EPISODE 1734

FT: So Money episode 1734, Ask Farnoosh.

> *“**GM:** At the end of the day, if the organization isn’t running well enough to pay you a market-based wage, there is something fundamentally wrong with the business. you’re just hiding it by not taking a paycheck.”*

[INTRODUCTION]

[0:00:04]

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]

[0:00:31]

FT: Happy Friday, everybody. Welcome to So Money. It's October 11th, 2024. I'm So Money this week, because I paid off a car lease. I now own the car, and I'm not sure if I'm going to keep it. I'm debating maybe selling it, getting something a little bit more economical, maybe a hybrid or an EV.

I also found every single library book that was around the house and managed to return all nine books to the library. This is, if you know a huge feat when you've got two kids and all these books. I love going to the library. I dread returning the library books. In fact, there have been times when we have completely lost a library book or two, and the fines are not commensurate with the value of the book. Let me just tell you. had to spend 20 bucks one time to, basically, it was a fine, a penalty for a DVD about My Little Pony's. I'm not even sure why we got the DVD. I don't think we ever watched it.

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This week I completed our multi-part series on Affording Kids in America. If you didn't catch these four episodes, go back and take a listen. If you're a caregiver, a parent, expecting. We covered some really important ground from how to budget, how to create a financial plan, how to clear your debt, how to navigate health insurance in the healthcare system, how to analyze your insurance plan to be sure that it's good enough up to snuff, to take care of you and your expanding family.

We talked about how to navigate work. On Monday, in fact, I sat down with Lauren Smith Brody. She's the founder of The Fifth Trimester. I loved what she had to say about how 70 some percent of workers in America are caregivers. These aren't just moms and dads at little ones. These are parents who might be taking care of an older kid of an adult child who has special needs. It could be someone who's taking care of an aging relative. It could be someone taking care of their own mental health or their own recovery from addiction, from depression. The list goes on.

I just think it's such an important message for everybody to hear that when we can understand that care is care and that caregiving is a priority and a responsibility of a majority of American workers, employers need to wake up to this. They need to address this. They need to support this. If it's not employers, it used to be coming through the federal system. What that looks like it's a menu of things from flexible hours to flex spending accounts to at minimum a robust health insurance plan that won't leave you hanging after delivering a child in the hospital, onsite childcare, paid family leave, etc. etc.

As a nation, the United States ranks at the very bottom amongst the 40 plus economically developed nations in terms of providing workers with paid family leave. It's pretty nuts. I'm very proud of this series. As I mentioned throughout these episodes, if you want to get more of a download on this topic, I have a 60-page comprehensive educational guide that includes some of the snippets from these interviews as well as tons of data. A lot of my own personal experience and anecdotes from the audience. People who reached out and said, I'd love to contribute and share my perspective, my stories on how I'm, for example, navigating healthcare, navigating childcare, transitioning my work and my career to better support my life at home. You can go to sofi.com/family to get that free guide.

[0:04:02]

Today from the mailbag, we have questions about how to manage your finances when you are late in life parent. A listener in the audience wants to know when my kids potentially go to college, we're going to be on the cusp of retirement. Is there anything that we should be thinking about right now to better prepare ourselves for what seems to be just around the corner? I have some tips also. Can you ever be investing too much, too much? This is a question that came up during one of my one-on-one calls this week with a listener.

The question was, is it okay to cut back our investing so that we can have more money every month? We feel a little strapped, cash strapped, especially now that we've become parents. If you're curious how I was chatting with this listener and why, it's because she left a review in the Apple podcast review section. If you'd like someone on one time with me, here's how you can apply. You can leave a review in the Apple podcast reviews section. Every week, I pick a reviewer to get a free 15-minute phone call as well as a trial month of our So Money Members Club.

This month we're talking about all things budgets. It's actually really timely for this particular listener to connect with me. She can get into the So Money Members Club for free and sit in on that live workshop, which I also record. This week we're going to say thanks to AA907, who left a review a little while ago calling the show great with practical advice. Here's the review. “I've been listening for over a year. I love the advice given on the show. It's always practical and Farnoosh makes it easy to understand.” Well, thanks. The New York Times calls my advice perfectly practical.

I'd love to also be known as sometimes wildly radical, but I love the compliment. This is definitely my dad and me who's our physicist in the family, the scientists. Always looking for the ROI, the practicality. Thank you so much for your review AA907. Please get in touch. You can email me, Farnoosh@somoneypodcast.com or you can direct a message me on Instagram. Let me know you left this review. I'll follow up with a link where you can pick a time for us to connect.

[0:06:12]

We're going to get to the mailbag in just a minute, but I want to gripe with you a little bit. I've been talking with a couple of friends who evacuated their homes in Florida this past week. They're safe. Thank God. But they were talking about how hotels and flights were astronomically priced. That's illegal. My friend booked a ticket, luckily, from Florida to California earlier in the week when flights were around $300. It wasn't a direct flight, it was a transfer, but that's okay. She said, by the afternoon, it had skyrocketed to $3,000. That was American Airlines, she said.

The airlines, of course, are denying price gouging, saying that their fares have been capped. The anecdotes do not back that claim. So, now the Justice Department is getting involved. The FTC is getting involved. All week, they were warning consumers of fraud and price gouging. It's very sad and it's maddening. I don't know if I have any advice here, but I would say, one, if you experience this or witness this, you got to tell the Better Business Bureau, the FTC. You should report this, your local and statewide consumer protection bureaus.

Unfortunately, this is a cost of climate change and a disappointing cost and arguably illegal cost of climate change, but it's unfortunately things that we have to reckon with in the moment. Hopefully when we're on the other side of these storms, these companies will be held accountable. They'll issue some refunds. But in the moment, when it's life or death, we shouldn't have to worry about how we're going to afford whether we're going to survive or not. That's essentially what these companies are asking us to do.

My heart goes out to everybody who had to make hard decisions and financial sacrifices during these storms. Again, I don't have a solution for this. I just wanted to air my frustration and say that if you experience this or we've been talking about this amongst your friends and family, like hopefully this is going to catch on and these hotels and these airlines will be brought to justice.

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All right, let's help out our audience. Our first question, it's an anonymous question and it's about how to prepare yourself financially when you are a “late in life parent.” Here's the question. “Hey, Farnoosh, your money and kids’ episodes have been awesome.” Well, thank you. Glad to know you're listening.

“Thanks so much for these gifts. They have gotten my wheels spinning a bit. Have you ever seen any roadmaps for later in life parents? I just keep thinking about when my kids potentially go to college, we're going to be on the cusp of retirement. We're all over our 401ks and IRAs. We've been contributing to 529s as aggressively as possible. I want to believe that we're going to be setting up our kids to be independent and ready to launch shortly after graduating, but that feels like the exception versus the norm right now and potentially for the foreseeable future. Is there anything outside of general retirement planning, estate planning, long-term care insurance that we can think about now while we're still vaguely young?”

Here's some advice for you. I did think about this for a little bit and outside of general retirement planning, outside of estate planning and long-term care, all of which are important to be thinking about and executing on, but outside of that, given that you expressed a little bit of anxiety around retiring around the same time your kids are going to college, a couple things. One, I understand that you're contributing full speed ahead with these 529s, great, but I just want to make sure that you're not contributing so much that it's taking from your ability to invest more for your future.

Now, on the one hand, kids who graduate debt free from college, they absolutely have a financial leg up, the likelihood that they're going to be coming back to live with you or be dependent on you after college graduation is less likely, the stats show that people who don't have student loans have overall higher net worths for obvious reasons, but that being said, there are many ways to afford college. There aren't so many ways to afford retirement. You either have the money or you don't, and if you don't, you have to work.

With college, if you don't have the money, you can go part-time. You can start at community college and transfer. You can take a gap year. You can apply for scholarships, and of course, you can take out student loans. We don't want your kids graduating with heaps of debt, but a little bit is not going to ruin them. That's just the first thought that came to mind when I'm hearing that you're aggressively investing in for College and your retirement, which is great, but I just want to make sure that you're not over-indexing with the 529 investments, so much that you may not have enough in your retirement plans. Just be critical about that.

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The other thing that I would recommend is, if you haven't already, opening up a brokerage account. retirement accounts are great, 401Ks, IRAs, we love them, but they do require a minimum age of 59 and a half before you can begin to withdraw penalty free. I'm not sure how old you are now or when you're going to be needing to access these retirement plans, but as a way to build in a little bit more flexibility and accessibility to your investments, I would recommend opening up a brokerage account and investing in that similarly to how you're investing in your 401Ks and your IRAs. Spreading it across diversified investments.

You can open one up at virtually any brokerage. You could even just start with where you have your 401K or IRA. The beauty of the brokerage account is that there is no age restriction. There's no requirement for being a certain age to withdraw and access your money. Let's say in 10 years, in 12 years, you're not 59 and a half yet, but there is something down the road, in down the pipeline that you want to afford.

Maybe it's that you want to slow down your career. Maybe it's that you want to give your kids a gift. Maybe it's that you want to help your kids afford an apartment or a new car, whatever. Whatever you want to do with this money. Maybe you decide, I don't need this money in 10 or 12 years, I'll just use it towards my retirement. That's fine. It's just another account to help diversify your investments. It can be used for retirement. It can be used not for retirement.

I would earmark this money for a goal, an expense that is at least seven to 10 years down the road. You're not opening this up so that next year you can use it. That's just because the market fluctuates so much. The general rule of thumb, and I agree with that, is that you don't want to be investing any money that you do need in the next five, six years. That this is a medium to long-term investment plan.

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Going back to what I said earlier about 529s versus 401ks and IRAs, if you are able to contribute to both of these buckets, so that your kids can go to college more or less debt-free and you can retire more or less with enough money, wonderful. Because again, young adults who graduate from college without debt, they're able to accumulate well faster. They're going to have more career flexibility, they're going to have better credit, so therefore access to more loans, more flexibility, higher net worth, lower financial stress and they will less likely rely on you to support them following graduation.

If that's what happens, if they do boomerang and come and live with you for a while, I think it's important to have a sense of what the boundaries may be. What will be some of the guidelines. I was just reading about how a young woman moved back home after college. Her parents charged her $600 a month for rent, but they saved that money for her. So, in four years when she was ready to move out, she had close to $30,000 in savings.

I just thought that was great. It's maybe that you don't need the money, but you just want to create that discipline. You don't want them to be freeloading. You want them to be paying something so that they can be more encouraged to move out and be out on their own. Then surprise, here's $30,000 that you saved as a result of living at home.

I'm not against kids who move back home, I think it's fine and frankly now it's kind of necessary for some kids with the job market not being that robust. I was reading about how 40% of college grads are underemployed, so they're in jobs that don't actually require college degrees. I hope that changes by the time your kids go to college and graduate college, but I don't know with where AI is going and the Institute of Higher Ed, I think needs major transformation.

I think there's a lot of room for improvement. We need to be more strategic and more practical to use the word again when it comes to college, affording the degree, getting an ROI, and really just getting out of there, because the longer you're in college, the more it's going to cost. If you didn't study the right things that will pay the right salary, you're going to be paying the price for many years. I feel like that's another series on So Money, what do you think?

[0:15:08]

Coming up, we're going to talk about investing and is it ever too much? A listener in the audience is investing 20% of her income towards retirement. She's not even 30 years old yet. Is she doing too much? First a commercial break.

All right, we're back and we're talking about whether or not you are investing too much money. I think it's easier to answer the question of am I not investing enough, right? Because we know that we need a certain amount of money for retirement and that amount is usually based on what your expenses will be in retirement. That rule of thumb is you take 25 times your annual expenses saved by the time that you retire. It's based on the assumption that you're going to withdraw about 4% of your savings each year. Your nest egg should last at that rate for about 30 years or more things to investment returns.

Let's say your annual spend is $50,000. Multiply that by 25. For retirement, you want to have about a million and a quarter saved. There's also studies that say that the average American is going to need anywhere from 1.2 to 2.2 million dollars. All of this, of course, depends on where you live, your lifestyle, your tax bracket, but for our friend here who's wondering if she's investing too much. This is pretty subjective, but I want to also say that she comes to me with this question, because she is feeling cash strapped at the end of the month.

She and her husband together are investing about 20% of their salaries towards the future, towards retirement. They feel like they're penny pinching a little bit during the month to address their costs. They do have a baby as parents. There's sometimes some unexpected costs and it just feels like their investing rate isn't leaving them with enough cash during the month to make ends meet comfortably.

Firstly, my advice is to run the numbers with this 20% investment rate. By the way, they're still in their 20s. Where does this leave you in 40 years? You can just use a simple compound interest calculator, put in what you have currently invested, let's say it's $100,000, and then use an average return of about seven or 8%, 40 years, what does that leave you with? Let's do it. Initial investment, I'm just using $100,000 to just keep it simple. I don't know their salaries, but let's say they're contributing $1,000 a month towards retirement, $12,000 a year in 40 years with about a 7% interest rate.

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They're looking at $3.9 million in 40 years. If they were to reduce their monthly contribution to, let's say, $500 a month, that would leave them with $2.7 million in retirement, which is still way more than what the average person is retiring with. I think it's important to get close to the numbers and project where you're going to land at this current rate. What's the goal? Do you want to retire early? Do you want to retire "on time?" Do you never want to retire? All that's important and it's going to inform what your investing rate should be. But I can tell you that as a new parent, there are a lot of unexpected costs and there are a lot of expected costs that take up a lot of room in your budget.

If you need to bring down this investment rate for a while, let's say for the next year, to increase your cash reserves, to have a little bit more breathing room, month to month, I think that's fine. As long as you're contributing enough to earn the match from your employers, you're at least contributing 10%. 10% is the general investment rate rule of thumb when you begin in your 20s.

This couple's doing 20%. As I said to her on the phone, this was the audience member who left your view. I said, "You can make this decision now to bring down the investment rate and you can always change your decision later on when you feel like you have enough breathing room." Then of course, maybe you'll make more money, you'll have more income coming in, more money to work with. But right now, I empathize with young families who need that cash flow. So, how to balance that with their future investments?

You have to be practical and reasonable. Don't be so strict about how much you invest every month for your future. If that's not going to leave you with enough today to live comfortably, know that as you progress in your careers, you'll make more money. Some of the costs that you're dealing with now, like childcare will shrink over the years. Inevitably, as your kids go to school and you won't need as much around the clock care. That's money that you could potentially put back into your investments.

[0:19:38]

Question on real estate. Carly emails and wants to know, hey, Farnoosh, I bought a townhouse a few years ago and I got a special mortgage loan, because I'm self-employed. I showed one year business tax statements and put 10% down. Now, my place has about $100,000 in equity. I want to buy a second home and rent out my current home and I believe I can get an FHA loan or similar since the second home will become my primary residence. My question is, should I take out some of the home equity in my current home, about $20,000 and use that plus a little bit for my savings for this down payment or should I leave the equity as is and continue saving until I have about 10% or more to put down?

Right now, for my savings, I have a six-month emergency fund and it's going to take me probably another year to save up a full 10% to put down. I know the market's crazy. Interest rates are coming down, but still high. I'm always on the lookout for deals. I'm in Nashville, a booming city with a lot of homes on the market that seem to have been half flipped before sellers gave up. Thanks for any insight.

Okay, here's my fast advice. I think you can take out the home equity loan and keep it as a reserve. I know that sometimes with real estate, you got to jump fast, you got to move fast. If you've been keeping your eye on deals, and you're on top of the trends, and you see a good deal, then you can jump on it with the home equity, but make a promise to yourself that you're going to try to pay that off sooner than later.

Try to parallel path this. Assume you don't have the home equity loan. In fact, start to save for another 10%. That way between now and let's say next year when you've got the full 10%, if you haven't purchased a home, you can use your savings towards the next home and you can just keep that home equity loan as an emergency break open glass. I have one a couple of years ago, my husband and I took out a home equity loan against a little bit of the equity in our home. When I saw interest rates going up, I wanted to take advantage of having access to very low interest credit. For, I don't know what. It's the emergency just in case break open glass. If we get a really big medical bill, or we have to replace our roof, all of a sudden, I don't know, life happens. Of course, we have savings and other sorts of access to capital, but access to low interest debt is never a bad thing. Maybe take out the home equity loan, put it to the side, keep your eyes open. If you see something that requires jumping on it fast, use the home equity loan, but continue to save as well to pay down that home equity loan in the next year or two.

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All right, next is our friend Jess, who wants to know how to find a really good accountant. This is a good time of year to be shopping for a CPA. We have taxes due in the spring of 2025, obviously, as always, the April 15th deadline. But I think it's good now to do your research, find someone and then start with them in the beginning of the year. She's been using TurboTax, our friend Jess, but now she says, "I want an adultier way to do my taxes." Word of mouth is always a good place to start, asking for recommendations from people. If you're a business owner, people who have similar businesses like you or just – and if you're not a business owner, someone that you trust, that you feel comfortable asking for a recommendation.

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You can also go through the National Society of Accountants and the American Institute of CPAs, where it costs anywhere from $25 to $50 an hour for bookkeeping. Then if you want someone to do tax prep, those fees can be anywhere from 150 to 400 an hour, and that will depend on the complexity of your situation. One really big piece of advice that I would give is to just be organized, because you being organized, having everything in a Dropbox folder, or cloud folder, you're going to minimize the hours that this accountant is going to have to necessarily work on to figure out your taxes. Putting all of your statements, your bank statements, your previous returns, all your deductions listed out, your expenses, if you're a business owner, having a ledger, your profit and loss statement, a balance sheet, giving them access to, let's say, QuickBooks or wherever you're doing your accounting. Very, very important. All your W2s, your 1099s in a folder.

A lot of times, accountants will give you a checklist of things they need from you. If you're organized, that's just going to save time for you to get them all the information. I want to emphasize that it's important to work with an accountant that knows your type of work, especially your type of business, if you're an entrepreneur. There are some accountants who work exclusively, or mostly with business owners, versus those of us who have 9 to 5s. Then, there are some that are more experts in handling interesting investments you may have made over the years, over the year, maybe bought and sold property, a second home, a vacation home. Just make sure that this person understands all the ways to optimize your taxes, given your lifestyle, given your expenses, given the way that you make money.

This is important. Ask if there is a mistake on my taxes. Let's say, this person as professional as they are, they're human, they could make a mistake. There could be oversight. How is that going to get resolved? What will that cost? Hopefully, it will cost you nothing. That's the policy you're looking for. I had an accountant one time, you've heard this story maybe before. I fired him, because there were a lot of problems, a lot of red flags, but the real nail mccoffin for me was when he made a mistake on my taxes and wanted to bill me for the hours that he spent to correct the error that he made. That was an obvious reason to fire him, right?

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All right, that's our show for this Friday. Thanks so much for tuning in. Next week we got a very big week. I'm interviewing Seth Godin on his new book. It's called *This Is Strategy: Make Better Plans,* an essential guide to thinking strategically in a complex ever-changing world. Stay tuned. As always, if you're enjoying the show, please subscribe, share it with a friend and leave a review. I hope your weekend is so money.

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