EPISODE 1722

FT: So Money episode 1722, Ask Farnoosh.

[INTRODUCTION]

ANNOUNCER: You’re listening to 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, everyone. I'm Farnoosh Torabi. It is September 13th, 2024, Friday the 13th. I just realized that. My kids have already come up to me with their Halloween costume ideas, which I've learned that I need to not buy right away, because between now and Halloween, they will change their minds many times over. I know I should be the parent that just buys it and says, “This is it. You told me once, this is your costume.” But, yeah, they usually will twist my arm and I end up ordering something last minute, because they had a change of heart.

I digress, let's talk about something that's been on my mind this week ever since I spoke to one of our guests. Her name is Sanibel. I discovered her on Instagram, because the algorithm knows me really well at this point. It knows that I like to watch videos about money. Her videos are really, really Interesting. They take on issues that can be quite layered, and I don't think that are not black and white. She likes to talk a lot about the ultra-wealthy and puts them under a microscope.

She grew up with a lot of access to privilege, has talked about it. She went to Penn. She went to The New School. She tutors young adults who are working on their college essays. A lot of these people are rich and come from privilege. Also, she's completed a novel called *To Have* *and Have More* that is fiction, but based a lot on real-life experience, interacting with the ultra-wealthy.

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We talked about what does it mean to be really, really rich right now. Does it mean that you're necessarily less kind, less empathetic, and why are we so uncomfortable with the idea of class? Which is interesting, because as it is an election year, this term middle-class keeps getting thrown around as if it's something to aspire to. On the one hand, it definitely is. The middle class for a long time associated with the idea of the American dream. Middle class today versus middle class in the 50s and 60s is very different on the scale, and what you can actually afford and the lifestyle that you can afford. Call someone middle class and see their reaction. Call someone rich and see their reaction.

Sanibel brings a lot of anthropology and sociology and psychology to her evaluation of class and wealth and privilege. It reminded me of myself growing up in the 80s to parents who were not wealthy. We weren't even really what I think at the time was considered middle class. My father was a graduate student and a professor's assistant. He was making whatever that was, which was not a lot. We were living in low-income housing in Worcester, Massachusetts. My mother was an immigrant along with my father, but she didn't have the education, or the language to really work. Plus, she had me.

All this to say, as Iranians who my parents came from, families in Iran that did have privilege and did have money to come here have to start over, for them, it wasn't enough. They wanted to continue to acclimate in the caste system, if you will, in America. We went from potentially lower income to then middle income and then upper middle class. My parents, and I think as a result, I source a lot of our sense of self-worth from where we saw ourselves in the socioeconomic scale in America. I wonder if that is still true and if that's healthy, or toxic We touched on some of that with Sanibel.

I'm still not sure. The episode still has me thinking. I would love for you to check it out and let me know what your thoughts are. It was our most recent episode on Wednesday. It's titled Ultra-Wealth Class and Privilege: A Conversation with Writer Sanibel.

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Also, this week, we chatted with our friend George Kinder, who is a renowned figure in the world of financial life planning, often called the father of the Life Planning Movement and he has a new book out called *The Three Domains of Freedom.* We talk about ways that we can create financial freedom right now, where we're living in a time of great uncertainty, political instability. George was a previous guest on So Money. It was so nice to have him back.

Turning our attention now to the Apple Podcast reviews section for our reviewer of the week, and this person is going to get a free 15-minute phone call with me, or Zoom call, as well as a free trial to our So Money Members Club club 30-day free experience. This week, we're going to say thank you to PurpleStarfish84, fun name, who left a review recently, citing how much they enjoyed a recent episode about the job market and love learning about new and different ways they can use ChatGPT. Oh, yes. I remember this one. It was a great episode. It was last week, in fact, with our guest, Catherine Fisher, who is with LinkedIn. We talked a bit about how to navigate LinkedIn to optimize your job search, but also, how to be a great candidate for a job right now.

The job market, it's hard to measure. Is it doing well? Is it softening? I guess, it really depends on your industry and where you are in your career. I'm hearing mixed messages. I know that college graduates in some cases are having a hard time finding work, but that may also be a symptom of trying to find the "perfect job." Am I right? There is no such thing. Then my friends who are more senior in their careers, mid-levels and senior level, getting laid off and struggling to find a job quickly. They may find one eventually, but it can take six, seven, eight months.

We also talked about on that episode how to leverage AI, specifically ChatGPT. One of the ways was to use it as an assistant, or a research assistant. When you're going in for a job interview and you want to prepare some good questions, you can use ChatGPT to help cultivate some of those questions, by letting it know where you're going to be interviewing, the role and what are some things that would be important to ask during the job interview. What I would recommend is thinking of a few yourself and letting ChatGPT know what you've already come up with, and seeing what else there may be – that could supplement the questions that you have.

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Catherine Fisher from LinkedIn said, this is really important and not to be overlooked when you're interviewing, whether on Zoom, or in person to come prepared with your own questions. They're going to have their questions, the company's going to have their questions, you should have questions as well, because this is an exchange. This isn't an interrogation, right? You're looking to see if they're going to actually be a good fit for you. Doing some research does come across as pretty impressive to employers today.

We also talked about some of the weird things people do. I couldn't believe it. Like, picking up your phone in the middle of an interview for something that's not urgent. Unless, you have a family member in the hospital. First of all, I would say, reschedule the interview. But if you have to, I guess, I get it, but these people are not picking up their phones for important things. Coming unprepared, coming with your clothes looking disheveled, and why that's happening. I think Catherine had some really great insights about the evolution of the job search and where we are today in the aftermath of COVID, and a lot of working from home.

Anyway, PurpleStarfish84, thanks for listening. Thanks for your review. I would love to extend a free phone call, if you'd like to take that up with me. We can talk about whatever you want. If you're looking for work, if you're considering pivoting your job, if you have a question about investing, or student loans, or saving, or whatever, I'm all ears. You can email me, farnoosh@somoneypodcast.com to let me know you left this review. I will send you a link, so that you can make a time for us to connect. You can also direct message me on Instagram and you can also go to the website, somoneypodcast.com and to click on Ask Farnoosh and get in touch that way.

Before we get to the mailbag, and we have questions today about how to manage money in a relationship when there is disparate income, one person makes significantly more than the other. A question in the audience from someone who was recently laid off and has rightfully questions about what to do with their 401k, and should they sign up for COBRA? Will they be eligible for unemployment benefits? All the immediate questions that one would have post-layoff. Companies aren't always great at laying out the terms for you. And we have a question about investing and how to invest, whether we should do it weekly, monthly, yearly. Is there a better way? Lumpsum versus dollar cost averaging. I've got a lot of thoughts on all of these questions.

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First, I want to talk about the news and what's ahead. We know that interest rates have been going up all in an effort to try to cool inflation. The Federal Reserve has been raising interest rates consistently, but they have to be careful, because if they raise rates too much and borrowing becomes really, really hard, too hard for businesses, of course, we've already seen some of that happen They've been laying off employees as an effort to balance their carrying costs with debt. Now we're looking ahead to the next Federal Reserve meeting and there's pretty much a consensus now that Jerome Powell, who's the Federal Reserve Chief is going to cut rates for the first time since 2020.

What will this mean for us? I want to talk a little bit about what this rate cut, this macro-economic reality is going to trickle down to our finances, our personal finances. Good news, I guess, if you have debt that has a variable interest rate, such as your credit cards, potentially personal loans, car loans, where the rate does adjust based on the benchmark rate, then you're in for some good news. You're in for some potential savings. The idea is that the benchmark rate goes down and therefore, all other rates, car loans, mortgages, credit cards, personal loans will also come down. If you have a fixed rate, you have a fixed rate. This won't matter. But if you're shopping for a new loan right now, or if you currently have a line of credit, or a loan with a variable interest rate, you're going to be in for some rate relief.

I personally might be shopping for a car loan in October. And so, I'm hoping that the rate cut will have impacted that market by October, and I will be able to benefit from a low cost of borrowing, a lower cost of borrowing. What will this mean, actually, for the economy? If this becomes a consistent move, if this next week we see the Fed lower rates and then they do that at subsequent meetings, and now we have a trend and now we have a movement towards debt financing that is far more accessible and affordable than this time last year, a few things. One, for businesses, this will mean better access to capital, so they can grow and potentially hire and we may see fewer layoffs. Maybe even more hiring.

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For housing, I don't think it's going to benefit buyers. I think that if anything, a drop in interest rates, with everything else holding steady, including our very tight supply of housing, that will mean more competition in the buyer market. More people coming into the market to hopefully buy, because the cost to carry a mortgage is mathematically less, but at least from an interest rate level less, but all those more buyers will put pressure on prices to go up. I think, and we heard this from the chief economist at Redfin, who stopped by the podcast earlier this summer, that a drop in interest rates with nothing else changing, no additional supply in the market will probably mean prices will go up much more than they normally would.

We're not going to see more housing on the market as a result of this. I mean, maybe some current homeowners would be more enticed to sell, because one, obviously, they could cash in pretty nicely if they bought the home at any point before last year. They can go back in the market and buy potentially with a lower interest rate. Then, so going into 2025, if this becomes the pace of interest rates, this becomes the MO of the Fed to lower rates between now and the end of the year. Going into 2025, I would expect at least from the job market and the borrowing market a little bit more relief. But housing continues to be the most stubborn of all of the markets right now.

That's why I'm doing a workshop later this month in my So Money Members Club on the housing market, whether this is the right time to try to get your ducks in a row to buy something, or continue renting. What are the calculations we need to be making? What are the pros and cons to ownership, versus the pros and cons to renting. If you are not sure, come with your questions. I'll also be taking questions live from our audience and our attendees to come and join us for that. Go to somoneymembers.com.

All right, let's hit the mailbag. Our first question is about how to manage money in your relationship when one person makes significantly more than the other. Here's a little bit more from our audience member. Our listener is a teacher and her partner is a public interest lawyer. "Neither of us makes a whole lot working full time She says we've gone back and forth on who is the breadwinner depending on our specific employment. We're a same-sex couple and I feel that we have a very equitable and conscientious division of household labor. For the past two years, I've made almost no income, so I could stay home with our new baby. I'm about to start subbing as a teacher and expect to make at most, half of my partner's income."

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"For the last two years, I've drawn down from our household income to max our Roth IRA and invest $100 a month in my own brokerage account. I feel anxious about having my own money down the line as I expect to continue to make below my full earning power, until my younger child's at least in kindergarten. How do you manage similar dynamics?"

Firstly, I just want to point out as a same-sex couple, she talks about how they, she and her partner have a very equitable and conscientious division of household labor. I actually find this to be true in a number, anecdotally at least. I think there was even a cover story of The Atlantic about same-sex couples and what we can learn from them, as far as division of labor. Here's the thing, to simplify it, gender plays a huge role in who's going to do what in a relationship. I'm speaking generally. There are the feminine duties and the masculine duties, the wife's roles, the husband's roles. It's not always fair and it's not always what one wants to do, but here you are.

There is an expectation, for example, that as the wife, you take care of the cooking and the cleaning. The husband takes care of fixing up the house, managing the automobiles. That's so weird, because what if one person's just a better chef, or another person is more interested in certain domains within the household? We get into a lot of trouble when we fall into these gender role expectations. But typically, in same-sex relationships, there isn't that expectation. There isn't that understanding that, "Well, because I'm a woman, or because I'm a man, I'm going to do these things."

Being in a same-sex relationship, it's a little bit not easier, but you don't have to deal with a lot of these gender role expectations and leveling that playing field when it comes to household duties does become a little bit maybe more manageable. Just want to point that out. As far as the finances, and I write about this at length in *When She Makes More*, which was my book before I wrote *A Healthy State of Panic,* just about how couples with disparate incomes can work together to really, at the end of the day, allow each person in the relationship to feel like a equally valued financial contributor.

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This is even possible for someone who's not earning anything. I've talked to so many spouses who say, “I don't work. But as my financial contribution, I'm focused on how to save money for my family. I do manage the budget. I am the shopper in the household. My financial contribution is making sure that we stick to our budget that we are able to save more the next month than we were the previous month.” That's huge. Or they'll say, “My financial contribution is just keeping more of an eye on our finances, from our budget to our investments, to making sure our bills are getting paid, our credit card statements.” I believe that everyone in the relationship should have eyeballs on all of this stuff.

Let's be honest, one person usually takes the driver's seat and the person running shotgun comes in once in a while, as long as there's transparency, open dialogue, I think that's really what's most important. That's my first tip for this person and anyone listening who feels similarly, that if you're making less than your partner and wondering what this means, as far as your contributions and your permission to have a financial voice in your relationship, remember that earning money in the marriage is just one way of being a financial contributor.

There's also being conscientious about your money, finding ways to save. If you're taking care of the family, cooking, cleaning, managing all of the schedules. You're taking on many roles. You should be making six figures. Fostering dialogue within your relationship around money is a huge role, is a huge benefit. If you're that person, I would say, kudos to you. You're doing a lot and you're absolutely being a financial contributor.

The second thing I want to say, specifically to our listener who was talking about substitute teaching, earning half of their partner's income, I think it's important that they continue to invest for their future. Carving out a little bit of savings from their personal income to address that is important. I would say this to anybody, whatever you're making relative to your partner's income, it's important to prioritize your income, insofar as carving out a little bit of savings, and some investments for you. Your financial health as an individual will matter in the context of the relationship.

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If you have student loan debt, or any other debt, that whatever you're making does contribute to some extent to that. You might decide to have a joint account, where you and your partner contribute an equal percentage to support the expenses that you both want to support. While you might not be able to contribute equal dollar amounts, because one person makes more than the other, you can agree to certain percentages that feel equitable, feel fair. What are those expenses that you might both want to contribute towards? It could be housing. It could be daycare. It could be the grocery bill. It could be gifts for your children and family.

The other route you might want to take is to have your partner who makes more to pay for more of the major monthly bills that are recurring. Then you as the person making less, can wear the hat of saver primarily, and save and pay for financial goals that are more down the road, that with a little bit of saving over the long run, will add up to something substantial. Whether that's a vacation you want to take next year, your child's college savings in 15, 18 years. Again, I talk about this in *When She Makes More*, where the person earning less might want to identify ways to contribute that feel more meaningful and substantial.

That's going to be really up to you and your partner. That is not a universal thing, where everyone is going to do it the same way. In my relationship, my husband earns less. But because I cover a lot of our heavier monthly expenses, then that means he has more money for things like, housing projects. We got our house painted earlier this year. That was a five-figure bill. He paid for that out of his bank account. He's also the sole contributor to our kids' 529 plans, which is amazing. Because at the end of the day, it's such a gift to give to your kids, right? It's such a feeling of pride to be able to say like, "I was able to contribute to that, even though during the marriage, I made less than my partner. I was still able to contribute to really significant life-changing things for our family."

Those are some of my thoughts and again, it's not black or white. It really comes down to recognizing the importance of your financial autonomy and independence, no matter what you make. But at the same time, recognizing that what you make is only a piece of the financial equation in your relationship. There are so many other ways to contribute. I think at the end of the day, in being in a relationship, you want to feel like you're making big contributions to the relationship. That's, again, for the couple to decide what their values are, how they're going to play that out, who's going to do what. But I also think that's the opportunity. I hope that was helpful.

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Next up is a question to an audience member who was recently laid off from their tech job after 11 years of service. They say, it comes with a severance package, thankfully. But this is the first time this person is going through a layoff and wondering if I have any advice with respect to minimizing the taxes on that lump sum severance. Health insurance. Should they sign up for COBRA? Would it make sense to look for something in the marketplace? Is there a way to contribute after tax dollars into their 401k and then deduct it when they file taxes? Are they eligible for unemployment?

I'm going to go through this list of questions, first, about minimizing taxes on the severance. Is there a way to do that? By the way, this question came in through our So Money Members Club. I answered it already for our friend, but I wanted to bring it to the show, because I think a lot of us, unfortunately, may be in this camp, or are about to be in this camp and wanted to share my thoughts with everybody. Minimizing your taxes on the severance. It's a pain, right? They take the taxes out and while you – and you feel the pain pretty heavily right away.

There are ways to, later on this year, in this same tax year, make some financial moves that could help to reduce your taxable income come tax filing season. Then maybe you'll get a bit of a refund. One is to contribute to a traditional IRA, where your contributions will be deducted from your taxable income. The limit this year is $6,500 if you're under the age of 50. $7,500 if you're 50, or older. You get a $1,000 catch-up contribution. There's that to help offset the tax bill from the severance.

If you have access to a health savings account, either because you had one through your employer and you're going to continue with that, or if you go out into the marketplace and purchase a health savings account, you can make contributions to that. Those are tax deductible. Then if you make any expenses this year related to searching for a new job, moving perhaps for that new job, or taking classes, taking on expenses related to higher ed education, those can also potentially lower your tax bill. But as far as reducing your tax hit right now, no. You will have to make these moves throughout the year and then account for them when you file your taxes in spring of 2025.

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Next question is about health insurance. Is COBRA worth it? Our friend wants to know. She doesn't have any major health concerns right now. Currently has a high deductible plan with an HSA Okay, great. Again, if you have the HAS, you could contribute to that. Assuming you continue with that plan and how you would do that is you would want to go on COBRA. COBRA is a federal program, allows us to continue the health insurance plan that we had with our employers. In the aftermath of a layoff, you can continue to have all of those benefits of it continue to be available to you, but it comes at a much higher price.

When you were working at your company, you were getting a subsidized version of that plan. Your employer was paying for part of it, and then you were paying for part of it. Now on COBRA, you are exclusively paying for that health plan, which means now you're covering your employer's portion, plus your portion, plus a management fee, which is about 2%. COBRA tends to be a pretty pricey option. That said, a lot of people just take the path of least resistance. They sign up for COBRA and they never have to shop around for new insurance. They can continue to see their doctors and not worry about their new plan, without of network doctors.

I leave that up to you if you can afford that. That's the easiest option, potentially. But if you're indifferent to your current policy, and/or it's expensive, I would shop around on the marketplace. With a layoff, you qualify for a special enrollment period on the marketplace, because losing job-based health insurance is considered a qualifying life event, so you can purchase coverage outside of the regular open enrollment period. You generally have 60 days from the time that you lose coverage to enroll. Just keep that in mind. There is a bit of a deadline to this.

Paying into COBRA, would that be tax deductible? It's a really good question. Our audience member wants to know. Usually not. COBRA premiums are typically not tax deductible. The only thing I would say is that if you do itemize your tax deductions when you file your taxes, there is a medical expense deduction, but it's a pretty high threshold. If you spend more than 7.5% of your gross income on qualified medical expenses, including COBRA premiums, then the portion of your medical expenses that exceed 7.5%, that would be tax deductible.

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Also, if you contribute to an HSA you can use those pre-tax funds to pay for cobra premiums, which indirectly provides some tax savings. Another question, is there a way to contribute after tax dollars into my 401k and deduct it when I file taxes? The short answer is no. When you get laid off, your 401k immediately pretty much is defunct. That said, you can and you should roll that over into a traditional IRA usually, to keep that money intact and to be able to continue contributing to that retirement account. That won't be your old 401k, but now it's a new traditional IRA. From there, you can make contributions. The annual limit, again, $6,500. That money is tax deductible.

Your old 401k, essentially, sunsets once you get laid off. But there is a time frame during which you can roll that over into a traditional IRA and start using that like it was your old 401k. But of course, the contribution limit is much smaller, so just FYI. Then is this person eligible for unemployment benefits? I think so. Check with your state. But most layoffs, in many cases, in most cases is a qualifying event for unemployment benefits, and I would apply sooner, rather than later.

All right, let's move on to our last question about how to invest wisely. Should we be investing a little bit every week? A little bit every month? Once a year? Does it matter? All right, so the best way to invest in terms of cadence, it really depends on your stomach for risk. That's really how I see it. There are many different kinds of studies that look at what's called dollar cost averaging, where you invest a fixed amount at regular intervals, whether that's weekly, monthly, quarterly, and you do this regardless of market conditions. Versus lump sum investing, which is once a year, you gather up all your funds and you throw it into an account.

Who is best for either method? I think it comes down to your risk tolerance. If you're not somebody who stomachs volatility well, then I wouldn't recommend doing lump sum contributions. Because if you invest just once a year, and then the next day the market falls 10%, that is not going to make you feel good, and it could prevent you from doing that ever again. For someone like that that has a low risk tolerance, but is also aware of how the market moves and isn't using that as a reason not to invest, but they just want to limit the shock value, I suppose, is to do it in increments, so that a little bit gets invested consistently.

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And when there are fluctuations in the market, it doesn't feel like as big of a loss, as big of a hit. Over the course of your lifetime, over the course of your investment horizon, it all evens out for the most part. I say that with a little bit of an asterisk, because studies suggests that dollar cost averaging can psychologically ease the investment process, but over long periods, lump sum investing may outperform dollar cost averaging, because markets generally trend upwards. Just keep that in mind.

What is your goal? Is your goal to make as much money as possible? Or is your goal to make money and do it with a little bit less of a shock value, and a little bit more of a rested stomach and a better night's sleep? In that case, if you're the latter, I would say, dollar cost average. If you are okay with the risk and want to make as much money as possible, I would say, do it as a lump sum investor once a year. Honestly, I do both. I invest in a lump sum in my SEP IRA, and then I invest in increments in my brokerage account. Why? I have no idea. But it's just the way that it's worked out and I'm okay with it. I do a little bit of both. You'll learn that about me. I like a hybrid approach to most everything.

That's our show, everybody. I got to go grab my son from the bus stop. I hope you enjoyed this episode, you learned quite a bit. If you are liking these episodes, please leave us a review. As you know, I pick a reviewer every week to get a 15-minute phone call with me and a 30-day trial of the So Money Members Club, during which time, we're going to do workshoping and office hours, you'll get a lot out of that. Share it with a friend. Share the episode with a friend. Share the podcast with a friend. It's the best way to support the show. Thank you. Thank you. Thank you, and I hope your weekend is so money.

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