EPISODE 1698

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FT: So Money episode 1698, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. July 19th, 2024. How's everybody doing? What's going on over here? Well, I just got off the phone, in fact, with a Good Morning America producer. They wanted to get my opinion on something. It turns out the Wall Street Journal did a story on what they are coining as stealth spending or stealth shopping, which just off the bat sounds like people are raining in their spending, and maybe that's what the article is about.

No, the article is actually about an uptick in couples that are hiding purchases from one another, big-ticket purchases. If you buy an iWatch, or you go to the store and you buy an expensive dress, or you order from the web, you try everything you can to hide this from your partner because you're not comfortable with having a conversation about how much you're spending on personal items.

I thought to myself, back in the old days when I was reporting on personal finance as a hard hat journalist, I would not call this stealth spending. This was called financial infidelity. The article, I'll link to it in our show notes, was I thought taking a very light-handed approach to what is really a serious issue. If you're not comfortable talking about how you're spending to your partner, to your husband, your wife, your spouse, that is often an indication of bigger problems at sea. Am I wrong? It usually means that there is a lack of trust. There is some insecurity around what you value as a consumer, as a spender.

Good Morning America reached out. They're going to do a piece on this, I think, next week, and so you might see me on the tube in the mornings. But I'll tell you already what I told them, which is that, first, as I said, I think this is characterizing what's going on a little too lightly. I think that the Wall Street Journal could have taken it a little bit of a step further and looked at more of the dangers of this and giving it a more appropriate name like financial infidelity, which it is. It’s not being honest and being cheatful when it comes to spending. You're not telling your partner the truth about what you're spending your money on; these women mostly hiding boxes from Amazon in their trunks, under their beds.

This one woman confessed to making a big-ticket purchase usually on something personal around the tax refund season, so it didn't seem so apparent. Then the producers asked me like, “What's your advice, Farnoosh? What's your advice for these couples so that they don't have to feel like they need to be so cryptic about their spending?”

I said, first, there's a lack of groundwork here that requires just having open dialogue and communication and an understanding of what each person's spending habits are and what you value. Your partner may be more into spending on their hobbies. You may be more into spending on your wellness that there should be no fear around discussing this. If there is, you want to explore that fear.

As I say, it's important to address what is giving you anxiety and get to the root of it. Is it because you were raised in a family that didn't spend any money, and now you feel like you have your money now, and you want to spend, and you kind of go overboard? Or you grew up with certain biases about what it means to spend on certain things, and you're bringing that into your relationship. We come into our relationships with so much baggage, including financial baggage. Couples would benefit from talking about these narratives, these past lives that they've led around the idea, around what money means and what spending means.

Secondly, given that a lot of these couples, at least in the article, who are coming together later in life or people are getting married later. That's a fact. I would assume that by the time you're tying the knot, you have experienced your own financial life. You've earned on your own. You've saved on your own. Maybe you've invested and purchased things on your own. That should not be abandoned once you come into a relationship or be ignored or feel like you can't discuss this, these patterns, these habits in your relationship.

To that extent, I think it's important for individuals in their relationships to have financial autonomy. There is, obviously, a desire for togetherness. You're getting married. There's commitment. I think, one, sometimes we throw the baby out with the bath water. We think like, “Okay. Now, we're married, so everything goes into one pot.” In my experience, couples that restrict all their financial decision-making to one account, that can lead to a lot of tension. Then that's where you see this sort of secret shopping, this stealth shopping, financial infidelity take place.

Have your own account and discuss with your partner how you're going to organize and what is the architecture of your financial accounts. How much is going to go into the shared pot, which maybe you decide we are going to contribute equally or jointly to these X, Y, Z expenses, the ones that we share, and the ones that we want to share and will contribute a percentage of each of our incomes to this so that it can support these shared financial expenses. Then outside of that, we're going to each take 5, 10, whatever percent of our incomes. Put them in individual high-yield savings accounts or checking accounts, whatever. Then from there, we're going to spend how we want.

There doesn't need to be this discussion, this chase, this hiding every single month. I remember I was at dinner, I think I told you this, with two very successful women that I'm friends with. We started talking about money because that's what happens when you go to dinner with me. We were talking about the ways that we manage money with our partners. I was surprised. One woman told me, one friend told me that despite she being an entrepreneur, having her own business, and prior to that always making a lot of money, her husband always made more than her, just because of the nature of their industries and what the industries pay.

She said in the early days of their marriage, he would “chase” her around the house with a credit card statement and inquire about what these particular purchases were that she'd made on their joint credit card. What is this Amazon charge for $89? What is this Bloomingdale's charge for $200? It was a horrible feeling, obviously. This is a woman who has her own job, has her own income, has had her own financial identity before getting married. Now, she's subject to this.

I said, “Did you talk about it?” She said, “Oh, yes. We did talk about it, and things are better now.” My point is you can talk about it, and things can get better. But you have to recognize when you're feeling financially monitored, when you feel like you're in spending jail in your relationship. That's not healthy. If you are finding yourself having to hide your purchases from your partner, that's not healthy. You need to discuss this. You need to understand why this is happening.

One mechanical, technical way you can kind of create more financial autonomy in your relationship is to have your own account. This is not something new. Unfortunately, this is something that continues to endure, and so I'll keep repeating the advice. But I just wanted to share. Literally, this just crossed my desk. Now, I'm here talking with you, so a little behind-the-scenes action.

Speaking of what's going on over on the home front, we, as you know, have implemented an allowance system with our kids. This just started last week, and I posted about it on Instagram. We're now at 3.5 million views of this very quick video and breakdown of how we're managing allowance in our family. My daughter is 7, my son is 10, and they each have their chores. They get an allowance. I have some updates. Really, the headline here is things are going well.

My daughter, one night, she was responsible for the dishes after dinner. She arrived at the sink and noticed that a lot of the plates had been already cleared. Her dad had done the dishes and was so shocked, asked me, “Where are the dishes?” I said, “Oh, I think your dad did them, so you're off the hook, I guess.” She said, “Oh, my gosh. Can you thank him for me?” That was one thing.

Then the other thing was my son, last night, it was his turn to do the dishes. He opens the dishwasher and notices that someone in the family put in the knives incorrectly. I've been teaching them to put the knives in, the sharp ones upside down just for safety reasons. He opens the dishwasher, and he's like, “Who put the knives in upwards in the dishwasher?”

All this to say, my kids are noticing things now that they didn't before, and that is worth its weight in gold. They're recognizing that this house doesn't just get itself together on its own. That when things are in order and in place, and there's a sense of calm and order in the house, that that just doesn't happen magically. That there are people behind that, and now they’re some of the people behind that. I think they're taking a lot of ownership in it. In addition to also feeling the value of the dollars that they're making every week, I think, really, for us, it was about instilling in them more of a work ethic around the home and feeling more of responsibility in the home that we all share.

All right, coming up, we have our mailbag, obviously, for Ask Farnoosh Friday. I'm actually running a few questions that I have answered in the past as an encore. Some of these questions never get old, and we're going to talk about, speaking of kids, helping your kids learn about money, a question from the audience. A listener wants to know, "Farnoosh, do I really need a credit card? I just became debt-free. I have a little bit of PTSD from having all that debt. How do I ease back into the credit world?" How to do a rollover Roth IRA, this topic never gets old. I'm here for it.

Quick recap of this week's episodes, in case you missed them, on Wednesday, a couple days ago, we had on Daryl Fairweather, who's the Chief Economist at Redfin. Redfin is the online real estate site. She gave us a very in-depth look at real estate right now. What's happening in the market? Why is it, as she describes, the market stuck? What's going to make it thaw? What's going to create more mobility in the housing market? What will it take for prices to come down? If you're looking for a home, is this a good time to buy? Should you wait? Then also some insights for renters.

Then Samhita Mukhopadhyay on Monday, the author of *The Myth of Making* It. If you read *Lean In*, if you were on that girl boss movement like I was for a while, RIP, Samhita wrote a book that is part memoir and part exploration of why this recipe for success that women have been served for in recent years, in the recent and, I guess, in mostly the 21st century is fraught, doesn't work, is broken. Samhita had her own reckoning with her career. She became the Executive Editor at Teen Vogue, and during the pandemic really began to see the fault lines, and how she was pursuing her ambitions and trying to create this idea of success was not adding up.

I encourage you to go back and listen to Wednesday and Monday's episodes. One little plug, for my book, *A Healthy State of Panic*, coming out in paperback next month, early August, we've got a new fresh cover. If you want a version of the book that you can just throw in your bag or gift to somebody as we head into a very weird and uncertain fall, *A Healthy State of Panic* is available for pre-order everywhere.

All right, let's go to the mailbag. McCain writes in and she says, “Hey, Farnoosh. I'm debt-free. I've never had a credit card. Do I need to open a credit card to build credit?” Ah, yes. Okay. First of all, congratulations on becoming debt-free. That's awesome, high-five. The good news is you don't have any debt. The bad news is you're not really establishing credit. Credit cards are a very important vehicle for establishing credit, credit history. While you don't necessarily need one, there are other ways to build credit. You can have loans. Even your rent sometimes is getting reported to credit bureaus, which can help establish a positive credit history, if you're a responsible renter. Credit cards are the most common and effective ways to establish credit history, as long as you are, of course, making those payments on time. You're managing your credit limits.

If you're someone who's uncomfortable with the idea of using a credit card, I'm going to offer you some alternatives to building credit. One is a secured credit card. These cards require a cash deposit for you to open and enroll. That cash deposit is yours, and it acts as collateral. I kind of think of secured credit cards like debit cards. But as you spend your money effectively and pay yourself back, you’re building credit. That behavior, those payments that you're making back to yourself get reported to credit reporting agencies. That, ultimately, gets calculated into your credit score. Secured credit cards you can open up at credit unions, community banks, large banks. I would just watch out for the fees. Preferably get one that doesn't have a fee. You're more likely to find low or no-fee secured credit cards at credit unions.

Also, if you are in a relationship, you're married, you have a partner, you trust each other, you could become an authorized user on someone else's credit card account. Their payment history, as they go and spend on their credit card, will also be reported on your credit report to help you build credit. Now, obviously, this only works if the person that you're working with, the card where you're an authorized user, does get used responsibly. You also can get issued a card yourself from that same account and spend as you want.

Then I mentioned rent reporting services. If you're a renter, some services will let you report your rent payments to credit bureaus. That can, again, help you with credit history. Finally, opening up a credit card and just, again, if you don't want to use it because you're worried about falling into the trap of debt, attach a simple bill or two to it that is a recurring bill like your water bill, a utility bill, your cell phone bill that you absolutely need to pay every month. You can set it up so that it gets covered on this credit card. The card continues to be active. It helps you build credit. You're making those payments on time, and you call it a day.

But you want credit. You want credit history, not because you want to – and even if you're not interested in getting a mortgage one day or a car loan, having good credit actually helps you get jobs. Employers will run credit checks. They won't know your credit score, but they can look at your credit report. Landlords, obviously, will want to know your credit history. It's important. It's not just for the sake of getting financing.

All right, Lucia wants to know how to design your portfolio and specifically how much should you be invested in stocks versus bonds in your 30s. I'm going to get into the asset allocation throughout the decades here, thanks to this question. It's a good question. I've come across this rule of thumb over the years in my work, and it's adjusted over the years, too, even this rule of thumb. I think because we're living longer.

It started as a rule of thumb where you take the number 100, and you subtract your age. That number that you're left with, the percentage of that is the percentage of your portfolio that should be allocated to stocks. Well, now we're living longer, so many people and I myself included use 110 and subtract your age. Then that is the number you allocate to stocks. For Lucia who's 35, 110 minus 35 is 75, so 75% stocks. That's called the age-based rule. Then the remaining percentage, 25% for Lucia, would be allocated to bonds.

But, capital B, this is just a general rule of thumb, right? It's important that we look at this as just a guideline. It's not okay for everybody. You want to factor in your risk tolerance, your investment goals, your time horizon, your personal financial situation. All of this needs to be taken into consideration when determining your portfolio's asset allocations. I know people who are in their 50s, but they don't have dependents, and they're super healthy, and they're 100% in the stock market. They're also extremely risk-tolerant. I don't think if I'm 50 and I don't have kids, I'm doing that because my risk tolerance just isn't where that person's risk tolerance is.

To some extent, this is an extremely personal decision. It would be helpful if you wanted to talk to a financial advisor on this piece of your investment strategy. I don't think necessarily working with an advisor to pick your stocks or pick your bonds makes that much sense these days, especially with all the automated platforms that we have. But talking to a human who has experience and can elaborate on stock charts for you and show you patterns and to give you that reassurance that you need to maybe take your portfolio to a higher stock allocation, I think that could be worth it.

Then the other thing is that you're 35. As you get older, you want to adjust this allocation. A lot of the automated platforms, they don't do this for us. They will auto-rebalance, which means that in any given day or month, however often they auto-rebalance, when your portfolio goes off kilter. If you set it for, say, 75% stocks and 25% bonds. But then because of the swings in the market, now you're like 80% stocks and 20% bonds. It will reallocate to get back to that initial allocation desire, but it's not going to adjust because it's like, “Oh. Now, Lucia's 45, so we need to be thoughtful of that.” That's something that you need to be on top of.

Johnny wants resources for helping kids learn about money and investing. I actually posted something to the effect of how we never learned about money growing up in school. At least I didn't. Did you? I mean, now, I think more schools are making this mandatory, public schools at least. It's becoming state-issued, but we have a ways to go. Anyway, in the eighties and the nineties, this was definitely not part of the curriculum. I joked on Instagram that while I wanted to learn something, anything about money as a kid growing up, I really did, instead I was taught how to square dance. It’s a joke. But honestly, I know how to square dance, okay?

A follower of mine took issue with this and said, “Farnoosh, it is not the responsibility of schools or teachers to teach kids about money. Parents should do this.” My thinking is it takes a village, okay? Why don't we prioritize financial education in our country? Why can't schools and families be on the same page about this? Of course, parents, caregivers can and should play a role. Johnny in our audience wants resources, but I think we need all the help we can get.

It just, I think, speaks to the prioritization in our schools. How can we think that learning about money and budgeting and investing and earning and saving is not worth a child's mind? I get that not all teachers are equipped to teach this, so bring in other people who can teach it. It's not going to be maybe a teacher's full-time job. It can be a seminar. It can be a field trip. We're not talking about rehauling curricula. We're just saying like let's sprinkle this in, so kids don't start college or the real world completely blind to the financial world.

Now, for helping kids, specifically for Johnny, I'm not sure how old his kids are. I think for kindergarten till about third grade, I would always recommend this tool called the Money Savvy piggy bank. It's a piggy bank that has four slots; save, spend, donate, and invest. It was the first to offer this type of piggy bank. Now, I think there are iterations of it. Different companies are creating their own sort of style of this piggy bank. But Money Savvy Generation was the first to come out with it, won a bunch of awards. I like it because it demonstrates that money has many use cases. You can save, you can spend, you can donate, and you can invest. It starts those conversations early and doesn't let kids think that the only way to use money is to go to Target to spend it.

Then I think there are some great books. Again, for this age group and then maybe a little bit older, *The Lemonade War* is a great book. I remember seeing it in bookstores years ago. We might even have it in our house. It's the story of these siblings, Evan actually and Jessie. Evan's the name of my son. They have a lemonade stand competition over the summer. They compete to see who can make the most money, and they learn about entrepreneurship and teamwork and all that good stuff.

Honestly, lemonade stands in real life are a great way to teach kids how to count money, how to sell, how to be entrepreneurial. My daughter is a Girl Scout right now, and she loved selling those cookies. She loved counting the money. She loved taking the money from the customers and giving them their change back. She's seven. I think, wow, what a worthwhile experience. There's also another book called *The Ant and The Grasshopper*. This was published probably about 10 years ago, and it's the modern retelling of the classic fable that teaches kids about the importance of saving and planning for the future.

Beyond actual tools, there's also the importance of talking to your kids about money and not necessarily sitting them down and having lectures on compound interest. I don't think that's fun, and I actually think that can backfire. But I think that teaching your kids through your own demonstration and modeling that talking about money and budgeting and being a conscious consumer is cool. Invite them into those conversations when it feels appropriate. Having money conversations with your partner in front of your kids, as long as they're not too sensitive, I think are healthy things like we need to budget for next month's whatever, for camp.

I think it's helpful for kids to witness this. Why? Because we all arrived in our financial lives probably not knowing a lot. We somehow made it through. But what I think separates those who become really successful and those who don't, one of the things, is that maybe they grew up with a fluency around money or an understanding at least of like money exists, and it's important, and I should be curious about it.

To the extent, Johnny, and everyone else who has a kid or is taking care of a kid, to the extent that you can foster dialogue, conversation, and curiosity about money, encouraging them to go and learn about it, and letting them know that this is important. Money is an important tool. It's not the most important tool, but it's an important tool, and we have to be mindful of it. As they get older, just having that baseline understanding of money and not being afraid to talk about it, not feeling like it's taboo. They are going to be miles ahead of their peers because these are the people that end up becoming the most resourceful. When you are curious, you ask questions. You get answers.

Then Brooke wants to know, "Is there a place where I can get idiot-proof instructions for a backdoor Roth IRA?" Yes. It's called the So Money Podcast, Brooke, and I'm going to tell you how to do it. It's good stuff because we know the Roth IRA is kind of the holy grail of financial investments, financial tools, where your contributions and those earnings can be withdrawn in retirement tax-free.

First of all, why do people want to do backdoor Roth IRAs? Because after a certain income, you no longer become eligible to invest in a Roth IRA. But there's this IRS. I don't know if it's like a loophole. It's just a little bit of a maneuver, a strategy to essentially open a Roth IRA, even though you technically don't qualify for one because of your income. It's the backdoor in to the Roth IRA, five steps.

Step number one is you contribute to a traditional IRA. If you don't already have a traditional IRA, you open one. You contribute the money. There's generally no income limits for contributing to a traditional IRA, so this is why we start there. Then you convert it. Step number two, you convert the traditional IRA to a Roth IRA. Once the money is in the traditional IRA, you want to start the conversion. You can do this with the help from your IRA provider or the financial institution where you have this IRA.

Step number three, calculate the possible taxes, so you don't get hit with a surprise. Traditional IRA contributions are typically made with pre-tax dollars. You'll usually owe taxes on the amount converted to the Roth, unless, this is what I recommend you do, unless you convert immediately. Don't sit on the conversion. Do it on the same day if you can. The converted amount will be added to your taxable income for the year of conversion.

Again, that being said, you can minimize the taxes owed by converting immediately. Again, talk to the IRA provider about helping you facilitate this. Do this quickly. Let them know, "I don't want to have a tax event." You'll probably still have to fill out a form to just let the IRS know you did this. That's called form 8606, and that's step number four is tell the IRS. When you're filing your taxes, report the Roth conversion with form 8606. It's going to basically track the basis in your IRA accounts and make sure you don't get taxed twice on the same money.

Then the fifth step is don't just take my word for it, okay? Consult with a professional if you're still nervous. Tax laws and retirement planning are complex. If you want to talk to a certified public accountant, a financial advisor, or both, just to make sure you're not going to make an unintentional error, worth your time.

That's our show, everybody. Thanks so much for tuning in this Friday. Next week, a conversation with Glynnis MacNicol about her memoir, *I'm Mostly Here to Enjoy Myself: One Woman's Pursuit of Pleasure in Paris*. I read it cover to cover. It's good, y'all. We talk about what it means to be a woman in her 40s, completely untethered and free to make any decision that she wants, just because she wants it. Free to have fun just to have fun. How does one afford this, though, is my question. That's on Monday. I hope you have a great weekend, everybody. I hope your weekend is So Money.

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