EPISODE 1728

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FT: So Money episode 1728, 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. It's Friday, September 27th, 2024. We're going to talk about how to pick a good transfer balance credit card. Which ones do I like? Then also estate planning, how to get your affairs in order. Is it ever a good idea to borrow from your 401k? All important questions, and I'm excited to share my answers with you. But I also want to talk about so many things this week that happened. I don't know if maybe I should look at my astrological chart. Was this week supposed to be the craziest week of the year? Possibly.

I had a lot of travel, a lot of launches. I started the week by traveling to Boston. I grew up an hour outside of Boston, so it was nice to go back to my childhood abode. This was the most exciting opportunity. It was an opportunity to join Mel Robbins on her wildly successful podcast, The Mel Robbins Show. Dream come true, right? Hashtag, core memory. I cannot wait to share this conversation with you.

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Mel's studio is in Boston and hadn't been there in so many years. So, I'm walking around. I took a little bit of time to get to Boston and then settle in. I'm walking around Newbury Street and I go to Beacon Hill. Let me tell you, Boston is flexing right now. It's so pretty. Maybe it's because of the season. The leaves are starting to change. If you're looking for a nice fall getaway, get yourself a room in Boston. It's so charming, so New England, rich in history.

I was walking through Beacon Hill, these gorgeous flowers, manicured lawns. Then there's this famous statue of Paul Revere. It just took me back to all the history lessons growing up in Massachusetts. We spent probably more time learning about the history of our country as a Massachusetts kid than other kids. It just really was nostalgic for me to be there. I can't wait to get back there and bring my kids. Shout out to the Mel Robbins team. They are world-class. Mel Robbins for me is an absolute north star and her team is incredibly impressive, so hardworking, really grateful to have been given the invitation to join her and experience her team.

Fast forward to today. This morning, I was on the Today Show. NBC Today Show talking about the top financial fears that we all experience from the fear of losing it all to the fear of not having enough, the fear of financial FOMO, like not being able to buy a home, like all your friends are or have the like life that you think you're supposed to have and afford by a certain age. There's also the fear of raising kids who may repeat some of the bad habits that we model.

This appearance was largely to draw attention to the paperback edition of *A Healthy State of Panic*, because as that book is all about fear. Right now, a lot of us are scared for a host of reasons, but the economy has been giving a lot of people ajata. We fear the unknown. We don't know where the economy is going. We don't know where the labor force is going. We've got some nice silver linings, like interest rates are coming down. But as a culture, we've decided that money is taboo, so we avoid it. We don't learn about it growing up or even as adults.

A majority of Americans say they did not talk about money growing up. So, in our adult lives, that plays out. Even when things are objectively going fine, we may still feel insecure. It's a relationship with money that is embattled. It's our lack of understanding, and the failure, and the uncertainties that we associate with money, our lived experiences and the stories you've been telling ourselves about it, which I say can be rewritten. That is a lot of the advice that I gave on the show. It's in the book. You can get the replay of that episode on the Today Show, on my Instagram @farnooshtorabi.

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As if this week couldn't be more intense, a couple other important notes, a couple other important things happened. First, I have a new website. Please check out farnoosh.tv or farnooshtorabi.com. It had been many years since I updated my website and it felt like it needed a refresh, because a lot has changed, a lot has evolved over the last – oh, my gosh, I want to say at least five years, pre-pandemic for sure, including many of the offerings that I have today that were not quite communicated on the old website. Things like the So Money Members Club, my latest book, *A Healthy State of Panic*, and some of the workshops that I've been. Putting out there. The live workshops, the in-person workshops, book to brand and so on.

I love the design. Thanks so much to team Liz Teresa, who I've been using for years and years and years and years to developed my sites and a lot of my online projects. They just are wonderful to work with. One of the best pieces of advice I ever got on this podcast was try to work with elegant people. If you ever get the opportunity to pick who you get to work with, who you're going to employ, who you're going to be able to bring in on your team. Strive for elegance, strive for people who not just do good work, but go above and beyond by being good people too. They're just people that will be honest with you. They'll be straight with you. They'll be quick. They'll be thorough. They'll be kind and Liz Teresa and Zach Freddie. They're my elegant people for all things web. Love you both.

To celebrate the launch of my site, I have a free investing guide for all of you. If you've ever come to any of my workshops on investing, this is a guide that is a culmination of all that advice and Q&A that we have on those workshops in one document. So, if you ever want to learn where to begin with your investing strategy, where to invest, how to invest, what's a good investment? You can go to the link in the show notes to get that free guide. It's also available for free on my website.

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Also, launching this week, my free guide. Another free guide on how to financially plan for a family. Some of you know, and I've been talking about this on the podcast and elsewhere. I spent a lot of the summer deep diving into the world of parenting and the cost of raising a family, which as a voter this year, this is extremely important for a lot of people who are worried about not just being able to have kids, but also everything else that comes after having a child, which is daycare and childcare and college. It's a complex financial topic. Many of us are struggling with.

So, when SoFi came to me and asked me, “Hey, would you be interested in creating this educational guide for us?” I jumped at the opportunity and I went for it and interviewed so many experts. I put on my journalist hat. Did a lot of research to create this 60-page guide. It's full of advice, and interviews, and facts. All next week, I'm going to be airing and releasing some of the conversations that I had with experts to bring this guide to life from financial experts, to pediatrician, to a career expert to really understand what it takes, the holistic, the 360 of being able to afford children in America today.

How do you say for your anticipated needs? How do you create a budget? How do you afford childcare and maybe get creative, because childcare is ridiculously expensive? Health care. We talk about how to get the essential coverage that you need for you and your child. Fertility treatments, leveraging your doctor's expertise to save on visits, procedures. How to make the most of your workplace benefits, if and when available to support your life as a parent? If you don't have these benefits, how to advocate for yourself at work to get these policies, to get the support.

Then of course, how do you afford leaving your job to maybe become a full-time caregiver? You might know my thoughts on that already, but I wanted to really tackle all the different aspects of raising a child in America today. We're going to air those episodes next week, but the guide is ready. It's ready for you. So, follow the link in the show notes. It's yours. You can start reading through it now. You can come to So Money next week to fill in any more blanks as we're going to release these interviews.

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All right, we're going to get to the mailbag very soon. But first, just want to remind you to check out this week's episodes, if you haven't listened to them yet. On Monday, we spoke to Megan Gorman. She's the author of the new book called *All the President's Money*. That was fun. We got to talk about some of our presidents over the years and how they manage their money. You might be surprised to learn about how they poorly manage their money. In some cases, one president dying without a will, one president dying with some debt, one president who was extremely frugal, although coming from a very wealthy family.

Then on Wednesday, real estate investing in a changing market. We sat down with Scott Trench, the CEO of BiggerPockets. We talked about, is this the good time to be looking into real estate as an investor? Interest rates are coming down. What is the impact for investors? what are the strategies that can help us navigate the housing market today and in the future? Plus, what's going on in the Airbnb market? Is that profitable anymore, buying a home, buying an apartment, turn it into a short-term rental?

Today, we're going to get into all of your questions that have come in through the pipelines, including how to pick a good transfer balance credit card, estate planning, how to get your affairs in order, and then borrowing from your workplace retirement account, your 401k. How do you do it? Is it a good idea? I have some thoughts. But first, a quick commercial break.

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All right, an audience member wants to know, do I have any favorite picks when it comes to balance transfer credit cards? Firstly, let's just talk about what these cards are, what they are intended for. A balance transfer credit card is designed to help us manage any existing debt that we have. It allows us to transfer that debt from one, or multiple sources to one new card, this new balance transfer card that has a 0% interest rate. It's an introductory interest rate. That means it's only going to be around for a little bit. It will expire usually, anywhere from six months to, I've seen as many as 21 months.

People like balance transfer credit cards when they're trying to reduce their interest payments. If you know that you can within that 0% introductory period, you can and you're committed to paying down all of the loan, all of the balance in that window, well, you're going to save lots of money on interest, because the interest is 0%. It's also nice for those who might have multiple credit cards with interest rates and they want to streamline it and consolidate it to one transfer balance credit card. It makes for easier payments, instead of three payments. You're paying one payment a month.

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It does require discipline. Once that promotional period ends, any remaining balance on that card is going to be subject to the standard interest rate, which right now on credit cards, it can be as high as 20%, 25%. You're going to go from paying nothing to a lot if you're not mindful of that window. Balance transfer cards can be a smart tool for managing credit card debt. But a few things you want to consider. I already mentioned one of them, which is that window. During which time, you have the 0% APR, but then it expires. Being really mindful of that cut off and being honest with yourself, can I commit to paying down a lot of this debt, if not all of it during this window? Because otherwise, if you have a credit card with, let's say a 17% interest rate and yes, going over to a 0% APR is very attractive. But then, if you haven't paid off the debt after that deadline, you're going to jump to maybe a 25% interest rate. You're worse off than when you started. Make sure you read the fine print on that.

The other thing is that some balance transfer credit cards charge balance transfer fees. If you're carrying over $1,000 from an old credit card with an interest rate to this 0% card, there may be anywhere from a 3% to a 5% fee. Of that $1,000, you'll get charged, let's say 5%, and that's going to be added to your balance. There is a cost to transfer initially, sometimes. Sometimes not. There are cards out there, I've seen 0% balance transfer. I'll mention one of them right now. Chase Slate Edge.

Chase Slate Edge. This card is a balance transfer card. It's a 0% APR on purchases and whatever you're transferring over to the card for the first 18 months. This is, I think, the gold standard in the industry and full disclosure, when I was an ambassador for Chase for many years, this was the product that I was most obsessed with and that I would talk about the most. Even when I was at Money Magazine as a reporter, our editorial team really loved the Chase Slate. Back then, it was called Chase Slate. Now it's called Chase Slate Edge.

This card, because it really does exceed some of these other cards in the market. It has, again, 0% APR for not just your balance transfers, but also, the new purchases that you make on this card within an 18-month period. Some cards, it's just the balance transfer that gets charged the 0% APR. Anything you charge new on the card is subject to a variable APR, which could be as much as 20% or 30%. Just keep in mind though, after 18 months, the Chase Slate Edge card does convert to a card that's charging you interest and it's a variable APR, but right now it's anywhere from 20% to 30%. It's based on your credit score, as well as what the market rate is. Also, there's no annual fee. Not all cards offer $0 fees for transferring the balance, so I like that.

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It's free to basically move your money over and there's no interest for the first 18 months on whatever you're bringing over and whatever you're charging you. I like the 18 months. 18 months is like a good healthy amount of time. It's a year and a half. It's a nice bit of time to work out whatever debt you have just to give you the behind the scenes of how balance transfer cards work. So, you apply for a balance transfer card, hopefully you get accepted. Then once you're in, you request a balance transfer. You do this either online, you can call the credit card issuer and you'll have to provide the account details of your old credit card and the amount that you want to transfer.

Now, keep in mind that sometimes you have a bigger balance that you want to transfer than what this card allows. The balance transfer card limits are based on many factors, including your credit status. The different cards have different limits, but if you've got like $50,000 worth of credit card debt, my guess is that that balance transfer card is not going to be able to absorb all of that. I've seen limits as high as 10,000, but not much more.

You can always ask to extend the credit line once you're in and you have been paying your balance off and all that good stuff. That's advice for anyone. If you want to increase the limit on your credit card, you can usually ask and based on your standing and your credit worthiness, you may or may not qualify, but these are the steps. You apply for the balance transfer credit card. You request the balance transfer. Then the new card, the new balance transfer card will pay off your old credit card debt by transferring the balance to your new balance transfer card.

The debt goes from the old card to the new card and now you're making payments on this new card. Your old card, what are you going to do with that? What should you do with that? I would not close it, if possible. I would keep it open. Having that limit on that credit card can help ultimately your credit score, especially if this was a card with a high limit, especially if this is a card that you've had for a long time. You want to keep it in the mix and you might want to attach one small bill to it every month that you're automatically paying off. That's just some parting advice on that.

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You can compare balance transfer credit cards online to pick the one that's right for you, but keep in mind, the window for the 0% APR, any balance transfer fees and what is the limit on that credit card typically, so you can prepare for how much you'll be able to transfer over. All right, a question about investing from someone in the audience who says they're late to self-educating on personal finance. They do have a simple IRA through their job, which they've been contributing to and matching, but that's basically it.

This person says they have a modest savings account, some leftovers in the money market account. That seemed like they're never going to make much money. There are a lot of returns there. Retirement savings is really important to this person, but also, they want to buy a house. It sounds like there's a lot of like confusion about where to start, where to turn your attention and how to prioritize.

All right, so for someone who is like this person in our audience or anyone listening who is new to the personal finance world. You know, that saving is important as is investing. You're trying to juggle both short term interests and goals like you want to buy a house in the next few years with your long-term goals, like retiring one day. The backdrop of the economy very uncertain.

What is the first thing I would recommend somebody do? Number one, get clear on those goals. Do you really want to buy home in the next few years or is that just something you think you're supposed to do, but you haven't really done the math? You haven't really asked yourself if this is from a values perspective really important to you, because saving for a home is a huge financial feat. You have to say for the down payment, the monthly mortgage, the taxes, the insurance.

Renting on the other hand offers flexibility. I'm not saying that buying a home is a bad idea. I own my home, but you have to make sure you're doing it for the right reasons. Get clear on your priorities. You talked about having this simple IRA with an employer match. Fantastic. You're contributing to that. You're actually doing great. I think this is you're not giving yourself enough credit. The fact that you knew to take advantage of that match, because it's essentially free money. Very, very smart. I feel good about you having that established. Amongst other things you want to establish from there you want to get an emergency fund together.

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I didn't hear in the question anything about whether or not you have a savings account. If something happens, you lose your job. You want to take time away from work. You get an unexpected bill. Having three to six months' worth of your expenses saved somewhere, preferably a high yield savings account as a cushion is a priority. It's something definitely to work towards and to put that at the top of your to do list.

You've got your long-term savings address with that simple IRA and that match. You're working on a rainy-day reserve for the immediate, and then let's go back to that house that maybe you want to buy at some point in the next few years, five years. That would be a short-term goal. How do you do this? Well, with whatever is left, after you account for your bills, and you account for your retirement, and you account for this rainy-day account. If there is money left over, then you can think about allocating that to a siloed special compartmentalized account. It could be just an additional savings account within wherever you're banking to start putting money towards that account towards that goal.

Now, you're going to need thousands and thousands of dollars for this. Where's that going to come from? Well, that's for you to figure out and some things to think about would be, can I start bringing in more money? Can I reduce my expenses? Can I downsize for now, so that I can shore up more cash for this goal to buy in the future? Will I qualify for any first-time homebuyer credits or benefits? You don't know what you don't know. So, doing a little bit of research to see what you could qualify for, what the market is like. Really, how much are you going to need to actually figure out what to save and how to save.

Along the way, keep educating yourself. Stay curious. Keep listening to this podcast and other podcasts and read books. Education, curiosity is the key. We don't grow up with financial literacy. I had a little bit of a running start than others, because my parents talked about it, but I still had to learn things the hard way as well. I got into debt, had to figure my way out.

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The key is to always be on the lookout for yourself. Read the fine print. Ask the questions. Know that nobody cares more about your financial life and your financial well-being than you. Take that to heart, but I have to just give you credit that you are investing for retirement. You know enough to save for that match and you knew enough to write in and ask a really good question about how to prioritize. You're not alone in this. Thank you so much for your question.

All right, borrowing money from your 401k. When should you do it? What should you watch out for? If you have a 401k at work. You may be able to borrow against the 401k. You take a loan from the account, typically up to $50,000 or 50% of your vested balance, whichever is less. When you repay the loan, usually you do it through your paycheck. It's automatic with interest going back into your account. That's an attractive quality for borrowers. It's like, “Well, I'm paying interest. At least I'm paying it back to myself and not a financial institution.”

The loan term for a 401k loan is usually five years, but there are rules around this. If you leave the company, whether voluntarily or not, that loan typically comes due right away within 60 days. That is one of the caveats to the 401k loan. Among other caveats. But let's first talk about maybe some of the pros when you look across the financing landscape. Compared to credit cards, personal loans, which are other avenues you might take, the 401k loan requires no credit check. It's your money, so borrowing doesn't require credit approval, and it does not impact your credit score.

The interest rates tend to be lower than other kinds of financing. Credit cards obviously carry double-digit interest rates. Personal loans right now also maybe in the 10, 12, and higher percent interest rate. On 401ks, the interest rate could be as low as five to 7%. It's usually the prime rate plus one or 2%. That makes it very competitive and very attractive to those of us who are looking to borrow some money. Like I mentioned earlier, you can set up repayments to come directly out of your paycheck. That does help with staying on top of the loan.

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Now, for the cons. This is your retirement account. This is money that you have dutifully set aside for your future self. This is one of the hardest aspects of building wealth. It's caring more about your future self than your current self. Delaying gratification. When you take a loan out of your 401k, while the loan is unpaid, the borrowed money is no longer invested. That's going to cost. It's going to cost you long-term gains.

There's also this thing called double taxation. You repay the loan with after tax dollars, and then you withdraw the funds in retirement, those will get taxed again. There's also a pretty good chance of default, because as we know, people are not staying at their companies for five years on average. It's much less. You might get laid off, you might have a change of heart, you don't want to work there again, so you leave your job. You don't get to continue paying off that 401k loan with that five-year term.

The loan is due in full within a short period of time, usually within 60 days. Otherwise, that loan is now considered an early withdrawal, which is subject to income tax and penalties if you're under the age of 59 and a half. When there are dire circumstances. I'm talking you've exhausted all other options and you do have this money in your 401k staring at you and you need to pay off an urgent medical bill, you have a serious life matter, you have to afford. I get it. Life happens. No guilt. No shame. But this is not my go-to for financing.

Again, because I care about my future self. I've worked really hard to invest for my future self. This means maybe delaying your retirement and maybe having to work longer to make up for the fact that the money you took out as a loan no longer was compounding during those five years or maybe less. How common is this? Well, I found that borrowing from a 401k is common, about 20%. One in five of 401k participants have an outstanding loan at any given time.

Why people are turning to this for immediate financial needs, paying off high interest debt, funding a home purchase, or covering unexpected expenses. But I and other financial educators would agree that this should be a last resort, because of the risk of derailing your retirement savings. So, yes, you can do it. Should you do it? That's questionable.

Lastly, a friend in the audience wants guidance on how to make sure everything is taken care of when they pass. Accounts, funeral arrangements, all that. It's overwhelming, this person says, thinking about it, but I don't want that to be the reason why my loved ones may struggle getting a hold of my assets. What's a first good step? Would it be easier to get a lawyer to handle all of this instead? But what a lawyer? Talk to me like I'm five years old.

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All right. I will say that working with a professional estate planning attorney is critical. I know there are a lot of websites out there that can draft you a will in under a few hours or whatever it is. That makes me nervous. This is serious stuff. You're not building a contract between you and your roommate or a personal loan contract. This is an estate plan, which is pretty involved. You're talking about how you want not just your assets managed in your absence, but also your health, because within your estate plan, you would also designate someone to be your healthcare proxy in the event that you're incapacitated or you're no longer able to make good financial decisions on your own behalf. Somebody else needs to do that for you. Who is that person going to be?

There's a lot to consider. working with an estate planning attorney who does this all day, who has seen all of it, the good, bad and the ugly who can tell you here are the things to look out for. Here are the things to absolutely have figured out in fine print so that you don't, to my friend in the audience's concern, have your family scrambling. By the way, when they're also in deep grievance, this is the best gift that you can give your loved ones when you are no longer around is to make sure that everything is laid out clearly.

Working with an estate planning attorney is really, really important. You can usually find a good estate planning attorney by asking your friends and your colleagues. I like to get a good referral. We just worked with an estate planning attorney in New Jersey to update our estate plan. We had moved from New York to New Jersey. So, when you change states, it's important to just make sure that your estate plan still valid in your state and we'd had another child in between, so we had to obviously include our daughter.

We worked with an estate planning attorney whom I found by going on Facebook and doing a search within our town's Facebook page where families are sharing resources and asking questions and the resources are all over the map from childcare to estate planning attorneys to the best pizza. A lot of people had recommended this one estate planning attorney and he was fantastic. Got us all squared away. It was a couple thousand dollars. Now, we are relaxed knowing that God forbid something happens to one or both of us. Our children are taken care of. Our assets are taken care of. We know who's going to step in. It's all in writing.

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Many people die unfortunately without a will. If you listened to our episode on Monday with Megan Gorman who wrote the book *All the President's Money*. I think it was Abraham Lincoln who died without a will. People didn't live as long as they did today, so maybe he was going to get around to it and then he didn't. Of course, he was killed. That was very unexpected, but it happens. When it does happen, you don't have a will. What happens to your assets is now up to the state, your state's laws.

Most people don't want to follow through on all of their state's laws. It's similar to getting – it's similar to why you would get a prenup before you get married. In the event of a divorce without a prenup, who decides? The state. The state decides how the assets get to beat up and most people are not in agreement with that, so they get a prenup. To my friend and the audience who asked this question, invest in a good estate planning attorney. I'm hesitant to recommend an online tool for this, especially if you've got children, especially if you have very specific requests for how you want things to play out when you're no longer here.

Before we head out, I just want to remind everybody to download the free investing guide that I've created for everybody. How to invest, where to invest, how to get started. Follow the link in the show notes. If you are thinking about becoming a mom or a dad. If you're thinking about growing your family or you might already be in it and you got a lot of questions about how to afford childcare, how to manage your career as you are parenting and moving up in your career or maybe taking time away from your career and affording it all.

I have ideas and solutions and a lot of research for you in my financial family guide that I wrote in partnership with SoFi. That link is also in our show notes. But coming next week. We've got a whole slate of episodes next week to learn more about affording kids in America today.

Thank you so much for tuning in. If you like what you're listening to, please leave a review. I didn't get any new reviews this week, so no one's getting a free 15-minute call with me. Also, I'm giving away a free 30-day trial of my So Money Members Club. How to apply? You leave a review in the Apple Podcast review section, and then on the Friday episodes I pick a reviewer. I read the review out loud, and then that person gets to hang out with me and ask you whatever they want and also join our So Money Members Club, which by the way, you can check out at somoneymembers.com.

Thanks again for tuning in. I'll see you back here on Monday. I hope your weekend is so money.

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