide his username and password to the site. Of course, that's when the hacker had all the goodies, got what he needed or what she needed. Not only hacked, my dad's Amazon account, there were some purchases being made.

But also, when they got into his E-TRADE account, so my dad's Amazon password was the same as his E-TRADE password and attempted to sell his entire stake in Apple stock. This was the only thing that he had in his E-TRADE account, fortunately, but also, unfortunately, because it was $25,000 worth of stock that he had had for many, many, many years. It wasn't his nest egg, but it was a significant amount of money and this person was trying to first sell it, then reroute it to their bank account, external bank account. We call this a Bitcoin blackmail scam, because turns out this person was emailing my dad threatening to do all of this, like saying, "Basically, we've got your username and password, we're going to take your money or you can give us 5,000 in Bitcoin and we'll call it a day."

My dad discovered these emails, actually on the same day that his E-TRADE account was hacked, so they'd already gone and done it. I'm not really sure you know what more damage they were planning to do. But they said, "Give us 5,000 in Bitcoin or we will sell your data. We will sell your login credentials and we will keep on stealing money."

Long story short, my dad was able to intercept and with E-TRADE's help, reverse the transaction essentially. The police got involved, Social Services got involved. It was a whole all hands-on deck situation. I think why I wanted to share this with everybody. One is that this is a growing concern within the cryptocurrency world. We're hearing a lot about scams and fraud. This is just one example. Bitcoin blackmail is actually, I think that the Federal Trade Commission has given to these types of activities. It's a legitimate crime and you want to be on the lookout for it. A lot of times they're baseless, they're not going to do anything if you don't give them Ethereum, or Bitcoin or whatever they ask for. But it is something to definitely report and to be on the lookout.

Now, at the end of the day, what this boils down to for us, how do we protect our money online is, one, you have to be very vigilant about not falling for scams. My dad, he did admit that he fell for that fake Amazon email. He should have checked the sender email and would have noticed that it was not actually from Amazon. It was just some random email. Looking more closely at the email, it wasn't formatted properly. It didn't really look like an official email from Amazon. He didn't have two-way authentication on his E-Trade account. Even if the hacker had his username and password, it would have required him or her to put in a code that would have been sent to the cellphone on the account and that would have obviously gone to my dad, and he would have at that point grown suspicious.

Two-way authentication, always sign up for that wherever available and make sure your passwords are different across the various accounts, especially with the sensitive accounts. My dad's Amazon password was the same as his E-Trade password. It was kind – his money was just kind of sitting there for a hacker to take, essentially. Don't beat my dad, but this happens to the best of us. I mean, I have almost fallen for a number of scams over the years. They're getting pretty savvy, so just be careful about that. Again, I've got the story up on CNET and the link in show notes.

Heading over to our iTunes review section for announcing our reviewer of the week. This person will get a free 15-minute money session with me. This week, we're going to say thanks to Marianne, who left her review this week calling So Money a great show. She says, "I really enjoy your show. After listening to a few episodes, I was totally hooked. It has great direction, it deals with very instructive and interesting topics. I really love this program." Well, Marianne, thank you for discovering us. We're so glad to have you here and I would love to connect. Email me farnoosh@somoney podcast.com or you can direct message me on Instagram and let me know that you left the review. I'll follow up with a link where you can pick a time for us to chat.

Speaking of Instagram happen, I've been having a little bit of extra fun on the gram lately. I finally decided to crack the reels, and I've been doing some fun reels with my kids too. This all started because I thought maybe I should get on TikTok. I know, the dark place. I started an account on Tiktok, but truthfully, I don't know what to do next. The whole thing is a little or a lot overwhelming. I'm not really sure what buttons to hit. This is not intuitive to me. Then a friend said, "You should just do reels on Instagram, because you're more experienced on Instagram and it is I think a little bit easier to create interesting stuff on Instagram, and then just repurpose it." I haven't repurposed it yet on TikTok, but I am posting some cool stuff on Instagram. I think they're cool. They seem to be getting a lot of views, so maybe that's just the algorithm and not necessarily my talents. But I would love for you to follow me on Instagram, let me know if you've got any real ideas for me. It's a bit of a time suck, I will admit, but it is fun. I understand now why everybody spends so much time on Instagram reels.

All right, without further ado, let's kick off the show and welcome our guest and help you out. Georgia Lee Hussey, welcome back to So Money Ask Farnoosh. Georgia is back in the house.

[00:07:47]

GLH: So exciting to be here as always.

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FT: I got to ask you, Georgia, because it's been a couple of months since we've touched base. I feel like the economy is continuing to go in so many directions, intensely in so many directions. Specifically, inflation is the top economic story right now. What's your read on that?

[00:08:05]

GLH: Yeah. It's such an interesting experience right now, because there's just so much volatility in so many areas of our financial life and just in the world in general. I've been very aware of two ways in which humans show up in financial decision making that can be ungrounding. One is recency bias, believing that what is happening right now is going to continue forever. Very common, it's very easy to feel that. I see that a lot in the way that we're talking about inflation. Then secondly, I hear a lot of general anxiety and a need for more stability. What I see people do in that situation is they look for control. They look for anything that they control.

My recommendation to anyone is, don't make a decision based on what you think inflation is going to do. Because the best economists out there don't know what inflation is going to do right now. So don't pretend that you have some bit of knowledge that's going to help you navigate this. The best thing you can do in times of change is nothing.

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FT: Really?

[00:09:17]

GLH: Yeah, just sit still. Because the inflation data we're getting right now is so noisy. There's a section of our meeting agendas with clients called clearing the financial noise. The biggest topic of financial noise we're hearing from clients right now is inflation. We talk about how when you look back at inflation data over the past 20 years or so, we've actually been below the target inflation rate for 15 years. But humans love to talk about the negative data. We weren't complaining when we're below inflation rates, even though that's not good for the economy either. It's very problematic.

Yet, this loud, very noisy, very short-term data is scary. Don't get me wrong, my grocery bill is going up too. Yet, we still believe that the fundamental tenants of markets and economies are there. The data is so noisy around inflation, because of the pandemic and supply chain issues. We won't really know until four or five years from now what was actually happening now, how much of it is really inflation, how much of it is the pandemic, how much of it is this economy is coming back to normal.

I just say, come back to your cash flow. Are you spending money in a way that is meaningful and important to you? Are there ways to refocus spending on what your core needs are as a family or as a community. Control what you can actually control, which is how you spend your money and where you spend your money. It's not a perfect answer, but it's I think the most truthful answer was that we don't know. None of our economists are saying that this is going to be wildly inflationary environment for decades to come. We're seeing more like a 2.6% inflation rate of the 10 and 20-year horizon, which is healthy.

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FT: Yeah. I was reading about how in the ‘’80s, we had hyperinflation. We had where interest rates were in the double digits and we have almost the benefit of that historical reference. Where in that timeframe, you could argue that policymakers did not act quickly enough, efficiently enough. They didn't react to some of the red flags they were seeing and got to a place where they had to raise interest rates astronomically. It was painful for a period of time, I think it was like seven, eight years, until things went back to "normal."

We look at that time period, there's a great podcast, I think it was The Daily, The New York Daily did it about, how bad is this comparatively. But I think what's helpful is that we have that context now. Hopefully, everybody's taking cues and thinking, "Okay. We're going to raise rates sooner than later. Nobody likes to see rates go up, but I always say, it's been a lot worse.

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GLH: It has.

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FT: Mortgage rate is nothing to be – I mean, just two or three years ago, it was higher than that.

[00:12:32]

GLH: Yes. I think that's a good example of recency bias. I mean, 3% mortgage rate is not a good signal of a healthy economy. It means that we are having to keep interest rates low in order to keep the economy healthy. We need – it should cost a little something to buy a house and to mortgage alone. There are others social structures, I would love to see in place to be able to make the housing crisis more even out over time. But using mortgage rates as a proxy for the health of the economy, to have cheap mortgages is not a good signal. I always say, you want to be able to brag about your interest rate in 20 years, because you can't believe you had a 3% mortgage, because it's not normal. That's not normal. I think there's a way in which we need to update our files, that getting paid point 1% on your savings account is not normal and a 3% mortgage is not normal.

[00:13:31]

FT: Right. Well, thanks. Yeah, I just wanted to start with that. I think it's on everyone's mind, the headlines are, to your to your point, very loud about this. I wanted to just offer a little bit of a level setting.

[00:13:45] GLH: Yeah. I think the final thing I'll say about this is, I've been reading a lot of Paul Krugman, who I love from The Times. He often talks about – he had one article calling this the feel bad boom. That the economy is doing well, wages are rising for lower income workers for the first time in decades. That to me, I'm like, I'm happy to have inflation if it means that money is going to the working class. But we are talking about, it was such a negative spin that we aren't acknowledging the ways in which the economy is positive. Just a reminder, our money stories become our reality if we're not conscious of the stories we're telling.

[00:14:24]

FT: Yeah. I can maybe blame the news cycle for that, if it doesn't bleed, it doesn't lead, as the saying goes. I was just thinking today, when the Dow hit like 30,000 and then 35,000. There's always these milestones and the news covers it for like a second. Then of course, if there's like, a bad day in the market, the entirety of the week's coverage. We'd like to wallow in our misery, I suppose. But let's help people that's why we're here.

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GLH: Sure. I'd love that.

[00:14:55]

FT: Let's help listeners with their very good questions, timely question. Our first listener, her name is Emily, she has a question about how a car refinance might impact her credit score and ultimately her plans to secure a mortgage. A little background on Emily. First of all, she's been listening to the podcast for a few years, so we like that. "It's really changed the way I view money," she says. Her question is related to again, refinancing her car loan, its effect on her credit score. She's 29. She says she makes 75,000 a year. She has a bit of student loan debt $70,000 worth, although she's really made a dent there, because it was over 100,000 at one point. She has $11,000 left on a car loan, and the interest rate is not bad. It's 1.5%. She has no other debt. She has emergency savings, good chunk of cash there, $10,000 to $12,000.

She did already refinance her car loan last year. She wanted to get that low rate so she got that 1.8% or 1.5% rate last year. Her monthly payment is 400 a month. She has about two and a half years left. Now, she's got her eyes set on a house and she wants to buy a house. With that, she knows that she has to probably save a little bit more money every month to get to that down payment. She's thinking about bringing down her car payment, even more b stretching the term on the loan. Right now, she has only two and a half years left. But if she takes it to six, and makes those monthly payments even smaller, her thinking is, I'm going to take that savings, put it into a mortgage, or put it into a down payment bucket. But wondering what are the risks, besides of course, paying a little bit more in interest over the term of that car loan. She's calculated it. It's about 400 extra dollars.

The price is worth it, she thinks, because it's going to allow her to save more every month, be closer to getting her her house. But then she also wonders, is this going to maybe hurt my credit score by refinancing again. Because when you refinance, the bank will pull your credit and it could be a hard pull. It's not a huge dent, but it could be – the difference between a fantastic rate and maybe a great rate, because their score is good, but it's just – she's just cautious about that as well. This is what I call financial engineering, strategizing. Really, it's like, you're really getting into – you're fine tuning this as best as you can, which I like. I can appreciate that.

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GLH: Absolutely.

[00:17:34]

FT: Firstly, I want to ask. Is this a good use of her time and effort? Is there something she's missing? Maybe she should go out there and like make an extra $500 a month with a side hustle.

[00:17:46]

GLH: Yeah, I love this question. I just want to first honor the fact that she has very – Emily's deeply thought about this and has engineered it. There's a lot of awareness and sophisticated thinking about the situation that I really admire. I also agree with you this question of, is this the right place to spend some energy is such a good follow-on question. Because I see people sort of get stuck in the over engineering, and missing the sort of forest for the trees if we use an old cliché.

I agree with you, it's probably better for her to go instead of using her energy to refinance this loan, go out and make some more money on a side hustle or something. I personally am not a fan of paying down debt very quickly, if the interest rate is under 4%. Again, go back to our inflation conversation. If your wages are rising at 4% or 5%, and your loan is one and a half percent. That's very cheap money in my opinion. I also get the desire to buy a house in the next year.

I would personally, I'd start building your team. I think this might be a theme for our conversation today, but it's probably time to talk to a mortgage broker. Because they may say, "The difference between 760, and 778 or 780 is nothing. Don't worry about it". They may say, "Yeah, that actually is important. But you know what would be better is to get a credit card with no balance on it, just so you have more available credit. The amount of your credit that's locked up into loans is not as high as a percentage. Credit, the credit score world I think, as we all know, is a little bit of a shell game. It doesn't make a whole lot of sense. What is going to be beneficial, often is what we don't want to do, which is take out more debt.

I know and I was remediating my own credit score when I was younger, it was basically all about opening a bunch of credit cards and not having a balance except for one recurring bill to teach the system that I could pay down debt and not increase my debt. I think talking to a trusted mortgage broker about your situation is really smart. If you bank with a credit union, they can be a wonderful resource. They can also be offering car loans or any other support and look at your whole picture with your best interest at heart. Because as a member, you are a part of the ownership. I recommend that and get some feedback about whether this is worth your time.

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FT: I like that. I think talking to a mortgage broker who has been through enough of this sort of underwriting process to know what would be a red flag and what wouldn't. Again, I think it does come down to your personality. I mean, Emily sounds a lot like my dad. For example, when he was here on his vacation, he spent a lot of that time trying to FedEx a check to his bank, because he wanted to get this refi for his mortgage in on time. I thought, it wasn't really a refi. It was like one of those – it was like a quick refi, like it really didn't require a lot of paperwork, it was with his existing bank. I was like, "Well, how much is this going to save you?" He's like, "$100 a month," which is not nothing. But then I thought, it's also costing you money to refinance, not just time, but it was going to cost him like thousands of dollars.

I thought, you're not even going to benefit from this until like 2024. By the way, you're in your 60s. My dad is just all like about the numbers. He doesn't value his time. He just wanted the deal. He doesn't value his time as well, as much as maybe I would. I would probably be more likely to like get a side hustle.

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GLH: Yeah, totally. Well, I think it's such – you're saying it so eloquently. Some people, the value is in being able to talk about the deal. That is where the value sits.

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FT: A hundred percent.

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GLH: I honor that. I mean, it's maybe not what I want to talk about over dinner. But if that like gives you a sense of meaning and the sense that you are contributing to your long-term success, I see this actually a lot in male identified people. This desire to over engineer and oftentimes, I'm like, "Let's just back up." Yeah, let's back up.

[00:22:09]

FT: Let's lean out.

[00:22:10]

GLH: Yeah, let's lean out. Exactly. Maybe you just need to go for a walk with your daughter. Maybe that's a better use of your time.

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FT: Well, I drove him to the FedEx, let me tell you.

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GLH: There you go. Bonding over FedEx.

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FT: Seriously. I mean, the FedEx was like, I had to pay. I didn't pay, but it was like, $60. I'm like, "Dad, you're just bleeding money tip to save this $100." By the way, don't you want to be rid of a mortgage soon. You're just stretching out this mortgage. He doesn't care. He wants to tell everybody that he has the best possible deal ever. It will help him sleep better at night.

Let's talk to Jen. She writes in. She wants to know how to best prioritize her finances in her 30s, which I think is a lot of people in the audience. A little bit more about Jen. She is 30 as I said, about to turn 30. She has a job in the military. She has no kids yet, although she'd like to be a mom one day. She said she likes to have two kids. She makes over $100,000. She doesn't have any debt. She does have an emergency fund, which is nicely funded about 65,000. She also maxes out contributions to a Roth, and puts away 500 a month into a brokerage account. Very, very impressive.

Now, she said, "In one of your recent podcast, Farnoosh, I think you mentioned that the goal by your by your 40s is to have triple your income in investment accounts towards retirement." That's not me talking y'all. That's like all the financial bigwigs out there who, it's a rule of thumb. I always say just take it with a grain of salt. But yeah, if you can use that as a NorthStar, not a bad thing to shoot for. She says, "I think I would then need to up my brokerage account savings from 500 to 1000 a month to make that happen in the decade. Does that money goal make sense for me? Since I do plan to stay in the military for 20 years, which would essentially give me a good pension for the rest of my life? Do I need to be that aggressive with my money goals? Or can I just enjoy that surplus of $500 doing other things?"

Other background information about Jen, she does not plan on buying a house anytime soon. Again, she's in the military and she moves every three years, so probably why she doesn't want to invest in a home. She is married. Her husband also makes 100,000, doesn't have any debt. He works for the government as well, so he's got the pension. If they came in your office, Georgia, what would you want to learn?

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GLH: Yeah. I'd want to know what their goal is. It seems like there's an important moment where we shift from making these core financial benchmarks happen, emergency funds, good salary, maxing out our retirement accounts that we have available to us. Then there's the question of, why? What am I doing it for? That question to me has the next follow-on question as a financial planner. I'm like, "Well, if you want to have X amount of money at this date, so that you can live for, so on, and your grandma lived to 100, et cetera, et cetera, et cetera, all the assumptions, how much do you need?"

This question, Jen, is so good, because you're pulling forward the complications of each person's situation. The fact that you have a pension is so incredibly rare and so incredibly valuable. One of the things I love about Social Security is it's the way in which all of us have access to a guaranteed income source, which is almost impossible to get. I am excited about your pension, wish everyone had it, but I'm so grateful for your service. I would think that the three times salary in assets is not really relevant for you in the same way it is for the rest of us who don't have access to a guaranteed income stream like that.

You can likely look at your – my guess is there's some login you have access to and it will tell you how much you can get at 62, and 66 and 70 years old. Most pensions work in the way that you have – you get the highest payout if you wait as long as possible. There's really a date around 70, in which you don't get any extra benefits. Social Security works this way.

A lot of our clients who are in a situation like I'm kind of hearing from you is, "Oh, I want to retire before the standard retirement age, I have a pension and I want to maximize that." There's the sort of gap years between the time in which you retire and the time in which you start getting your Social Security or pension in this situation. That is what you're really funding. Understanding is your brokerage account and your Roth IRA, are those going to become the sources of income for those in between years? Do you think you might want to work a little bit because that just feels satisfying for you? Those are the kinds of questions that a good fee-only financial planner can probably answer for you in like two or three hours.

I'm guessing through the military, you may have access to that person, but it's a pretty complex question you're asking. My answer could be yes, you need 300 or it could be, "Oh! You need 600, because you want to quit at 52 and not work until you're 70. The goal would be to spend down your brokerage account assets throughout that time period. Congratulations, you've moved on to the face where a fee only financial planner would be a really great investment for your family. The other thing I would say as it seems like you're making a lot of great decisions for your family, just make sure you're also taking care of your heart, and your free time and relationships, because that's the thing we don't ever get back. I'm seeing a lot of that adjustment being made right now of save, and also go on vacation with your oldest friends. It's just good for your heart.

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FT: Georgia, I'm telling people, don't pay off that 2% loan. Like, "Take a vacation."

[00:28:07]

GLH: Yes, our hearts need it. We need rest, sweet things.

[00:28:12]

FT: I really love that answer. I think you're right. It is going to be a derivative of you know, when she wants to retire when she may have access to that pension, what her other goals may be. I mean, bringing two children into the world is not going to be free. You may have to save that anyway, but for another purpose.

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GLH: Exactly. Yeah.

[00:28:36]

FT: We have time for one last question. This is a great question and Malika wants to pay for her parents' home remodel, needs some advice. I have often met usually the daughters who want to take care of their family, their parents and support them through retirement. This sounds like, where her hearts at. She says, "One day, I'd love to be able to gift my parents a complete remodel of their home. I think it might be easier to demolish the existing home and build a new one on the existing foundation. My question is, then would I qualify for various home loan programs to rebuild since I don't actually own the property?"

Why don’t you just buy your parents a new house, a nice ranch style that is accessible in the neighborhood that they want to be in? I mean, this sounds like a nightmare to me. Demolishing their home. which could be traumatizing. Then they’re displaced, and then they have to take time to rebuild, which right now, building a home, builders are not taking on projects because they can’t get the lumber. They are selling homes right now without garage doors. Depending on her timeline, I don’t know if building right now is a good wise idea given there are going to be some delays. What do you think?

[00:30:01]

GLH: Yeah. I think there’s some important elements in here that I want to pull forward. One, a deep-felt sense of generosity, that I think you should really honor. Two, some guesses as to what your parents might want. I think what would be most helpful if I were in this scenario with a client, I would say, first off, let’s figure out how much you have available for a gift of any kind. How much would you want to put aside for this? Isn’t it undermining your own needs and ability to support yourself? What other ways may you need to show up for your parents or other family members? Let’s put this within context.]

Let’s say her situation is such that she could afford $100,000 for a remodel. I don’t know where her parents lived, where that would be enough money, but let’s just say it is. I would at that point go to her parents and just say, what would be most supportive for you? They may not want to own a home anymore when they turn 70 or 80. They may say, “You know what? We’d be so happy renting. We would love to live in a community that has more resources, and social life and so on.” A lot of people as they get older, their homes actually become not freeing for them, but actually a place of great separation, and stress and they can’t maintain the house anymore.

What is actually better for them is they love living in a community, because they get to like go to book club, and knitting club and swimming club. They have a built-in community around them. Single family living as we age is, it’s a little problematic, because it keeps us separated from each other, especially as our mobility decreases. I would, in this scenario, I would recommend to this person, center your desire to gift, make sure you can really afford that gift, and then ask them what they want in the next phase of their life as their living space. They may want to demolish their home. I don’t know. Sounds stressful to me and also seems like $100,000, it’s not going to be enough money or not even close to.

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FT: It costs money to demolish it.

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GLH: Also, the other thing I'll say about this is that homes and familial homes are very weighty with projected personal value, personal net worth, and especially for families. That sometimes not what serves.

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FT: You can get a lot of money for that house right now. I'd be willing to bet. It's a good time to sell. Not a good time demolish, a great time to sell.

[00:32:40]

GLH: Exactly.

[00:32:40]

FT: I think we gave our friend here lots to think about, but I really like the steps of centering your generosity, thinking about how much you can feasibly give that won't compromise your financial needs. Then bringing your parents into the conversation, and we have done many episodes on this podcast about how to talk to aging parents about money, and the next chapter in their lives and how you can support them. This is not always an easy conversation, so I want to just preface that we do have resources and podcast. Actually, I'll throw some links here in the show notes so people can just go and not have to be burdened by the search.

Georgia Lee Hussey, as always, thank you for centering us. This show is where it's at because of you and your contributions. I so appreciate you. Thank you.

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GLH: It’s so fun. Thank you so much for having me as always, Farnoosh.

[END]