EPISODE 1758

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FT: So Money episode 1758, 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. December 6th, 2024. A new episode of Ask Farnoosh. We're going to tackle your money questions. I even have a question this week from the Huffington Post. They reached out and they wanted to know, "Hey, Farnoosh, what is going to go up in price with these new Trump tariffs? What should we be saving up for? What should we buy now to avoid the Trump – to avoid the higher prices in the new year, that's likely going to happen when these tariffs get implemented?" I've got answers. From our audience, folks want to know, how to buy a car right now? Are there new ways to save? Are there new negotiations? What's the supply chain like with the tariffs too? What should they do?

Then if you're at a company and your employer offers you a retirement account, they might confuse things a bit and offer you more than one kind. They give you options and then you're not sure what to do. Do I open up, say, the standard 401K or there's this thing called the Roth

401K? What's that? Should I do it? I have some answers. We're going to unpack all of that. But first, some levity. Some levity.

I had a moment this week where I really felt my age in a good way. I was working out and my trainer said, “You have really strong knees.” I just thought, “Yeah. Yes, I do.” It's the little things now, my friends. It's the little internal body things that really make you feel alive and like all the work that you're doing to invest in your health and your wellness are paying off. I tell you, maybe like 20 years ago, this wasn't quite the compliment, but I took it. I took it and I ran with it.

Then I went to Instagram and I asked my followers there, tell me your midlife truth. Tell me something about being in midlife without telling me you're actually in midlife, but it's like, we know. Mine is that my knees are in good shape and it was the best compliment of my week. Our audience, I have a funny crowd on Instagram. You all are very funny. But honest too, this is all I can very much relate to a lot of these replies.

One person said, “I've decided this is I think my favorite. If I can no longer look young, I want to look wealthy.” This is actually my friend Don. Don and I went to graduate school together and she's a journalist. Now, an activist. Don does look wealthy in the sense that she looks like a woman who knows her worth. She looks confident. She looks rested. Even though I know probably her days can be stressful, like all of our days. But yeah, she does look an empowered woman. I think that's at least that's how I interpret it, especially coming from my friend Don, who I admire so much. So, yeah, I want to look wealthy. I love that. I love that statement.

Then I also love this. I just got a salmon sperm facial to stimulate collagen growth. You know, we're trying all the things. Well, I probably will never do this. In midlife, I think that there is going to be a phase. If you're not there yet, where there's going to be a lot of experimentation to see what is going to work for you. What's going to be your new routine to treat and invest in your body, in your health, in your wellness. You want to look good. You want to feel good. Whatever. Salmon sperm facial is for this person. For me, a few months a month ago, I tried acupuncture and cupping for the first time related to a lower back injury, which was more of a sign of being in midlife than the cupping, I would say.

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By the way, anyone else in the 44 to 45 age group or is past that and can attest to this. This Stanford study that came out earlier this year that said that for a while, we thought that aging was this equal progression that with every year your body ages kind of in a measured way and equally measurable way. Well, they found that age 44 specifically and 60 are the two ages in your older life, in your midlife and beyond where you aged aggressively.

Those two years are, well, they could be pretty rough. I'm raising my hand. I'm definitely feeling like 44 was my most challenging, healthier yet, mostly physical. I had some workout injuries that I don't think I would have had in my 20s and 30s, but now my body is changing. So, I can't maybe do the same things. I was taking an air boxing class. When I was in my 30s, I took kick-boxing and all the different classes and I took a very basic air boxing class and threw out my lower back and I was down for the count all day, next day. Thankfully I'm recovered now. That it was relatively a quick recovery, because lower back injury can be a very prolonged injury.

I think the acupuncture in the cupping might have helped as did the heavy medication, but 44 and 60. I don't know, just not to digress, but let's go back to tell me you're in midlife without telling me you're in midlife. One person says, “I'm plotting to get out of my marriage. No shame.” Next person. “I'm letting people see the fruits of my creativity. I have no time to hide.” Yes. One person says, “I have a garden, and a video bird feeder, and chickens.” I love that for you. Another friend in the audience says, “I go to bed at nine most nights and I love it.”

I feel like for me, nine would feel, I would feel very anxious in bed, at least in the beginning. I'm not doing enough. I left things unfinished. I could do another hour, like I'm not really tired, so maybe I should go be productive. For me, I find that 10 PM, 10 to 10.30 is the sweet spot, because I don't have to get up until usually 7 AM. If I even get to bed by 10, I'm getting nine hours. Even 11 is eight hours, but I find that the sleep is not the high quality that I used to get in my 30s. I almost always will wake up in the middle of the night and it's just – I don't know.

My body just wakes up and it's either like in the middle of the night or it could be like 5 AM. Which is a really tough time to wake up if you're not ready and you are hoping for two more hours of sleep. You're not rested when you get up at seven. The quality of my sleep I think could be better.

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Then lastly, my friend Adam said, “We set our smart lights to a matching shade of blue when we watch Jeopardy.” Okay, that is a very loaded, tell me your midlife without telling me your midlife sentence. Because there's like Jeopardy here and smart lights, and you're watching TV together. Very cute, very cute couple, you two. But yeah, I find that when I'm on the screen, I need another layer of lens. I have my contact lenses, but I need like a filter. It used to be a nice to have and now it's a must have. Thanks for indulging me everybody on Instagram. As I said, very funny, very funny audience I have.

We're going to hit the mailbag next, but two things I want to bring up. One is that I have just decided on my entire 2025 curriculum for our So Money members. If you are not a member, let me tell you a little bit about this. Okay, so not long ago, I decided I wanted to create a community for our podcast listeners where we could get more engagement, more education. The So Money members club was born.

Every month, as a member, you get a live financial training hosted by me live office hours where you can walk in, ask me whatever you want or just stick around and listen to what other people are asking. We have a very engaged community. You can ask questions on the go. I usually answer if not another member chimes in and it's just a great place to hang out if your goals are to be financially successful, more educated around money.

Also, maybe you want to connect with like spirited people who care about wealth and financial well-being. It's a good place, especially as we head into 2025, a lot of uncertainty, a lot of changes. Some of us, I know we're looking to latch on to sure things and the So Money members club is a sure thing. It's not going anywhere. I'm not going anywhere. I’m very excited to announce that in 2025, we have now decided on what we're going to learn during those monthly live workshops.

Everything from real estate to investing, to how to manage your money as someone who might be in the sandwich generation or in mid-life. You've got growing children, aging parents. That seems to be a recurring theme amongst our members, how to consolidate and refinance your debt. A lot of us are carrying student loan debt still or we have personal loans, business loans. We want to learn how to be better with our debt. We're going to talk about it.

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Also, fun stuff like how to maximize your points so that maybe in 2025, this is definitely on my vision board to sit in first class going somewhere international for free. Could that be in your future? Well, we're going to talk about how to actually optimize your points. I'm so excited. I'm so excited to grow this community. If you've been listening to the show, you know that for a while during Black Friday week, I ran a promotion where you got a free month trial of the So Money members club.

I hope those of you who are in the club right now from that promotion are enjoying your time. If you have any questions, reach out, but stick around 2025 promises continued programming and engagement. You can go to somoneymembers.com to learn all about it.

Next, we're going to go to our Apple podcast review section. Pick our reviewer of the week. This week, we're going to give special thanks and a shout out to Brooklet 80, who left review on November 19 saying that she's incredibly grateful for this podcast. Brook says, “I've been tuning in regularly since 2020 and it consistently makes me think, reevaluate and dream. Farnoosh's steady stream of informed and relevant guests bring new point of views to my inner financial dialogue and stoke important conversations with my partner. I'm also constantly impressed with the wide-ranging topics covered on the Ask Farnoosh episodes. I've personally benefited from many of her answers. Thank you, Farnoosh.”

Well, thank you, Brook. Thank you for this review. It means a lot. Subscribing to this show, leaving a review, it really supports the show. It's the number one way to encourage others to subscribe. Keep the show going. We're entering our 10th year, everybody. Can you believe it? So, Brook, I'd love to extend a free money console to you. You can email me, Farnoosh@somoneypodcasts.com. You can direct message me on Instagram as well at Farnoosh Torabi.

Let me know you left this review. I'll send you a link. You pick a time that works on your schedule. You pick a time that works for you, for us to have a money convo, or it can be a career convo. We can talk about whatever you want. It's all on the table. Brook will also get a free 30-day trial of the So Money members club. So, I highly encourage you, if you've been meaning to leave a review, do it. Pick one every Friday.

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Okay, we're going to hit the mailbag very soon. We're going to talk about tariffs and what they're going to need for our budgets, and what we might want to buy before the end of the year before prices go up. We're going to talk about retirement plans. We're going to talk about how to buy a car in 2025. Actually, December, maybe if you can swing it. December tends to be one of the best months to buy. All that coming up after our break.

All right, we're back and we're talking about how the Trump tariffs may interfere with our spending plans in 2025. If you're in the market right now for a big-ticket item that's likely created overseas or manufactured overseas, well, you might want to pull the trigger before the end of the year, because as we know, with tariffs, businesses don't get creative usually when it comes to offsetting tariffs. What they do is they pass those extra costs onto us in the form of higher retail prices.

A reporter at Huffington Post recently reached out to me and other financial experts for our take on what are some of the things that we might want to buy before the end of the year, assuming these tariffs go into effect early 2025. How can we better prepare for rising prices? I'll put that link to the Huffington Post article in our show notes, but essentially, the article goes into first explaining what the tariffs are going to be.

President-elect Donald Trump announced that he's going to impose a 25% tariff on all goods from Mexico and Canada, as well as an additional 10% tariff on Chinese goods. That he says is going to start on the first day of his presidency. Many economists predict that his plans are going to make inflation worse. They'll increase costs for US businesses and consumers. The Sharf tariff proposals could cause price hikes across a variety of products, from apparel to toys, furniture, household appliances, travel.

The three product categories that I think are going to be most affected, or will be significantly affected, are major home appliances, technology and furniture. These three product categories, if you're already in the market for a washer dryer, a refrigerator, an iPhone, or a smartphone, a dining room set, this might be the time to be shopping around, because these products are typically assembled overseas, or they depend on imported steel and aluminum.

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So, let's get into it. If you're looking to buy a home appliance right now, tariffs are going to increase the cost of materials. Companies will raise their prices. If you're thinking about upgrading your washer, your fridge, I think now's a good time to strike before the tariffs kick in. Better yet, my pro tip for anyone in the market for kitchen appliance is to go for the energy efficient appliance. Spend a little bit more if you have to, but here's why it's well worth your money, because there's right now, in effect, still, before the end of the year, the energy efficient home improvement credit, which was part of President Biden's inflation reduction act.

It gives homeowners the chance to claim 30% of the cost of eligible energy efficient improvements to their home. That includes like windows and solar panels. You get up to a maximum of $1,200 back. This Trump has said he will eradicate. So, keep this in mind as you're shopping. Technology is also at risk when it comes to tariffs. No surprise there. Most electronics are built through global supply chains. When the manufacturers have to spend more, the retail price of that new phone or laptop that you've been eyeing will probably go up as well.

In the last go around, we did see costs for laptops and TVs go up, because the key parts in these pieces of technology, the microchips, the displays, the batteries are sourced overseas. I for one, and for sure, mark my words, getting my iPhone before the end of the year. I need an upgrade. My phone has many cracks, but I've been winging it. I've been dealing. I mean, the phone still works. The camera still works. I can type easily, but it's going to be time soon. I think better sooner than later.

That being said, I don't know what Donald Trump's relationship is with Apple, because here's what's also going to happen. He's going to part in certain companies. He's going to part in maybe certain industries. He doesn't want to annoy his biggest campaign donors or his biggest supporters, right? I think if you're in the market for a Tesla, a Model 3, or a Model Y, which has a global export hub in Shanghai, you might be okay.

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I feel like Trump and Elon Musk have a friendship going, right? We'd be surprised if Tesla prices went up, because of tariffs. That's just my guess. Then furniture. Most furniture from big name brands are not made in the United States. So, here, too, we can expect tariffs on couches and tables and dressers and beds. IKEA, in fact, has already announced that the tariffs will push its prices higher.

Now, what is going to be the overall impact of tariffs on the average American? Researchers at Yale's budget lab found that the new tariffs, we already have tariffs and we're already paying for it, but these additional tariffs could add another $2,000 to $7,600 to a household's budget. Depending on your consumption, your consumption profile. You may be on the lower end of that. One way to circumvent this, you can't maybe avoid it entirely, is to shop secondhand. You can do this across multiple categories, like you don't just get secondhand clothing now, right?

You can get secondhand toys. You can get secondhand books. Secondhand furniture, cars, technology. It's all available to us as secondhand. Sometimes it's called refurbished, gently used. I think we're going to see a huge increase in that market, and I'm happy to see that, because it's not just a great cost saver, but it's helpful to the environment.

Finally, I also want to mention that grocery prices, maybe a fourth category right here, are going to see prices go up. We've already experienced inflation at the grocery level, and I don't think it's going to get any better with these tariffs, because when you consider that Mexico and Canada are the biggest suppliers of agriculture, of agricultural products to the United States. Those 25% tariffs, you better believe are going to affect our costs for fruits and vegetables.

On the one hand, I want to support American-made goods. I want to support American farmers. I want to support American business owners, and I will. But will they be able to keep up with the demand? If everyone stops eating avocados from Mexico, I don't know if like California can supply all the avocados, right? If they have to, because now there's demand, their prices will also go up. See, it's not like you're going to save money by going American. You're going to probably end up paying more either direction.

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Now, sticking with tariffs, we're going to talk about the auto market and tariffs. Sandrine says, “I've been a faithful listener of So Money since I moved to the US in the summer of 2017. I sent in a question about two years ago, and a lot has changed since then. I went through a separation and then a divorce. I received two promotions at work. Moved twice, and now I'm in a new and much happier relationship. I've continued to learn from you and your guests over this time period, and I love following along your journey.”

“My partner and I are looking at buying a car. I have never owned a car. I don't know anything about cars except the traditional financial wisdom that I hear on your and other podcasts. I'm wondering how much of that traditional advice applies post-pandemic. We're looking at certified used vehicles. The market has completely changed since COVID. Is it still possible to negotiate the price at the dealership? Should we pay cash if we can or take out a loan and repay it quickly? From our research, car insurance also seems cost prohibitive. Any advice you have on lowering costs associated with car purchases and ownership would be appreciated.”

All right, Sandrine, I do have some tips on buying a car and I love that you're already thinking certified pre-owned. I think that's always a smart move. If you can snag a really good car that's certified pre-owned, which we talked about earlier, this idea of buying secondhand, it is always a great value, because with that secondhand price tag, you get a pretty good condition car and you get that manufacturer warranty. That being said, I do want to put this all in the context of these Trump tariffs when they go into effect.

Tariffs, as I mentioned, they can have far-reaching implications on a variety of industries and markets, including the auto market. Why? The United States and European automakers, they rely on Mexico and Canada for car production, and China, not for nothing, is the second biggest source of imported car parts. I'm reading right now an article on Yahoo Finance, where they write about how analysts recently estimated that a 25% tariff on Mexico and Canadian car parts could add about $2,100 in cost for each US assembly vehicle.

Cars produced in Mexico or Canada could cost $8,000 to $10,000 more. So, then your question comes at a very timely moment. There is a strong case for buying a car right now. If you're thinking about it, now would be a good time to get one before December 31st. As I mentioned earlier, December typically is a time of year when auto dealerships are looking to offload the current year's cars. They want to sell the 2025 models. They don't want to have any more 2024s on the lot. If you see a 2024 car, I would still try to negotiate. Even though that'll be priced lower than a 2025 model. I do think you want to negotiate. It never hurts to ask for a negotiation.

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One of the best tips I ever got on car dealership negotiation. This works well for me, because I would rather be anyplace else but a car dealer. You can and should find who the sales managers are. The online sales managers. You can go on to any local car dealerships website. Get that, online sales managers email and email them and say, “I'm interested in this particular car.” Be very specific. “I want to know if you have it, what is it cost?” Then do that across a variety of dealers.

That way you get their best and final offers, which usually won't be their best and final offers, but you'll get a pretty good sense of where we'll give you the best price. Then you can go to that dealer and start from there. You've saved yourself probably hours by just doing this widely distributed email approach, but the Yahoo Finance article was also very good with this point, which is that you shouldn't panic buy a new car right now because of these tariffs.

If you're already in the market, you've already identified the kind of car you want. You've got the money, then sure, if it's available now, go for it because then you're hedging against the potential, these tariffs going into effect and affecting the sticker prices. Then again, going electric EV could also help you take advantage of that inflation reduction act credit, which I think is definitely going to go away in 2025.

New electric vehicles are eligible for a tax credit worth up to $7,500, and then up to 4,000 for used ones. The certified used car that you're eyeing, $4,000 credit, if it is an EV, and that's thanks to Biden's inflation reduction act, which could disappear under another Trump term.

Things have definitely gotten better since COVID. I think supply chain has gotten much better. I wouldn't worry about, is it appropriate? Is it acceptable to negotiate? You should always negotiate. Negotiate virtually first. Then negotiate at the dealership.

As far as whether you do it in cash or you do a loan, I think if you can comfortably pay in cash without depleting your emergency savings or disrupting any other financial goals, I would consider cash. I just paid off a lease using cash, because when I looked at what I would be paying an interest to finance the remainder of that car, I just thought, no. You know, I love being liquid. I love some cash liquidity, but I really couldn't justify the interest. I know interest rates have come down since the beginning of the year, but I would do the math to see you know, what would you save an interest if you did it all in a lump sum with cash? Then it's yours. You don't have to worry about those payments.

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Then you mentioned lowering your insurance costs, getting quotes from at least three insurers is the way to go. Ask them about discounts. Ask them about bundling your auto insurance with any other insurance that you may have, whether that's renter’s insurance, homeowner’s insurance. Ask about safe driver programs. A lot of times these quotes that we get initially don't include these incentives, these safe driver program incentives.

If you are a driver with a good track record, I mean, you should not be paying as much as everybody else, right? Because it's all based on risk. Ask about discounts and ask about things like that. Also, one thing to know, is that you can renegotiate and change even your car insurance every six months or every 12 months. You're not locked in forever. Exciting. I'm so happy for you, Sandrine. I love all these updates. I love where you are in your life. You sound like you're in a much better place. Thank you for sticking with this show. I'm so glad that it could has been a value to you.

All right, shifting gears now to 401Ks versus Roth 401Ks. Carolina in the audience says that she and her husband are prioritizing their financial future and maxing out their 401Ks. Now, they're trying to decide between a traditional 401K or a Roth 401K. Their company offers one of each.

Can they do both? Should they do both? Let's break it down. Let's break it down. First, let's talk about what we're talking about. 401K versus Roth 401K.

The traditional 401K, the contributions are pre-tax. They lower your taxable income today and you pay taxes on the withdrawals in retirement. The Roth 401K is a hybrid of a Roth IRA and the traditional 401K. Contributions are made with after tax dollars, like the Roth IRA. Then the withdrawals, including earnings, are tax-free in retirement. But where the 401K similarity comes into play is that you can contribute a lot more in a Roth 401K than you can a Roth IRA.

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The contribution limits are higher as well as there are no income requirements. With the Roth IRA, you are no longer eligible to contribute once your income exceeds a certain point, but with the Roth 401K, that rule doesn't count. I think a Roth 401K, if you have access to this through your job, it's a wonderful opportunity. You get the benefit of getting those withdrawals in retirement tax-free. You don't have to worry about becoming ineligible, but generally speaking, there are a few considerations before you decide. One is, what is my current tax bracket?

Carolina here lives in a high-tax city and she and her husband are both high earners. So, contributing to a traditional 401K does help to lower their taxable income now, which, depending on their bills and their cash flow, it may be advantageous given this high marginal tax rate. It's especially valuable if you know already that you're going to retire in a lower tax environment, like a less-tax US city or overseas somewhere.

You also want to take into consideration your future tax rates. Nobody has a crystal ball. Even the best financial advisors can't know with certainty where taxes are going, but I think many financial advisors would say, let's plan for rising taxes, because that's what we've experienced over the decades. If you anticipate that your retirement tax bracket will be the same or higher than it is now, then a Roth 401K could make more sense, because you're going to benefit from those tax-free withdrawals. Pay taxes on the investments today when you're in a lower tax bracket.

The other thing to consider is, where will I live in retirement? If you're going to be moving to a lower tax state or country, like I mentioned, this could mean a lower overall tax liability in retirement, but keep in mind that tax treaties and rules on US-based retirement accounts vary by countries. If you say, okay, I'm going to move to Spain in retirement or Italy where the taxes are less, you still want to consult a tax professional who has expertise in international retirement planning to be sure how that country would tax your withdrawals from either of these accounts.

Then finally, I think if you have the ability to contribute to both or you have the desire to contribute to both, many financial planners, and I would agree with this, say it's important to diversify your tax strategy in retirement. Contributing to accounts that are exempt from taxes in the withdrawals, in retirement, as well as those where you get the tax benefit today can be a way to diversify your tax exposure.

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When you have the option available to be both in a traditional and in a Roth, sometimes doing both gives you that flexibility to withdraw from accounts in a way in retirement that minimizes your taxes in retirement, especially like let's say, if in retirement it's a long period of time for some of us, it could be 30 years. You might live in one state or one country during part of your retirement. You could move. So, depending on where you live you might benefit from having one account over another in terms of the tax implications.

Bottom line, just continue to invest. Whatever you do, you can't really go wrong from an investment standpoint. From a tax standpoint, of course, you want to take some things into consideration. You want to take into consideration your current tax bracket, your future tax rates, where you might possibly live-in retirement. Then you might say, you know what, I don't know all the answers, so I'm going to hedge and I'm going to contribute, say, 70% to one account and 30% to another or 50-50, just giving myself some diversity as far as the tax buckets. In the end is a solid plan.

If you've been listening to this podcast for a while now, you know I love a hybrid approach. I love being able to do a little bit of everything. That rarely will I say you got to go 100% in this direction. The reality is, is our lives are complex, our goals sometimes overlap. We don't have all the answers. So, when we have opportunities to get access to various financial vehicles, various ways to save, various ways to invest, I say, you know, consider it all and be selective.

Don't feel the pressure to go in a single direction and know that whatever you choose to do today, Carolina or in 2025, you can always adjust. Assuming you're still with this employer and they're still offering these retirement benefits that you can try it out for a while. See how it's working for you. I realize, you know what, we really need to have the tax savings today, because our costs are going up, our tax brackets, maybe not the best. So, we want to be able to be as tax conservative right now. I know that maybe that's going to hurt us down the road, but this is what will make life better for us right now. That's a valid conclusion.

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That's our show, everybody. Thanks so much for listening to So Money. As a reminder, if you are liking what you're hearing, hit that subscribe button for us. Leave a review and share this with a friend. I'm so grateful for you. I hope that you have a wonderful weekend. We're going to – I think, be getting our Christmas tree this weekend, so wish us some luck, some good luck tree shopping. Hang out with me on Instagram to see how it all looks in the end. I hope your weekend is so money.

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