EPISODE 1674

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FT: So Money episode, 1674. Ask Farnoosh.

[INTRODUCTION]

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ANNOUNCER: You're listening to So Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to So Money.

[EPISODE]

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FT: Welcome to So Money, everybody. Friday, May 24th. It's the Memorial Day long weekend. I hope everyone is having a great kickoff to, I guess, it's like they call this the unofficial start to the summer. Definitely, here in New Jersey it has felt like summer all week. Spring, it's like the most truncated season. It's just a lot of allergies, a lot, a lot. I mean, this year, I don't know about you, but it was really hitting me hard at the pollen. I remember coming home after going out for a 30-minute walk and just crashing and feeling as though I might have something else going on, like do I have COVID? Am I sick? Mo, it's just allergies.

I've gotten to the habit of days like that, knowing there's going to be a lot of outdoor activity or even, honestly, just being at home and the windows open, God forbid. I take a Zyrtec. Pro tip. Take something. Don't suffer through it. I never had any issues with allergies my whole life. Then I guess the last couple of years, it's been really bad. I hear this from a lot of us. It's really affecting us.

This week was special, too. I got the chance to visit a local library here in the area, the Nutley Library. If you haven't been there, you've got to check it out. I had never been to this library, which is connected to the Montclair Library. It's part of the co-op, but it is situated on the high school campus. It's so idyllic. You got the high school. You've got this football field. This library. All this manicured grass.

Anyway, I went there because they were having their annual reception where they honor an author. They do a raffle. It's this like fundraiser/author night. It was so elegant. I got to meet some lovely community members and discuss my book at *A Healthy State of Panic* with the audience. They were also interested in the So Money podcast like, "Tell us about the podcast." I did. It was fun. I got to go up there and just brag about my work for 40, 30 minutes. When I went to sign books, though, that's when I got to meet some really cool people one-on-one, including these two young women who came up to me.

I think they were 22 and 19. They were cousins. They just casually dropped that they owned a business. I said, "Oh, tell me about the business." They said, "Oh, you know? It's a surfboard, bodyboard business. We actually went on Shark Tank during the pandemic." I said, "I'm sorry. What?" I said, "Well, did you get a person – did you get a shark to give you money?" They said, "Yeah, two sharks. Robert Herjavec." Then there was a special guest shark. I can't remember the name, but whoa, so subtle, so cool. I was like, "Well, I want to be you when I grow up."

Then a little bit after that, a woman came up to me. 81 years old, her name was Barbara. She said, "I'm loving your book." I said, "Barbara, why are you reading my book? You're 81 years old. You have all the wisdom. You probably don't need to read about managing your fears." She said, "No, but I'm halfway through your book. I used to be an English teacher. I'm really appreciating just the writing, the quality of the writing, the prose, the way that you have structured the book. I'm reading it through that lens and really, really enjoying it."

I said, "Oh, my gosh. Can we please take a picture? I need to document this moment." Because this might be the best compliment I've gotten about the book, really, to get someone who is so wise, and so experienced and also an English teacher to tell me that she is enjoying *A Healthy State of Panic.* By the way, the paperback comes out in August and there are many chances to actually get a free copy right now. I know that our friend, Hannah Cole, who is a tax expert. She's over at Sunlight Tax is giving away 25 free copies. Run over to her profile and try to grab a copy.

In case you missed any of our episodes this week, we had on Monday, Deesha Dyer, who is the former White House Secretary. She has a new book out called *Undiplomatic*, where she pulls back the curtain on her White House life and gets into some of the struggles that she had, even just getting that job. She was started out at the White House as a 31-year-old intern. She feels very much like a late bloomer in her life. She did not complete college. So, there was a lot of insecurity going into that role. Quickly, though, she was promoted to go from intern, ultimately to the secretary. then really at the forefront of so many important events, like state dinners and traveling with the Obamas.

This was during the Obama administration. Lots of great insights with her, Deesha Dyer, on Monday, episode 1672. Then you must listen to Wednesday's episode where we talked about what's happening online with financial scams, and investing scams, and affiliate marketing scams. AI is not making it easy for us. AI has helped a lot of scammers steal money, millions of dollars. Investing scams are actually one of the leading kinds of scams online.

We had a guest on our show, Allison Baggerly, who is a financial expert and the creator of Inspired Budget, who has done a lot of research in this area, just because she's interested. She's got two young boys and she wants to educate them. We talked about how to help our kids, how to help our parents, how to help ourselves in this new world, in this new age of AI, and how it is fueling fraud online.

In our mailbag today, we have questions about couples and money. We have questions about how to prioritize your different savings buckets and investing buckets. If you're investing in an IRA and a high yield savings account and a 401k at work, where do you start? Where do you prioritize? Ahead of that, though, a little announcement. On Thursday, May 30th, I'm offering my next So money pop-up workshop. This time we're going to cover money and couples.

Last month, we covered investing. This month, we're talking about how to develop financial skills and systems for your relationship. I'm going to talk about how to navigate money with your partner, without arguments, would answer questions like how can you feel like a financial equal in your relationship? How do you decide who pays for what? How should you manage your savings together? If your partner is your financial opposite, which is a lot of relationships, how do you navigate that? Ultimately, how do you find common financial ground and set up systems that really work in the long run and that you don't have to have these money arguments or these money squabbles over and over again?

This is going to be a one-time only engagement, probably the only time I'll teach it this year. It's going to be Thursday, May 30th, live at noon, Eastern. If you can't make it at that time, as long as you register, you will be getting the recording. You can also send your questions ahead of time to me, so that if you're not there in your absence, I can try to answer your questions. That website to sign up and bring your partner is somoneyworkshop.com/couples. Somoneyworkshop.com/couples. I'll put that link in our show notes.

There will also be time at the end to ask me your questions live. If there are more questions at the end of the session, but this is one of the top issues, top concerns within our audience. It's not, because everybody's on the verge of a breakup over the money, but we would all love to smooth and out some areas in our financial lives with our partner, right? Whether that's just learning certain communication skills, learning how to manage the money and what kind of buckets. Do we have two accounts? Do we have one account?

If you're the breadwinner in your relationship, like I am. I'm also going to reserve some thoughts on that front and how to navigate that when I think sometimes income disparity between two people in a relationship can be an extra layer of complexity, somoneyworkshop.com/couples to reserve your spot. Again, that's Thursday, May 30th.

All right. Let's head over to the mailbag. Our first question is about couples and money. Our friend in the audience wants to know, “Farnoosh, how do I transition to have separate accounts in my relationship? I've been married with fully merged finances for many years, 25 years in my case.” Just a preference. I don't think this person is getting divorced. This isn't because they're separating that she wants to have separate accounts.

I'm not sure what the motivation is, but it doesn't sound like they are on the precipice of a breakup where in that case, it would also make sense to start transitioning to having separate accounts., but I think in this case, they're happily married. They just want to find ways to create some more maybe financial autonomy for each person in the relationship, which I completely advocate for. I think it's so, so important. At the end of the day, does it really matter how you're managing your money and so far as the number of accounts or whether you have joined or separate accounts?

Honestly, at this point in my career, I've seen everything. What I have found is that if your foundation isn't solid, meaning there isn't good communication, you don't have trust. There isn't transparency. Then it doesn't matter what your financial buckets system is, your savings buckets system is, it's not going to work. It's not going to work. Before I get into my preferences for how to manage your savings and whether to have a joint account and or separate accounts. I first need to be very clear that you must first work on your communication, and the trust, and the transparency.

There are ways to implement this in our relationship. We use an app called Empower. It's free. This level of Empower that we use is free. You get to pull all of your accounts onto one dashboard, so both of us can see where our finances are jointly, separately. We have multiple counts, but it's just a way to stay in touch with the current finances and the relationship. When bills get paid, what are our debt levels for the mortgage or car payment, etc.

There's also an openness to talk about money. I never feel intimidated and vice versa to talk about money, to talk about what's bothering me or what my goals are. That has to be there. That layer has to be the first layer. Then from there, I think whatever works for you is going to work best for you. Do what is sustainable. If you feel comfortable having everything in one pot, that's fine, but if you ask me, I think that if you're going to do that, also have separate accounts that maybe is connected to the joint account where every month you're taking a percentage from the joint account to your individual accounts. That way, the two of you can go on your separate ways to spend as you wish.

So many of the arguments that bubble up in relationships, a lot of the tension that arises in relationships around money has to do with spending. How one person in the relationship is spending versus the other. The values don't always align the spending values. Look, I like to go get my hair done every six weeks. It's a couple hundred dollars for the roots to get colored. My husband doesn't have that on his budget. Okay. If he's going to come after me for that, we're going to have problems.

We don't. One, why? Because, well, we have mutual respect for our spending styles. Also, I have my own money and he has his own money. We don't go around as one mom told me, “My husband chases me around the house with the credit card statement.” That's so dehumanizing to me. I don't know about you, but I feel like I would love for every couple to never have to be in that situation.

Going back to our friend who wants to transition from having a joint account exclusively to having separate accounts. What I would say to you is that, first, figure out what is the purpose of this personal account that you're going to design for the two of you, these personal accounts. How much do you anticipate wanting or needing in your account on a monthly basis? From there, whatever that number is, you want to create an automatic system that drafts that amount from your joint account to your personal accounts.

Logistically, you could choose to bank with the same bank where your joint account is. That could be simpler. One website, one dashboard. You've already got the app and you can look at both your joint account and your individual account, perhaps at the same time. It's not that hard to transition out of having a joint account into separate accounts, but you first need to do the homework of realizing what is going to be the purpose of these individual accounts, how much do we want to fund in each of these accounts on an ongoing basis, and then creating the automations to have that work for you. I'll be going way more into this stuff in the webinar next Thursday. Again, that website is somoneyworkshop.com/couples.

Next up is our friend Sierra, who is not sure about how to prioritize her savings accounts. She says, “Farnoosh, I'm trying to reach all of my dollar amount goals in all of my accounts, and I'm not sure if I'm doing it right.” Basically, she's got a health savings account, a Roth 401k, a traditional IRA, and a high yield savings account. The Roth 401k, she gets through work. She says, “Here's what I'm thinking.” She wants me to weigh in.

She says, “I think that I'm going to prioritize the high yield savings account, which is where she's putting in her rainy-day savings, and my Roth 401k. That's Tier 1. She wants to max out that Roth 401k and also be on top of that high yield savings account as a priority every month, just to make sure that she has enough in emergency savings. Okay, so far so good. I think that makes a lot of sense. Why? Because your rainy-day account is your oxygen mask in your financial life. When there is an unexpected expense, when life takes a turn, that is where you're going to want to turn to first. You're not going to want to go to the credit cards or your investment accounts, because there's going to be costs associated with pulling out that money.

Your high yield savings account is your most liquid, most accessible, quickest way to access cash in an emergency. That's where you want to prioritize, because that at the end of the day is the backbone to your daily living, your ability to have a quality of life on a day-to-day basis. The Roth 401k is also important. I think more important than she mentioned the health savings account, the traditional IRA. Why? Well, the Roth 401k is the Mac Daddy of financial investments. One, it's an employer sponsored benefit where you may get a match.

If your employer is offering a match, a contributory match to your contribution, that's excellent. We really ought to take advantage of that. It's basically free money. It's an incredible way to speed up and accelerate your retirement savings plan. The Roth 401k is a unique arrangement. It's a hybrid between a Roth IRA and a 401k. It works similar to a Roth IRA. The Roth 401k allows you to make post tax contributions and any earnings will grow potentially tax-free. The contributions are made through the regular payroll deductions through work. So, that's where the 401k attributes come in. They have the same limits as a tax-deferred 401k, which are much higher than a Roth IRA.

In this year, 2024, you can contribute up to $23,000 pre-tax to your 401k and a catch-up contribution if your age 50 or over of $7,500, which is more than what you can do, far more than what you can do in just a plain Roth IRA. That's one thing. We know that with Roth IRAs just the simple Roth IRA, you cannot contribute after you make a certain amount of money, but with the Roth 401k, high earners are not restricted from contributing to Roth 401ks. So, for all these reasons, if you've got a Roth IRA and a Roth 401k, I would much prefer the Roth 401k, again for all those benefits that you get that you don't necessarily get with the Roth IRA.

I agree so far, Sierra, that the high-yield savings account and maxing out that Roth 401k is at the top of your to-do list. I agree with that. Then she says, “Second to that, I'm going to contribute to my health savings account and make some IRA contributions.” Fine, fair. I think that's great. Then she said, “Once after I do that, I'll open up a brokerage account.” I do agree with this hierarchy, because the HSA and the IRA contributions, there are some tax benefits.

In general, when you're looking at where to invest first, if you've got different accounts, the smart money goes into the accounts that will offer you some tax benefits, whether it's a deduction today or tax-free withdrawals in the future. That's what you target. Then once you've maxed those accounts out, you've taken most advantage of those accounts, you can move over to a brokerage account, which is a great supplement, I think, to an overall investment strategy.

Some of us may not have access to workplace retirement accounts, so then you move into maybe a traditional or a Roth IRA, which you can open up in any bank or brokerage. Then from there, you want to look at brokerage accounts to supplement those IRAs. The brokerage accounts, the pros are that there are no income limits to contributing. You can withdraw the money at any time, penalty free, whereas the IRAs limit you to age 59 and a half for the most part.

If you remove your money before 59 and a half, you're potentially facing consequences, financial consequences there, but the brokerage account is much more flexible. But again, there are no tax benefits. I don't go to the brokerage account first, I go to the brokerage account second or third after I've done all the other tax advantaged accounts. I like this plan, Sierra. It sounds like you've been listening to the show. Maybe you took my investing workshop, or maybe you just know, because you've done the good homework of figuring all this stuff out on your own.

If you have more questions this, please send them in. This is what we do in the Friday episodes of Ask Farnoosh. But if you want more hands-on from me, that's where joining the Money Members Club can make sense for you. That website is somoneymembers.com. Last question here is an audio question from Abby. It came in right before I shipped out this episode for editing. Great timing, Abby. by the way, Abby was able to leave this message.

Everyone can do this via voicemail on my website. If you go to somoneypodcast.com, there's a little button at the top right, the top right of the site that says, Ask Farnoosh. You click on it and you can leave your audio message for me there. It's fun. It's fun to be able to listen to you and have a greater sense of who you are. Her question is about whether or not to take advantage of a new government loan, 0% interest offered to homeowners who want to make eco-friendly upgrades to their homes. Let's listen to the rest.

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ABBY: Hi, Farnoosh. I'm writing from Canada where a new federal greener homes loan has just been released. It's a 10-year interest-free loan up to $40,000 for energy-saving home improvements. Some eligible expenses relevant to us would be an air source heat pump to replace our oil furnace and new energy-efficient windows. We don't have money saved for these updates, so we'd be taking advantage of the loan to do them. We're 38 and 42. We have 70k left on our mortgage and home is worth 600k. We're currently in the process of choosing and setting up our retirement investment accounts, something we're very behind on.

My question is, do you think this loan opportunity is something we should jump on, even though it's not a grant, it feels a bit like free money and that we have the chance to pay it back over 10 years? For the record, we're never shop online using installment plans and carry no credit card debt. The updates are things that will need to be addressed at some point, we’re not in emergency right now. On top of that equity in the home, we also own a separate property outright that is valued around 400k.

I already feel like our net worth is overly tied up in real estate, so it seems like going against course to put even more money into our home. But at the same time, I know these updates would increase our resale value, and we may sell in the next five to ten years. Basically, just how valuable is an interest-free loan like this? Do you think we should take advantage or ignore it and focus on catching up with investing into our TFSA and RRSB accounts here in Canada?

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FT: All right, Abby. Thanks so much for writing in. The Canada Greener Homes Loan. I was 30-years-old when I learned about this. It's an interest-free loan of up to $40,000, as she says, with a repayment term of 10 years. Just doing that math really quick, if you and your partner were to take out the entire $40,000, you're talking about a repayment of $333 per month. I'm sure you've done the math, but I just want to put that out there and pose this question. Can you do that and invest for your retirement? Can you double track this?

I see the value in this interest-free loan in that it's going to make your home more energy efficient. You're going to be probably saving money as well, while you're living in this home on energy costs, and then, of course, the resale value, I'm sure. In theory, it should add value to your home, so you're going to be increasing your home equity and your investments in real estate. If it's really about either or and you can't swing both, then I would say I would choose to invest more for retirement and less right now in the real estate properties.

The Canada Greener Homes Loan, is it set to expire? Is it like just a window offering where you have to opt in by the end of the year or in the next year? If not, and you have time to consider this and maybe not do it this year, but in the next two or three years, I wouldn't rush to do it. I think that there is more of an urgency with getting you both squared away and working towards a plan to have an investment portfolio that's not tied to real estate for retirement.

It just goes back to diversification. I would first test out contributing for retirement, seeing how that feels. What's the financial implication of that? How does that affect your life, your lifestyle, what you can spend on when you make this choice to contribute once and for all towards retirement? Will that be comfortable? Will it not be comfortable? Working with a financial advisor or a plan advisor or just an expert who can crunch some numbers with you?

You might find that you don't have to invest as much as you think. That's to be determined, but I would explore that first before you address this piece of working to improve your home, although I would love for you to be able to do both. I say the priority should be on retirement investing, especially given your ages. All right, thanks for listening, and thanks for using the audio tool.

Again, everybody, that's at somoneypodcast.com. Top right corner, Ask Farnoosh button. That's our show, everybody. You want to stay tuned for Monday's episode where I interviewed a couple who retired very early. I think one partner was 35, the other was 40, and now they're just cruising. They're traveling the world. I actually interviewed them while they were traveling through

Columbia. Live in the fire dream. That's on Monday. I hope everybody has a great Memorial Day weekend. Stay safe, stay cool, and I hope your weekend is so money.

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