EPISODE 1641

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FT: So Money episode 1641, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It's March 8th, 2024, International Women's Day. Today is a global day celebrating the social, economic, cultural, and political achievements of women. I had the opportunity to give a few talks this week. It was really fun. First, on Wednesday, I headed to the financial district to visit the lovely folks at QBE North America. The Women's Initiative Network invited me to speak in person at their New York City headquarters. I got the chance to talk about my book, *A Healthy State of Panic*, and how financial fear can be an accelerator in your life.

I almost didn't make it, though. I woke up that morning quite sick, quite under the weather. I was feeling nauseous, a little foggy. We've been dealing with a stomach bug in our household, and I think this is true across the country. Raise your hand if your family or your household or you have been under the weather. I was worried that I was next. My son had had it. My husband had had it. I was worried that this was it, like the boogeyman had come for me that morning. I was like, of course, the morning that I have to go into the city. So I nursed myself until I got there with some ginger ale and lots of liquids and did the thing.

Then the following day, I went to Luminary for their third annual Women's History Month Summit. I was on a panel to talk about fueling financial freedom. It's a bummer that Women's History Month is just a month. I wish it was – well, up here it's every day on So Money. We like to celebrate the accomplishments of women on this show.

Speaking of, this week, we kick things off with Giovanna "Gigi" Gonzalez, who's the author of a new book called *Cultura and Cash*. Really great conversation with Gigi, she goes by Gigi, about how, as the daughter of Mexican immigrants, she has had to unlearn and relearn and new learn all of the ways to manage her money which has meant creating some serious boundaries between her and certain family members. It was a really honest conversation. I appreciated that she shared that because it's hard sometimes to break from tradition, financial tradition, especially if you were raised with financial expectations that are just not realistic in America as a first gen individual who might have student loan debt, and is dealing with the cost of living and stagnant wages. Our parents worked very hard, yes. They had their challenges, but this expectation that Gigi specifically was talking about helping out family members before you are able to even help yourself was one that she had to re-evaluate.

Then on Wednesday, we sat down with Eliana Goldstein who is a certified professional coach. She gave us some great tips on how to create more meaning and money in our careers because job satisfaction is at an all-time low. Not a huge news flash there, but Eliana helped to kind of get beneath it all and figure out, if you are still in that pursuit of a dream job, how to actually go about it, what is realistic, how to ask for more money, how to create more benefits for yourself at work, how to communicate what you need at work without backlash.

Coming up on the show, we're going to answer your money questions. This is what the Friday episodes are all about. We have questions today about how much is enough to keep in your checking account versus your savings account, the pros and cons of 529 prepaid college tuition plans and the 529 savings plan. There are two types of 529s. Did you even know? The 529 prepaid college tuition plan is not as common. But one listener has access to one in her state, wondering if she should take advantage of it.

Another listener has a follow-up question from a previous episode. She was someone I helped in a previous Ask Farnoosh, wondering if she should sell her house and use the equity to pay off her debts. You might be surprised by my answer. Then is it too late to invest in the stock market when you've hit age 50? If you haven't invested at all and now you're 50 and you do have some money to invest, potentially, should you do it? Is it worth the risk? We're going to get to all that very soon.

First, a quick announcement. This is really exciting. For those of you who have been following me for a number of years, you may have known that I hosted a book workshop for a number of years prior to the pandemic. My last one was actually in March of 2020, and I said to myself, “Before I knew what was actually going to happen in the world,” I was like, “I think this is going to be my last one, or I'm going to take a break. I've done five or six of these. I think I'm going to work on my book now and then come back maybe in the future with another book writing workshop.”

Well, the day has come. My Book to Brand writing workshop is making a comeback, back by popular demand. Now, I'm talking to those of you in the audience who are interested in writing a non-fiction book, a book that shares your expertise, your knowledge, your thought leadership, your big idea. I want to help you. Not just me, I'm inviting the top literary agents in New York City, some of the top publishers in New York City. I even have somebody who is a top hybrid publisher. We are all going to work with you in one day to help you craft the blueprint for your book proposal and give you the important feedback you need to be able to set your proposal up for success. Be in the room where it happens.

I have to say that, for me, publishing four books, it has come down to relationships, who I've happened to meet. The first book I ever got published, why did it happen and how did it happen? It's because I had to network. I had to find out the who's who of publishing, first starting with a literary agent. How do I even find one? I was living in New York, and it wasn't easy. Book to Brand is a rare opportunity to be in the room with the literary agents and publishers who are not going to be speaking at you but working with you to help you craft a dynamite book proposal. People who've graduated from Book to Brand, they have gone on to get six-figure deals. Thanks to the very people in the room they met at Book to Brand.

If you're interested in joining me and my co-lead, Richelle Fredson, who has been a guest on this show, she is a book proposal mastermind. She helped me craft the book proposal for *A Healthy State of Panic*. She's worked with New York Times bestselling authors. She used to work in-house at Hay House Publications. She and I are going to lead this workshop, and I'm super-duper excited. Go to booktobrand.co, booktobrand.co, and check out the event details, and grab your spot. We've got an early bird special happening right now for anybody who wants to sign up soon and reserve your seat. I'll put that link in our show notes as well.

Okay, let's go to our reviewer of the week, and then we're going to hit the mailbag. This week, we're going to say thank you to TK_1989 who calls the show the best one-stop shop for all things personal finance. It's a long review, and I appreciate that. But I'm going to summarize here. TK_1989 writes, “If you're looking for an amazing personal finance podcast that caters to everyone, from those who don't know much about personal finance to those who consider themselves pretty knowledgeable, look no further. I was moderately happy at my previous job, and one episode helped me evaluate that job, discover where I really wanted to be in my career, gave me actionable steps on how to prepare for and ace the job search process.

Then when it came to negotiating the salary, another episode gave me the blueprint on how to negotiate that money. My original offer was 40% more than what I was making before. After negotiations, that rose to 53%. Now, I have a job that I love more than the last, where I get paid more, and I have a better work-life balance. Hit that subscribe button and join the fun. I promise you will not regret it.”

My goodness, TK_1989. Was 1989 when you were born? I got some years on you, but you are making magic. I love it. Thank you so much for being such a devout listener to this show. I'm so happy to hear that the advice has been instrumental in your life. Let's chat. Email me, farnoosh@somoneypodcast.com. Or you can DM me on Instagram, @farnooshtorabi. Let me know you left this review. I'll happily send over a link where you can pick a time for us to have our conversation. I open this to anyone listening who wants to chat with me about work or money or anything that's on their mind. Leave me a review. I pick someone every week to get this phone call.

All right, let's hit the money mailbag. First up, a question about high-yield savings, and it’s actually a personal question for me. This is from Sierra. “Farnoosh, how much of your savings do you keep liquid in your checking account? I'm trying to decide if I should put the majority of my rainy-day savings in a high-yield savings account. The only downside to the HYSA is that it takes about 10 days to make a withdrawal. So I want to put the majority of my savings there but not all of it. Maybe keep $10,000 at my regular bank. I can't imagine a rushed emergency where I would need the money in less than 10 days. Even with medical bills, I think they give you time to pay it.”

All right, Sierra. Personally, I keep about three months' worth of my monthly expenses in my checking account. That's to cover not just my expenses but all also taxes and any other unexpected expenses that may come up throughout the month. I know typically what I will have to afford based from what I've been affording month over month. But some months are more than others, so about a three-month average in my checking account. Then the rest of my liquid money, six months about worth of savings, goes into a savings account. I will confess this is not in a high-yield savings account. Why you ask. Why, Farnoosh? You are a financial expert. You host this podcast.

Look, this is nothing against high-yield savings accounts. Truthfully, I invest so much of our money. I invest about 20 to 25 percent of my income every single year in the stock market. A high-yield savings account, to Sierra's point, while there is a high yield, potentially, there are other things you want to keep in mind. Is it very liquid? Ten days, for me, I don't want to have to freeze up my money for 10 days. That's just a personal preference. I will forgo the four or five percent interest, which by the way, is temporary.

Could I move some of my savings into a high-yield and not be at risk? Sure. But as we've talked about on this show, switching banks is not always so simple. High yields can become low yields, eventually. When you're choosing a bank, yes, your savings rate's important, but you also want to consider customer service. Is it accessible? Are there ATMs? Can you transfer the money pretty quickly? I still need to use ATMs in my world, believe it or not, because I have people who want to be paid in cash. My babysitter, for example. So I'm hitting up the ATM quite often. That's why I keep money in savings at the bank that I've always been at for a long time that has several ATMs around my town. It's a personal preference. Again, nothing against high yield.

Back to you, Sierra, I think how much you keep in your checking versus savings comes down to looking at your two to three-month average of how much you're paying into bills, expenses, your rent, your housing costs, your food costs, your utility costs. What are these costs? Then multiply that by two to three. Stick that in checking. The rest you could probably easily put into a savings account, high-yield or not. That's up to you. But make sure you do a little bit of research before you pick a bank.

We talked about this just as recently as Friday with Georgia Lee Hussey, who is a financial planner, owns a financial advisory helping high-net-worth individuals. She's like, "Look, high yields are great, and they're not to be discounted." But a lot of banks use these high yields as marketing draws to get you in. Then once you're there, inertia kicks in. You're not going to leave once that yield goes down. So it's really important to just put it in the bigger picture of things. If you are investing a lot, if you value liquidity, all good reasons to consider not putting your money in a high-yield savings account.

All right, next question is from a listener who's contemplating between a 529 savings plan and a 529 prepaid college tuition plan. There's two types of 529 plans. One is what we more often talk about, the 529 savings plan. These are administered by every state. You can invest in anyone you want. You don't have to invest in your state's 529 savings plan. Essentially, you invest in this savings plan. It's like an IRA, but it's for college. You can take the money out for higher ed costs.

In recent years, the 529 savings plan has expanded, become more flexible so that you can use your money not just towards college but also things like private school and secondary school. Then you have the 529 prepaid tuition plan which allows parents to pay in advance for education at a particular university or group of universities. The payment today is based on current tuition rates. We know the cost of college is increasing faster than the pace of inflation. I think something like 6 to 10 percent every year on average.

A prepaid plan works best for households where they want to mitigate the risks of increasing costs of college. They want to lock in a price today because they believe, and the charts show this, that tuition costs will rise faster than inflation. You don't want to maybe take the risks that are associated with stock market investing, bond investing, which is how a 529 savings plan is managed. Your money in a 529 savings plan gets invested in the stock market. There are only a few states that offer prepaid tuition plans; Florida, Maryland, Michigan, Pennsylvania, Texas.

Our listener lives in one of those states, and so she's wondering, "Since I do have access to this, which is a rarity, should I consider it? What are the pros and cons?" She says, "I would love to hear if you can outline some potential situations where one would make more sense than the other." She feels nervous making such a big decision. No big.

All right, great question, really great question. Here's the thing. 529 savings plans, where you contribute to the plan, the money gets invested. You take it out typically when your child is ready for college. You can use it for college expenses but also other education-related expenses, as I've laid out. It could be maybe middle school, high school. It could be secondary school. It could be a vocational school. It's really broad now the definition of education costs. That's ultimately why most people choose a 529 savings plan over the prepaid plan because of its flexibility.

For the folks who choose a 529 prepaid plan, these are, I would say, the families that are very risk-averse. They want certainty. They want to know today how much college is going to cost in 15, 16 years. You said your children are, I think, two years old, so there are no surprises. They don't want to arrive at college realizing that what they have in their 529 savings plan is not enough because maybe there was a recession or two in between now and your child going to college. Your stocks, your portfolio didn't perform as well as they should have or could have to be able to fully meet these expenses in the future. That's it.

You take this certainty, that's the pro, with some of the cons, which is that this plan, the 529 prepaid tuition plan, has limitations, namely where your children can go to college with this money. A 529 prepaid tuition plan is also ideal for families that know with certainty that their child, A, one, will go to college and, two, will go to college at one of the universities, colleges eligible within the 529 prepaid tuition plan, which is a smaller amount of schools than the 529 savings plan and what that money can go towards.

With 529 prepaid college tuition plans, the money typically only covers tuition and fees at in-state public colleges or universities. In conclusion, a 529 prepaid college tuition plan is best for families that want to assume basically no risk. They want to know today what the cost of college is going to be in the future and start paying towards that. They're perfectly fine knowing that this money can only be used and will be limited to in-state public institutions. If you want to transfer the benefits to another state or private school, there may be restrictions or additional costs.

The 529 savings plan, which is what we have and what most people open up, much more flexible. You can use the money for qualified higher education expenses, including tuition, room and board, books, other expenses. You have to be comfortable with market fluctuations because 529 savings plans do invest your money in the stock market and in the bond market.

Typically, the investment accounts within the 529 plan, the account managers are conscious of the fact that as your child approaches college age, the balance of the portfolio changes to be less risky, to be less invested in stocks, and more invested in bonds. Kind of like a target date fund for retirement, it's like a target date fund for college. Personally, I would go and I am going with the 529 college savings plan. It’s just way more flexible.

All right, next up is a follow-up question from a listener. If you've been listening to Ask Farnoosh for the past few weeks, you may have heard our question here from Jen, who initially reached out because she and her husband who've been married for about 10 years have been living in Oklahoma, have two kids, recently moved into a fixer-upper. Now, with the cost of fixing up the home, the daycare costs, they have student loan debt, car payment, credit card debt, they can't figure out a way to get ahead and gain any extra income to start building wealth.

I gave them some advice in a recent Ask Farnoosh as to how to maybe shore up some cash. Now, she's following up. She says, “Hey, Farnoosh. Thanks so much for answering my question on your podcast. I literally screamed in my kitchen when I heard you read it, and I just want to say thank you for taking the time to answer my question. Really great insights and action steps.” Her follow-up question is this, and it's pretty exciting. I don't know. I find this kind of exciting. She says, “We may have the opportunity to rent for the same price as our mortgage, which is really low. It has a three percent interest rate. Our hope was to eventually move out and use the property as a rental property in the future.” This is their fixer-upper.

“But if we can sell, pay off debt, and rent, would that be a better decision in this season? Or should we continue to sit on our house? I would hate to keep something that's not the right investment for this season in our life, but also hate to sell it if this is something that will be worth more in the future. The equity from the sale of our home would pay off all of our debts right now, but then we'd be starting over from the ground up to save for a home.”

Well, Jen, this is a huge decision, and I don't want you to take my word for it exclusively. I think you want to, obviously, take some time to think about this. Maybe talk to a financial planner, obviously, in conversation with your husband. But I would be so relieved if I were you, with my two children at the young ages that they are, with all of his debt as well, to be able to wipe out that debt. This home, oh, gosh, it's been lovely, right? You've been able to buy it, and maybe you had all these aspirations to turn it into something fantastic and make it into an investment property.

But that actually hasn't happened yet, has it? You are holding on to this vision of what could be, whereas I would say let's focus on what is. What is the truth and reality of your life today? What could actually give you some substantial breathing room and reduce your stress and reduce your financial anxiety? There is nothing wrong with renting, by the way. If that's at all part of your concern is like you don't feel like you're moving up in life because you're renting. No, you are being strategic. If you decide to rent for the purposes of clearing off all of your debts, I think that is a sound reason to sell your home, cash out the equity, and then move forward from there.

It sounds to me that you're pretty excited about this possibility of cashing out the home to be able to pay off your debts. I mean, just imagine in a year from now you're renting in a nice home, you have liquidity again, and you have no debt. How do you feel? What will not paying all this money every month towards your debt mean? If you could have instead an extra – I don't even know. Is it over $1,000 more than that every month? You could invest that. You could, of course, save it, too. You could do so much more. You have more options in your life as it turns out, which then creates a fuller life.

Don't think of this as a step backwards. Think of this as actually an accelerator, selling your home, if that's what you choose to do. This is all about narrative. It comes down to the stories we tell ourselves. I'm telling you, being able to cash out a home to pay off debt, you're not stepping backwards. You're doing a responsible thing for your finances, for your mental health, for your family. I'm confident, again, that you'll be able to buy. You have mentioned to me that you and your husband have a relatively low cost of living in the Midwest. By the way, when your kids are no longer in preschool and maybe they've gone into the public school system where education is free, that's another opportunity to accelerate savings. If you want to buy a house again, you can.

I have a friend right now who is selling her house. She's got three kids because that's what she needs to do to be able to create more options in her life. Right now, she feels very stuck. She's got this mortgage. She's in between jobs. She has a ton of equity in the home. They want a bigger house because their family has grown in the last couple of years. Buying another house is not the solution. It's renting, right? It's selling and then renting and then figuring out your next steps. But at least when you sell and then you're renting, you have options.

Right now, you don't have options when you're an owner, given all of your expenses and your debt. If you want flexibility and options, cashing out that equity may be how you do it, and I would fully support it. I appreciate you coming back to us, and I think this is great news. If you think that your house can sell quickly and you can make a lot of money and you can pay off your debts, wow, that's a heck of an opportunity.

Next question from our audience is a single mom, age 51, who recently divorced after 21 years. She has no Social Security for her future because she was a stay-at-home mom, she says, the entire time. She did, however, get a very large payout over 10 years for a property settlement. She currently has a nice nest egg invested in treasuries but trying to figure out if she should put the money in the market, like a S&P 500 index fund or a high-yield savings account, which currently she could earn about five percent. “What else can I be doing with my money,” she's asking. “It's hard because I won't have the ‘time’ in the market that everyone talks about. In 10 years, I need to be self-sufficient. Any ideas would be helpful.”

All right, I think that although you are 50 years old and you do want to be self-sufficient in 10 years, unless you plan to cash out all of this money at age 60, I think you can still afford to be invested in the stock market. I mentioned this in my investing workshop in January, which by the way, is going to make a comeback this year. If you missed that investing workshop, I'll be doing it again. But if you're 50, the rule of thumb is usually to take the number 110, subtract your age. In your case, subtract 50, and you land with 60. That means that about 60% of that settlement that you have could be invested in the stock market, and the other 40% could be in a high-yield savings account.

The idea being that once you hit 60, you're not going to be taking out all 100% of this money. You might be withdrawing four or five percent of that total amount, and the rest continues to be invested. Actually, your investment horizon is not 10 years. It's maybe more like 25, 30 assuming you do live a long life. But what you have to pair this with is your own risk tolerance. So if you are like, “Nope, I don't feel comfortable investing 50% of this money in the stock market. Regardless of the fact of even if I live to 100, I want to do 30%,” then do 30%.

I think you can still afford to be investing a significant amount of this money, 30 to 50 percent, in the stock market because you will need this money not just all of it at 60 but throughout your years in retirement. Along the way, maybe you'll also have a job that's going to be paying you a salary, and you won't even have to touch this money for much later, much longer. I know none of us want to be working in retirement, but it doesn't have to be a stressful 40-hour week job. It could be something that you like to do part-time, just to kind of have in the background to bring in that cash to cover the basic necessities.

A quick one here from Heather, “Hey, Farnoosh. In a podcast, you talked about an app that you and your husband use to track all of your accounts. Can you share which one that is?” Certainly. It's called Empower. It used to be called Personal Capital. Now, it's called Empower. I use the free version, which is just the app that allows me to connect all of our accounts; my accounts, my husband's accounts, our shared accounts, into one dashboard, essentially. I can see all the accounts. I can see what checks have been cleared, where we are with savings, where we are even with our home value. It connects to Zillow. Of course, Zillow's a little inflated, I think. But, hey, I'll take it. It’s nice because this is a way for both of us to have at least a view of what is going on in our accounts.

All right, that's our show, everybody. Thanks so much for tuning in this Friday. Again, if you'd like to join me at Book to Brand, I'll put that link in our show notes. It's an incredible opportunity to hang out with literary agents and top publishers. Get your book proposal figured out. You don't need to have it figured out yet. You come to the workshop. We will help you create that blueprint. If you do have it figured out, well, even better. You'll have a head start. Thanks for tuning in, everybody. I'll see you back here on Monday, and I hope your day is So Money.

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