EPISODE 1743

FT: So Money episode 1743, 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. I'm Farnoosh Torabi. November 1st, 2024. I am really happy that Halloween is over. Can I just say, it's not my favorite holiday? I don't really understand my neighbors with the skeletons on their lawns. It's not something I want to decorate my house with. Maybe it's because, I don't know, I didn't really have a lot of Halloween memories growing up. It's just a lot of chaos with the trick or treating, especially with two kids and two different age groups.

It's getting dark earlier now. Halloween trick or treating was tough, like how do we do this? How do we go trick or treating? Also, we need someone at home to give out the candy. There were, as always, late trick or treaters. I shut it down around 9 PM. If my doorbell rings at 10:30, I'm not opening it. Sorry, chances are you're probably not of the appropriate age to be trick or treating. Am I right? I'm not giving candy to a 22-year-old. I'm just not. But not to say that November is going to be an easy month. The election is around the corner. I've read an interesting article in the New York Times about shopping and elections and how elections impact our spending habits.

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My question to you is, are you nervous about the election so much that you are on the fence about making a big purchase? You're not actively looking for a home right now or buying that car that you probably need, but you want to wait until after the election. Well, the New York Times wrote recently that in these weeks and now were days leading up to a general election, consumers tend to get skish about major purchases like homes and vehicles, even weddings and investments.

This trend is holding up this year. There's been a significant rise in financial anxiety. Many of us are pulling back on big ticket items until we have more certainty. In fact, the Federal Reserve and the CFD board found that around 60% of Americans are waiting to make major purchases until the election results are clear, which may not happen for a while.

A lot of people are taking a beat and I'm just curious if that's how you feel. I think this is so challenging right now is because there's a lot of uncertainty. Depending on who wins, it would have different implications in terms of tax policies, possibly inflation, economic stability. We want a clear outlook. We don't like to make financial decisions when there is uncertainty.

If you're feeling like this, I have some advice. I just want to start the show today with some thoughts for those of us who are wondering, am I overreacting, if I'm not buying the thing, or I'm being too conservative? I will first start by saying that it's important to focus on the fundamentals instead of reacting to political uncertainty, which you have no control over.

Concentrate on long-term financial goals like maintaining an emergency account, paying down high interest debt, investing steadily. These actions are good in any economy, no matter whose president, and whatever ends up happening, you will be in a much better place, because you maintained this focus on the fundamentals. They're going to keep you on track regardless of election outcomes.

Secondly, if you're nervous, if you're uncertain, don't make sudden shifts in your financial plan, just because you're worried about an election. History shows that market and spending trends often stabilize once the results are known, no matter who wins. If you've been investing in your

401K or IRA, continue to do that, even with this uncertainty. You can't time the market based on political events.

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In fact, that's often led to missed opportunities, so stick with what you're doing, continue saving without interruption, and hold off on those big purchases, but plan for future needs. If you're not confident buying a big-ticket item right now until after the election, and that's going to give you some relief and you can sleep better at night knowing that your cash is liquid, I think that's fine, but have a plan for post-election, be ready to strike.

So, for example, if you're considering a home renovation and you're like, "You know what, I'm not going to make any big expenses right now." Use this time period constructively in other ways. So, your researching costs, you're looking into contractors and permits, so when you feel ready, you can make that financial move and execute quickly.

Then finally, make sure that you have your consultants, you have your people that are guiding you. If your anxiety is very high, as I write, in *The Healthy State of Panic*, sometimes it's a sign that we need to guess support. The healthy move is to surround yourself with the right people. That's not just family and friends. It could be professionals, like a financial advisor, a therapist, a mentor.

I just finished an interview with Caroline Adams Miller, who has a new book out called, *Big Goals*. in fact, I'm airing that on Monday. In our conversation, she talks about the importance of really cultivating a tribe that is supportive. If you have goals that you want to accomplish in goals, carry price tags. Surrounding yourself, like people who are pessimistic, naysayers and aren't supportive is no good. So, find and keep close to people who are going to advocate for you, and support you, and lift you up. This is good advice, not just now, but always.

Interestingly, in the New York Times article, while they found that these big-ticket items, Americans are largely holding off on them until after the election, little luxuries, little expenses, like your $6 mochaccino is still something that is persisting and people are spending more on small luxuries as they look for ways to feel in control of their world, even if it's only an illusion.

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So, if you're grabbing that $7 smoothie or whatever it costs, that $20 salad from Sweet Green, you might do that every day until the election. Bypassing maybe the down payment on a car, but this way, you feel like you're at least moving forward and you're still that person is able to do things. Put one foot in front of the other.

It's so fascinating, right? I love reading about the psychology of our financial habits. We'll see. We'll have lots to cover after the election. I'm holding off on figuring out the direction of the podcast until we have a little bit more clarity after November 5th. I'll just finish here by saying that I hope everybody who can vote will vote. I think I saw a statistic that about 27% of those who are registered to vote have already voted by either mail-in ballot or early voting, which is great. Let's get the other 72, 73% to the ballots on Tuesday.

On election night, Tuesday, I will be teaching my investing masterclass for the final time in 2024. My investing masterclass. This is the third time I've taught it this year and every time we have a huge turnout, a lot of people also register knowing they can't join live, but knowing they will get the recording. Obviously, if your plans on Tuesday do not allow you to join us for the workshop live, as long as you register, you'll get the recording. In fact, everybody who registers, I'm giving them an opportunity once they sign up to submit a question for me that I can answer during the workshop. People love this, because even if they're not able to be their live, they can still feel as though they were by setting in their question. I will answer it even if they're not there.

Now, in this workshop, we're going to learn how to create a diversified portfolio for your long-term savings goals. That includes retirement, maybe a college savings account for your child. A home that you want to buy in the next five to 10 years. How do you invest in the most efficient way, and the smartest way, and in a way that aligns with your goals, your values and your fears? Because a lot of us are afraid of volatility. I get it. We don't want to invest and then see our investment tank when the market's having a bad day or a bad year. How do you figure out how to invest, taking into account your risk tolerance and your anxiety levels?

I've got a lot of advice. I'll show you how I invest. How I have invested over the last 20 plus years with little to no assistance. How I lean on technology and save time figuring out my investments, how I've grown my investments to seven figures and you can too. That is all happening on Tuesday. If you'd like to join us for that, you can go to somoneyworkshop.com. That's somoneyworkshop.com.

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I was on the Today Show this week doing a pre tape. It's going to air in the new year on financial goals for the new year. In our conversation with the anchor, we got sidetracked, but in a good way, there was this follow-up question to my advice around investing, which was just how do we even get started? It's so complicated. This is the thing, right? We tend to overcomplicate investing. We think that we need to have all this time, all these answers. The reality is, is that today we have so much at our finger tips. We have the technology. We have the resources to make investing fast, efficient and well done.

If you have a 401K at work, opt in. It's the easiest way to get on track for your retirement savings. My recommendation is to contribute at least 10% to that workplace retirement account. If you get a corporate match, if your company says, "We'll give you a dollar for every dollar that you put in." For example, up to 6% of your income, then do at least 6% of your income. Then together, you've invested 12% of your income. Half of that was free money. You are well on your way to creating a very nice nest egg for retirement.

By the way, those contributions are tax deductible, so you're saving money in your taxes today along the way. That's probably the easiest way to get started. The follow up follow up was, "Well, how do we pick our investments, Farnoosh." I said, "Wow, you really haven't heard, like you don't have to do this." You don't actually have to pick your investments like I did back 20 years ago when I got a piece of paper from my employer and they were like pick your mutual funds for your 401K. I felt I was throwing darts. I was just searching into oblivion for anyone on the internet to give me some advice around where to put my money in my 401K.

Now, what usually employers work with a financial institution. The first step is that the financial institution will send you a quiz, an online quiz, you answer a few questions like what are your goals? What is your risk tolerance? From there, the robots, the software will develop a beautiful diversified portfolio for you that is risk adjusted, low fee, and you're done. It's that simple.

More in my workshop, 90-minute workshop on Tuesday evening. You can go to somoneywork-shop.com and register or Ask Farnoosh questions this week or about what to do with a 401K inheritance. Do you have to start taking distributions? Can you roll it over into an existing IRA? How to navigate saving for an emergency and saving for retirement when you can't quite do both? Does one take priority over the other? Then a listener in the audience just had their taxes kicked back and there's a fear that someone may have filed a return fraudulently in their name. What do they do now?

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I've got some answers, but first let's go to the Apple podcast review section and pick our re-viewer of the week who's going to get a free 15-minute money session with me. This week, we're going to say thank you to Chicken Marie. Chicken Marie left your view earlier in October saying the show has such a variety of topics. Chicken Marie says, “I can't honestly remember a time that I didn't follow Farnoosh. I love her transparent, honest questions during interviews. The great variety of people on the podcast, and how she always is reporting on up to the minute top-ics, the election, real estate, trad wives. I can always search for a specific topic from the archives and can listen for hours, truly, during our long seven hour drives to see our college kid-dos as it is a chance to delve deep into multiple financial topics.”

Wow, this is so, so cool. I love knowing that I'm a part of your seven-hour drive to your college campus to see your kids. You know what? I will say, let them in on the podcast, if you haven't already. This is a great show for young people as well, but I'm honored to know that we have so many age groups represented, so many live stages represented in the audience. Thank you so much, Marie. Let me know that you left this review. I'd be so thrilled to connect with you and give you a free money session.

You can email me Farnoosh@somoneypodcast.com. Farnoosh@somoneypodcast.com or if you're on Instagram, you can direct message me there. Let me know you are the chicken Marie who left your review and I will be in touch with a calendar link for you to pick a time for us to connect. Thank you so much. We're going to head into the mailbag and answer our listener questions, but first, a commercial break.

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All right, let's hit the mailbag. First up is Lori who wants to know if a person inherits a 401K and their advisor says they must take a distribution. Can they transfer or gift this money to a family member so that they personally don't need to take the distribution? Here's what I know. I know that if you inherit a 401K, what happens next depends on your relationship to the person who bequeathed you this 401K. If you're at the spouse and you inherit the 401K, you generally have more flexibility with what to do next. You have some choices. One is either you can roll the 401K into your own existing IRA and there it's going to be treated as just more money in your retirement account. That way you're avoiding the required minimum distribution until the standard age of 73.

The other option you have is you can open up what's called an inherited IRA and take distributions based on life expectancy. For those who are not the spouse and they inherit a 401K. It could be a child, it could be a sister, anyone. A non-spouse heir does not have the option to roll and inherited a 401K into their own IRA. Well, you have two other options. You can either transfer the 401K into an inherited IRA or a beneficiary IRA and then distribute the funds over a 10-year period. This is often the most common choice, because it does have this flexibility built in over the years where you can take the distributions out during those 10 years.

The other option is you take a lump sum distribution and this would spark a tax event. You would get immediately taxed, and then it could push you into a higher tax bracket. This is not the most favorable choice, although it is nice to get a lump sum, but it could mean a bigger tax bill. This are all IRS rules and they're very strict, so if your financial or tax adviser is recommending a choice, I would lean into that. They're probably coming to from the perspective of this is the best tax wise, this is the best move or investment growth wise. This is the best move. I would I would defer to your CFP or your CPA.

Okay, next question. A listener in the audience is trying to build up their emergency fund. Would it make sense to pause their $500 monthly contribution to their IRA and move that $500 to their emergency fund? They add that the IRA is separate from their retirement fund, which they automatically contribute 10% to every paycheck.

All right. I like knowing that there is an existing retirement account to which you are transferring 10% every paycheck. That's very good. That's very good. That's strong. That's not going to be compromised in this effort to build your emergency account. If you've been supplementing your retirement with this IRA and it's been $500 a month and your emergency fund is lacking, meaning it's not quite near four to six months or really six months of your expenses set aside, but I would focus on building that emergency fund, taking that $500 monthly contribution and moving it over. But if there are any upside changes to your financial life, meaning you get a raise, you get some lump sum windfall, a tax refund. I would use that strategically, maybe split it between the IRA and this emergency account.

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Is 10% of your paycheck into this retirement account, possibly a 401K “enough?” I'd like to know more there. I'd like you to do some math. I'd like you to look at what you have currently invested, the balance there. At this current investment rate of 10% of your paycheck, accounting for increases in salary, where is that going to leave you by, say, age 65 or age 67? Also, consider your Social Security income if you were to start drawing down on Social Security. Get a sense of how retirement “ready” you may be with just this 10% investment rate.

Why this is important? So that you can go back to this strategy of saving for a rainy day and taking this money out of your IRA to do that with either a sense of urgency or like I've got time, because I'm doing really well already on the retirement front. I have a 10% allocation. I am contributing 10%. I've run the numbers. It's going to work out for me. So, this $500 is nice and extra to the IRA, but I'm going to take the next X months or year to move that over into my emergency account and build my reserves there, because that's very important too.

Shifting gears to the IRS. Listener in the audience has a concerning question about a potential compromising of her taxes by a fraudster. She writes that our accountant just had our taxes kicked back saying one of our dependents had already filed a tax return, but my oldest had apparently filed her own taxes, so we took her off and still got a kick back.

Our accountant thinks someone may have filed a return fraudulently in their name. We are being told to fill out identity theft affidavits, and for all of us to get IP pins through the IRS. I hadn't frozen credit for myself or my kids. Just recently learned about it. Should I do this now? I'm headed to annualcreditreport.com to pull everyone's credit reports and see what I can learn there. Any other advice?

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All right. This is concerning and it's not clear where the – if and where there has been some fraud. I had a friend one time who had someone file a tax return in her name using her social security. It was a false claim. They ended up getting a credit. She goes to file her taxes and the IRS is like, "You've already filed your taxes." It was resolved, but it took many, many months. You know, the IRS is not super accessible. Everything is done through the mail. They have a hotline, but it's very hard to get a real person on the phone.

Patients is really important. Having, in this case like our listener does, a tax repair involved, very important. They may be able to be an additional linkage to you to the IRS. Sounds like our friend is taking the right steps, pulling your credit report. By the way, everyone can do this at annualcreditreport.com. I think it's something good for everybody to do once a year or especially ahead of applying for a loan just to see it won't tell you your credit score, but it will tell you the history of your credit activity.

It will show a list of all of your accounts in your name, from your credit cards to any outstanding loans, student loan, car loan, mortgage, etc. You want to check to make sure that it's correct. Sometimes there aren't mistakes that are benign, but they need to be corrected, like maybe there's an old address. Maybe it's got a misspelling of your name. Definitely check to make sure your social security numbers correct. All the credit files are ones that you recognize.

If you see any credit files where you're like, "I didn't open that Banana Republic Credit Card or that Amex." That's a red flag. This is the stuff you want to be looking for, these inconsistencies, these unfamiliar accounts, especially for our friend here who's worried about a potential fraudulent incident. There are a few other steps that I would recommend given the situation. You want to work closely with the IRS here, follow their steps, fill out the identity theft affidavit for each person that may have potentially been involved. Your adult child, you, then this alerts the IRS to your situation and helps them monitor for further fraudulent activity. They may have already sent you this form 14039.

IRS IP pins, you mentioned these identity protection pins. These are unique six-digit numbers that help prevent someone else from filing a tax return using your social security numbers. The IRS has advised our friend of this. It's a good move. I think everybody ahead of tax season, get an IRS IP pin. If you don't already, it's a great way to add an extra layer of security to your tax records.

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The credit freezes. I'll be honest with you. They can be annoying. Freezing your credit, your child's credit with all three major bureaus, Experian Equifax TransUnion. It can be a smart move, but it does prevent anyone from opening new credit in your name, including you. It doesn't mean that you can't, but it creates a barrier. A credit freeze, it doesn't affect your existing accounts. You can still go ahead and use your credit cards, pay your mortgage. It just prevents any new credit from being opened.

Current loans, credit cards, lines of credit remain active. If though you want to apply for new credit, you can like thaw the freeze, temporarily lift it. You can do this online. You can do it by phone, but you can only lift it for a specific accreditor or for a specific period of time. You want to do this with all the credit bureaus, because if you just do it with one credit bureau credit reporting agency, it won't prevent a lender from accessing your credit through another bureau and the credit freeze will remain intact until you lift them.

A fraud alert meantime is a lighter approach, but still effective. You could do this either with the credit freeze or in lieu of a credit freeze. It's not as intense, but what it does is that lenders will need to verify your identity before allowing any new accounts to be opened in your name. This is great, obviously, if somebody who is pretending to be you is trying to open up a credit card or what have you in your name, but they'll also do this when you are applying for new credit.

First, look at your credit report and see what's going on. If you do see some crazy activity, then freezing your credit may be the next right move. Otherwise, you might be overdoing it and you've just created some more hassle for yourself. The other thing you can do is a monitoring service that monitors your credit. If you feel like you want to have another set of eyes, professional eyes on your credit, there are identity monitoring services that will alert you to new account activity if anyone uses your social security, any attempts at fraud. Some are free through insurance providers or banks. You might want to check with your home insurance company or your financial institution, wherever you bank, and then some are IRS supported options.

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Finally, I've used this before as well, the IRS Taxpayer Advocate Service. There you will get in touch with the human, but it can be a long wait. Sometimes they're not super helpful, but at least you get to talk to somebody who can maybe answer your question or at least put something to rest. I remember calling the Taxpayer Advocate Service when I was waiting for a refund during COVID. It was taking so long and I just wanted to know where it was, where it was in the process. I wasn't able to log into the website and I was told that because I wasn't below a certain tax bracket, that there wasn't really anything they could do for me.

They're like, “Are you unable to feed your family?” I said, “No, but I really like my tax refund.” She said, “Yeah, I just have to wait. Sorry, I have no more information for you.” But at least it put a nail in it. I was like, “All right, I'm just – it is what it is. That's an 800 number.” In summary, follow the IRS's recommendations. Consider a credit freeze. Definitely check your credit reports at annualcreditreport.com. If you do want an extra set of eyes on your credit and your identity, you can consider a monitoring service, which some cases might be free through your bank or your insurance company.

That's our show, a gentle reminder to please, please remember it to vote on Tuesday. If you have time Tuesday evening, I will be live for 90-minutes talking about investing all of the things, how to open a portfolio? Where to open a portfolio? What are you putting in this portfolio? How much do you contribute? What if you want to invest for retirement and college savings? What if you have debt? What if you have student loans? What if you haven't saved enough for a rainy day? How can you add investing into your financial strategy? Should you wait? How long should you wait? Also, I'm terrified of investing. How do I invest and feel good about it and have a good night's sleep?

Plus, I'm reserving a lot of time for your questions. This is all happening on Tuesday evening, 7 PM, Eastern, 4 PM, Pacific. Go to somoneyworkshop.com to learn more and register your seat. Thank you to everyone who is so far registered. I'm really looking forward to meeting everybody, but the priority is voting. Please vote if you haven't voted already. If after that, you're looking for a nice distraction to all the election stress, come hang out with me on Tuesday night. As I mentioned, it is a live session, but I will be recording it and distributing the recording to everybody who registers the next day.

Thanks again, and I hope your weekend is so money.

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