EPISODE 1761

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FT: So Money episode, 1761. 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.

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It is Friday the 13th, 2024. December 13th. How's everybody doing? We have questions today from you about what to do with an old 401K. You've left the job. You're settled into a new job. Great news. But you're not sure what to do with that old retirement account. How to manage your life savings in your 60s? A person in the audience is writing in on behalf of her father, who has about $100,000 saved in his 60s.

This is in addition to collecting social security, and he wants to preserve and grow that 100 grand as safely as possible. What's my advice? How can couples wisely merge their money together when they get married? We have a newlywed in the audience. Help is coming your way, but first, I want to talk about a couple of feature stories I read this week about money. Really good articles with important takeaways that I want to share with you briefly before we get into answering our audience questions.

The first is an article in PopSugar. I'm going to link it in the show notes. Emma Glassman-Hughes is the associate editor at PopSugar Balance. She's a reporter who has covered arts and culture for the Boston Globe. She writes about how her college friendships taught her about socio-economic status. Let me repeat. It was in college when she made friends and finally learned about socio-economic divides.

This stopped me in my tracks, okay, because I remember learning about socio-economic differences as early as elementary school. I want to say, second or third grade. Here's how I learned this. I learned this, because I would go to school and every morning our teacher would ask for the kids who are getting lunch cards to come to her desk. What is a lunch card? I had to explore. My curiosity was peaked. I learned that lunch cards grant kid's free lunch.

They present the lunch card when they go into the cafeteria and their lunch is calmed. I thought, “How come they get to have free lunch and I don't?” So, I went home and I asked my parents. They said it's because those families need support. We fortunately have the money to pay for your lunch and some kids do not. it made me really, really sad. Also, I felt embarrassed for these kids who had to go to the front of the classroom, to the teacher's desk, in front of everybody else and basically parade that they were kids whose parents could not afford to pay for lunch.

The cafeteria was fertile ground for learning about money and the divide. The economic divide that existed throughout our town. Back then it was in Auburn, Massachusetts and continued to be the case as we moved. There were different things to learn as I changed schools, but in particular, during my elementary years in Auburn, Massachusetts. I learned about the school lunch cards, which was an early education on things like government subsidies, kids whose parents made less than other parents.

Then once I was in the cafeteria, I recognized, I did. I recognized at a very young age, that those of us who brought lunch to school with paper bags, and little notes from mom, and packaged treats in our lunch bags. Those were the kids who had the better clothes. Those were the kids who went on vacation when school was out. Those were the kids who got lots and lots of presents under their Christmas trees. Those of us who bought lunch were not as privileged, typically.

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Yeah, of course. We all bought lunch on Fridays, because that's when it was pizza day. Nothing like pizza to bring all the kids together, regardless of their socioeconomic backgrounds. But Monday through Thursday, if you were buying hot lunch and you were doing that consistently, you probably had a different home makeup than the kids on the other side of the cafeteria. Yes, the other side. They divided us. It was visual. It was clear. There was no integration with hot lunch and bag lunch.

The kids who brought lunch typically had two parents, a mom who didn't work, and extra money in the bank, because actually, bringing your lunch to school every day was more expensive than buying the school lunch, which was, I think, 75 cents. Your bag lunch costs more than 75 cents, right? It also took time to make. I sort of figured all of that out before I hit middle school. Then, of course, things changed. We moved to Philadelphia when I was in high school, a much different socioeconomic paradigm there, where, for the first time, I realized that a 16-year-old could drive a nicer car than a teacher.

Our parking lot was full of very nice cars. I'm talking BMWs, Landrovers, Volvos. I took the bus until I didn't. Then I drove my father's used Toyota Corolla. I love that Corolla. But I was very quickly schooled on what it's like to be a rich kid, like a really rich kid. That's why this article that Emma Glassman-Hughes wrote. I'm really glad she wrote it. I think it's a really important story. But it was shocking to me that it took her until college to understand that there is a spectrum in the story. She writes about how a friendship with a less financially privileged student friend made her realize that she was unaware of financial differences.

Then she brought in my friend Aja Evans, who's been on this show many times. Financial Therapist, author of *Feel-Good Finance*, to bring in the context. Aja talked about how those of us who are raised somewhere in the middle financially, like middle and upper middle class. Those individuals are the least versed in the financial realities that they live, while people who are on the extreme ends of the financial spectrum. Generally, know more about money and whether or not they have it.

Those who are in the middle are a little oblivious to the fact that maybe not everybody has what they have, or maybe not everybody has access to the things that they have. Fascinating stuff. I'm going to link that article in our show notes. Bottom line, if you're listening and you have kids, talk to them about money, foster and understanding of socioeconomic differences now. I mean, my kids are very curious, right? We live purposely in an area with a lot of different socioeconomic backgrounds, and they go to school and they realize that while they have some privileges, other kids do not. That's important for them to see. That's why we chose to live in the town that we do, as supposed to a neighboring town where there is a majority in the same socioeconomic bracket, not the case where we live.

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These conversations probably will come up more fluidly and more organically based where we live than maybe in a town over. I like that. So, that's one article. It's called, *What My College Friendships Taught Me About Socioeconomic Status*. Then another article. Oh, my gosh. This was in the Cut. I so related to this. It's written by Jessica Bennett, fabulous writer, and it's called the *Perimenopause Gold Rush*. She writes, there's a wave of new companies making big promises to millennial women. Is it all too good to be true?

Jessica writes personally in this article where she spent over $10,000 on remedies as she's going through Perimenopause. Her ultimate relief came through a low dose birth control prescribed by a specialist. Wow. I'm sure my phone, because it listens to me, is going to be feeding me so many ads, even more than I'm receiving. Jessica's article is really highlighting a lot of the confusion right now around Perimenopause. These companies, while I'm grateful that there's more attention and research given to women's wellness, it's unregulated a lot of the time.

The wellness products are unregulated. There's a lot of misinformation and it really underscores the medical community's lack of preparation to address Perimenopause, as well as the commercialization of women's health. It's the gold rush as the title states, but this is a silver lining in the article. There is more visibility, more discussion around Perimenopause and menopause, and that's leading to, hopefully, more scientific advancements in understanding treatment and solutions.

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If you're interested in this, or a lot interested in this. I would recommend the M Factor documentary co-produced by my friend, Tamsen Fadal, who is a menopause expert. She's coming out with a book called, *How to Menopause*. The *New Menopause* is the New York Times bestselling book by Dr. Mary Claire Haver. That's currently on my bedside table. Be careful. If you go down a rabbit hole on Instagram or TikTok, you might buy some products or pay for some services that you don't need. They make you think you do, but you might not. So, do your research first. Find the good doctors before you hit buy on any wellness product.

In case you missed this week's episodes on Monday. We talked about how your number one asset is not money. It's time. Heather Chauvin is an author and the host of the podcast, Emotionally Uncomfortable. She's a survivor of cancer with three kids. Her recovery was one for the books. She actually wrote a book about it called, *Dying to Be a Good Mother*. She's been on the podcast previously, and in our new conversation, we explored how to think about time, like we do money. How to think of it as an investment, how to save it, how to get out of time debt as she calls it. She has this amazing practice called the Million Dollar Minute. It will absolutely change the way you perceive time.

On Wednesday, we sat down with Jody Smith, creator of the blog Abundance of Jo. She started her own financial journey by listening to this podcast, and from there was able to get out of $50,000 worth of debt, while building wealth for her future, investing and saving at the same time. She's now teaching her lessons to a growing audience, and she was a lovely person to connect with. Great advice. Great inspiration.

Then a couple things to share before we get to the mailbag. If you want to write a book, I have a free webinar next week on Wednesday on how to get a book deal. I'll put that link in our show notes. It's going to be a live training, but we will also send the recording to anybody who registers. You'll get that and you can watch it on your own time.

Then next, the So Money Members Club is gearing up for a full year of learning. I just released my workshop topics for 2025. We're going to talk about how to create a financial plan. The path to home ownership, navigating money in the sandwich generation, mastering the world of points. Yeah, secrets of credit card rewards and loyalty programs. We'll be talking about debt refinancing, negotiating a raise, how to buy insurance. So many topics, plus we have a whole growing library of workshops.

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We have office hours every month. If you have been looking to find a resource for yourself in the new year, a financial resource that's accessible, that gives you access to a smart community of people who care about money led by me, somoneymembersclub.com is your destination. Check us out. We'd love to see you in the community.

I want to give a shout out to our reviewer of the week. A short and sweet review left by X Trophy, left review earlier this month. Giving it five stars with the following comment. Dig it. Her vibe is great. X Trophy. Did you know, I pick a reviewer every week to get a free 15-minute phone call with me. I just chatted with Brooke, who left review recently, helping her figure out her 2025 financial goals. I can do the same for you. Just get in touch. Email me, farnoosh@somoneypodcast.com, or you can direct message me on Instagram.

Let me know you let this really cool review. I would love to offer you a free 15-minute money session. Coming up, we're going to talk about how to manage your 401K after you leave your job, how to preserve your savings in retirement, and my advice for newly married couples. First, a commercial break.

All right, we are back and we are answering your money questions. Beginning with Danielle, who has a question about what to do with her 401K. She writes. Farnoosh, I love your podcast. I just quit my job and I want your advice on what to do with my 401K. I was getting a 5% match at my previous job, so I have about $90,000 in my traditional 401K. My new job does not offer a match. I want to transfer it all to my Roth IRA and a Bitcoin pre-tax IRA. What are your thoughts on transferring it to a Roth at this point in my life? I'm 30 years old and I'm thinking it's better to pay taxes now versus in retirement, but I could be wrong. I'm curious on your thoughts and what you do.

All right, Danielle, thank you so much for writing in. Congratulations on this career transition, quitting your job, starting a new job all before the new year. Kudos to you. You're asking me for my thoughts on this Roth conversion. I also want to give you some thoughts on the Bitcoin IRA. You better believe I have some opinions there. But first, let's talk about this transition from taking money out of your 401k, about $90,000 and putting it into a Roth IRA.

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Let's understand what this will entail for everybody listening, because I know that you're not the only one probably who has thought about this or is curious about this. Rolling over a traditional 401K to a Roth, it involves essentially converting pre-tax money into after-tax money. When you do this conversion with $90,000, you will owe taxes at your current tax rate. The main advantage of a Roth IRA is that once the money is in the Roth, it grows tax-free and withdrawals in retirement are also tax-free. For someone like you who is 30 years old, this is pretty appealing, because you'll have decades for the money to grow and benefit from tax-free compounding.

A few things to consider before you do this, though. One is you want to consider your current tax rate. If you're in a lower tax bracket right now, well, then it might make sense to pay taxes on that $90,000 and convert it to a Roth. But keep in mind, if this year's income, including the $90,000 rollover amount, is going to push you into a higher tax bracket, you might end up paying more taxes than need be. I recommend that you either use a tax calculator or you work with a financial advisor to figure out and estimate the actual cost of this conversion.

If it's too steep, you could do this. You could convert only a portion of your 401K each year to manage the tax impact over time. But for this, you really want to run the numbers. Maybe consult with somebody who can do a bit more of a deep dive with you financially. I also want you to think about what other sorts of financial priorities you may have on your plate, because if you're going to pay the taxes this year on that $90,000, that's money that you're not going to be able to spend in other ways, right? It may be a trade-off for you.

Would it mean not being able to build up your emergency fund or pay off high interest debt? If you don't have those bases covered, then I would pause on the Roth conversion, so that you wouldn't have to give up that money to be able to fulfill those other financial needs. You mentioned that you know, in retirement, you want to be able to benefit from tax-free withdrawals. While a Roth IRA will ensure that, don't feel so much pressure to move all of your 401K to a Roth.

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Keeping some money in a traditional IRA or rolling it over to a traditional IRA allows you to defer taxes until retirement when you might be in a lower tax bracket. It might be. You want to have optionality in retirement, right? You also want to be able to save on your taxes today to some extent too. So, finding a good balance is always a good idea. I mean, ultimately, here's my recommendation. I would roll over your 401K to a traditional, traditional IRA in part. Maybe you put 50% in a traditional IRA or you roll it over to your 401K the next job. Then the other 50%, you do the Roth conversion.

If you're set on having Roth funds, this is a way to still satisfy that. That way, you can spread out the tax burden while staying in a manageable tax bracket. Once that's done, once the conversion is done, as a 30-year-old, you want to take advantage of the fact that you have many years ahead of you until retirement. So, contribute to the Roth IRA. Don't just let that money sit there. Take advantage of it to its fullest extent. Contribute as much as you can up to that annual limit every year to the Roth IRA. It's a great way to continue building tax-free retirement savings without converting your entire 401K.

You also mentioned a Bitcoin pre-tax IRA. I love a good alternative investment to a degree. I would just approach this with a lot of caution. Cryptocurrency, as we know, can be extremely volatile, very speculative. Even though we're seeing Bitcoin surpass $100,000 in value. I recommend keeping it to a small, small percentage. I'm talking no more than 5% of your overall investment portfolio.

Diversification is your best friend when you're building long-term wealth, so make sure that the majority of your retirement savings remains in broadly diversified assets, like low-cost index funds, low fee ETFs, etc. So, long answer short. Maybe go half-seize all to shield yourself from the tax cost today, but really to know that tax cost, use a tax calculator, or talk to a professional who can give you more mathematical insight. Congratulations, good luck on your new job. Thanks for listening.

All right, sticking with retirement questions. We have a question from our friend in the audience, Jane. Regarding her dad. Her dad is 68 years old. She says, “Unfortunately, he mismanaged his money a lot. Has been in out of work for years and has no retirement, but does collect Social Security. He's currently not working, and I don't think he will again, due to health reasons. He is quite minimalistic and is able to survive off of Social Security and dips into a little bit of savings each month. Thankfully, he has savings from an inheritance from a family member who passed a few years ago. I have been encouraging him to invest or do something with that money, but unfortunately, it's been sitting in a regular bank account for several years, earning little to no interest. He's very stubborn.”

“My dad has about $100,000 left. He's finally allowing me to help him set up a high-yield savings account and come up with a plan for investing part of his savings to hopefully help sustain the rest of his retired years. My question to you is, how do you advise splitting up that money between regular savings, high-yield savings, mutual funds, etc.? I'm very concerned about his financial future, and I'm trying to help set him up the best I can with what he has.”

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Wow, Jane. Your dad is really fortunate to have you looking out for him, and I'm very honored that you came to me with this question. I take it very seriously. I'm going to help you. I'm going to help you break this down, so we can come up with a workable plan that balances, strikes a balance between your dad's immediate needs today with some opportunities to grow and maintain his savings for the future. He's 68 years old. We hope he'll live another 30 years.

The first priority, I would say, is to make sure that dad has a safety net. Accessible cash to cover his everyday needs and any unexpected expenses. Social Security, thankfully, is covering his basics, but if he's dipping into savings each month, that suggests that it's not quite enough, right? It's important to have a healthy savings account.

Firstly, does he have six to 12 months of his living expenses tucked away somewhere? Like, maybe taking whatever the Social Security monthly stipend is, multiplying that by six to 12, and then just taking it from the hundred grand and putting it aside somewhere. A high yield savings account is perfect for this, because it's going to stay liquid, and he can use this for anything that comes up unexpectedly, like a surprise medical bill or some household emergency.

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In addition to the high yield savings account, I think having that plain vanilla savings account is still useful, that nothing percent savings account is still useful, because you can connect to that probably at the same bank to the checking account. In there, just put enough for like two months, a month and a half's worth of expenses. In case some months there's fluctuation. You want to make sure there's coverage. If he's going to go over what he has in the checking account one month, the savings account can be a safety net essentially for the checking account.

The next step is to invest for growth, as you say. Your dad is 68. Let's be real. I wouldn't give him the same investment strategy, right, that someone who's 38 or even 48. He doesn't need to invest aggressively at this age, but I think he can put some of his money to work via low-risk investments. Maybe taking a remainder of what's not going in the HYSA and putting a portion of that into low-risk income generating investments, including treasury bonds and bond funds. Treasury bonds or bond funds.

Treasury bonds, you can buy directly through the treasury website at treasurydirect.gov. Treasury bonds are issued again through the government. They're backed by the full faith and credit of the US government. There's guaranteed payment, which gives him predictable income. It's also pretty liquid. Treasuries are generally the most liquid types of fixed income investments. If there is something that he needs to cover relatively soon quickly, he can tap it and there are tax breaks. It's not exempt from federal taxes, but treasury bonds, the interest on treasuries is exempt from both state and local taxes.

There are some risks like interest rate risk. There's inflation risk. There's market risks. Of course, but relative to stocks, a much more predictable investment. Then bond funds. I would go for high quality bond mutual funds or ETFs. Vanguard total bond market index fund is one example. It could be a good option for where you want maybe a modest yield, not a lot of volatility. That's where I would put probably 40 to 50% of the remaining funds.

You could do another 20% in the stock market. A diversified mix of stock funds or ETFs. Again, here you want to choose low fee investments. If you've been listening to this podcast or if you've joined any of my investing workshops over the last year, you know I love a good low fee index fund. You can grab them at Robo-Advisory anywhere from a Charles Schwab, to a Betterment to a Ellevest.

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There's a lot of different automated investment platforms out there where you can open up a portfolio, choose your investments or have them pick your investments based on your dad's age, his risk tolerance, and his goals. They will probably do a similar breakdown where it's mostly going to be bonds, some stocks, and then probably the rest in cash. T

o recap, build that emergency fund for your dad, take whatever his Social Security monthly stipend is, that amount, multiply it by six to 12, whatever is workable, doable, and then just park that in a high yield savings account from that $100,000. With the rest of the funds, you're going to invest the money, mostly in bonds, some stocks, and then the rest, maybe still in cash. I'm okay with putting some money in a nothing percent savings account if it's useful to help cover the bills that are coming due every single week, every single month.

In addition to whatever is getting from Social Security, you want to have some liquid cash to be able to pay bills on a regular basis. You mentioned that your dad is to bring into savings, so putting aside some of the cash for those monthly expenses, maybe a month's worth of expenses in a savings account is a wise way to go. All right, thank you so much. Let me know how it works out, and thank you for listening.

Last but not least, a question for my newlyweds out there from Melanie. A question that I actually answered years ago, but I'm resurfacing it, because I think it's really important. Next week on Monday, in fact, I'm doing an entire episode on couples and money. If you're the breadwinner in your marriage, if you're contemplating having children and affording kids, lots of insights from our guests.

This question from Melanie is the following. I recently moved in with my boyfriend, Farnoosh. We've been dating for a few years, and I've spent a lot of time in a long-distance relationship while I finished law school. We recently bought a house, which is in his name. That's fine, because my debt priority is geared towards student loans, but we need to really sit down and have a big financial conversation. We've dabbled in finances, and I've always been transparent with my situation and my goals, but he is a bit more reserved. What topics do you find encourage people to be more open and aware of the importance of being so money? Thank you, and keep up the amazing work.

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All right, Melanie, and anyone else listening who's interested about my answer here. Moving in together and buying a house together, these are really big steps. It's great to hear that you're prioritizing having a big financial conversation with your partner. Hopefully there is no pushback when you suggest having a conversation. I'm going to assume that that's not going to be a big hurdle for the two of you, since you've already shared in some big financial moves, like buying a home together, moving in together.

Before you get into the finances, my advice for all couples in the beginning is to just start talking about your shared goals. This way you can quickly get on the same page, because by now you're probably, if you've made it this far, you have a lot of alignment with how you envision your future together, as well as like just the next month together. But how do you see yourself in the next year to 10 years? Really, like map it out. Get specific. What are your individual and your shared priorities? Do you want to transition to a bigger home one day? Do you want to start a family? Do you want to travel? Do you want to retire early?

Getting clear on your goals ensures you're going to get clear on your financial roadmap to hit those goals. I do want to take a minute here and discuss the house. The house is not in your name. I understand that you want to focus on paying back your debt, so that may mean that you're not paying towards the mortgage. I get that, but do what would happen if you sold this house? Would you get any cut of the equity? You want to establish clarity around how equity and contributions are going to be handled. This is especially important.

If you do at one point end up contributing to the mortgage, or the property taxes, or even just the home improvements. If you use your money to help pay for a kitchen renovation, and then you go to sell the house, you should have access to the profits, right? I would hope that you would want access to the profits. So, when you discuss money with your partner in the beginning, I want you to talk about the house. How are you going to share the costs of the home? Will your contributions, like paying for the utilities, or the home maintenance, or the paint, be acknowledged as part of building equity, even though your name is not on the title?

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If you split up, how will the home equity be divided? Would he buy out your contributions or compensate you fairly? This is where maybe having a post-nuptial agreement, if you're married later, or a cohabitation agreement now to help formalize these arrangements would be instrumental. If you're planning to stay unmarried for now, a cohabitation agreement is a great option. It outlines how assets and contributions will get handled while you're living together in case you break up.

That's great that you've been really transparent about, sounds like a lot, your student loans, especially. I would encourage him to share more about his financial picture as well. Money conversations are two-way street. They can be intimidating, but you're modeling great behavior, and you're showing him the importance of speaking freely about these things. Intimacy includes financial intimacy, and frame it as a judgment-free zone, right? No judgment here.

Actually, as you'll learn on Monday's episode where I'm talking to a couple who are experts in couples and money. They recommend that we talk about our childhoods, our pasts, our financial memories growing up, because all of that is really, really important context. If you haven't had that conversation with your partner, maybe that's what you do after you talk about goals. You talk about how did you grow up around money? What are your expectations around what money can afford you, and what kind of lifestyle you want, and what debt means to you?

I know you have student loans. How does he feel about your student loans? Are there any financial stressors or worries that you're both carrying into this relationship, potentially because of trauma? This is the stuff you want to explore. It's deep stuff. It's a bit of work, but it's important. It's a good investment of your time.

Technically speaking, I think it's also important to have a conversation, maybe it's separate, about your expenses. How are you going to share in these expenses as cohabitants? Living together and managing a home, there's a whole bunch of new financial responsibilities. How are you going to split them? What feels equitable based on your financial realities? If you have student loans and he doesn't, if you make more or less, how does that play into who pays for what and how you're going to split the expenses?

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Will it be 50-50 or based on income? I don't have answers to this for you. These are the questions that I would bring into the conversation. If at any point it does get contentious or you're finding that you're not aligned. Take a break. It's okay. It doesn't mean you're doomed. It doesn't mean you're mismatched. It just means that this is hard stuff. It requires a lot of reflection, and you may not have the answers right away, so agree to come back to it. There are many people and resources that can support you along the way.

A financial planner who you might just hire for a couple of meetings, not someone that you're going to commit to forever and ever. Maybe it's a money coach. Maybe it's a financial therapist. Of course, free resources like podcasts and books are also great ways to spark dialogue. Get inspired together. I find that when you incorporate a really good resource into the conversations, it takes some of the pressure off because you can now refer to a tool, a book, someone else's advice and talk to that as supposed to feeling like you're at odds or you're going to enter a disagreement.

Talk about something you read in the paper that had something to do with money and couples. What did we think about it? What did we agree with? What did we disagree with? Like I said, this isn't going to be one conversation, right? You're going to have hopefully several. So, make it fun, make it regular. You've heard of money dates probably where you can discuss money over coffee, or a dinner, or bottle of wine, put it on the calendar, put it in your joint calendar. By the way, do you have a joint calendar? This is very important.

When my husband and I got together and we were just boyfriend, girlfriend and living together, having a shared calendar was so helpful. We still use it. I definitely recommend that. It's not a financial tip, but more of like a how to just feel more collaborative really with your schedules. Again, just to reemphasize, you are setting a great example, my friend.

You're being open. You're being proactive. You wrote into this show now with a collaborative approach and a little patience. I know that you'll both end up feeling way better, more empowered about your financial future together and just your future together, wishing you all the success. I'm so grateful that you're a part of our community. Thanks for listening, everybody.

On Monday, we're going to tackle money and relationships even further. We're going to talk about when you have disparate incomes in the relationship. One person makes more than the other. We're going to talk about affording kids, pre-nups, post-nups. Stay tuned and you know what I'm going to say. I hope your weekend is so money.

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