EPISODE 1765

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FT: So Money episode 1765. The best of So Money, 2024. Smart retirement strategies.

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[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.

[INTERVIEW]

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FT: Welcome to So Money, everybody. I'm your host, Farnoosh Torabi. It's Monday, December 23rd, 2024. For the next several episodes, we're going to be revisiting some of the best episodes on So Money this year. The episodes where, you know, we learned some new things, new insights, new ways to live richer, all around particular themes.

Today, we're focusing on the theme of retirement. The many retirement strategies that we learned over the past year. Thanks to our many guests. How to plan for, say for, and enjoy retirement with confidence, wherever you are in your stage of life, whether you're just starting out, if you're navigating entrepreneurship, dreaming of early retirement. We have excerpts from many guests this year who provided advice for all of us. We pulled the highlights from Ann Tergesen from the Wall Street Journal. Jean Smart, Founder of Penelope, Hannah Cole, the creator of Sunlight Tax, and early retirees, Katie and Alan Donegan.

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In this episode, we're going to relearn or learn for the first time how much you need to retire, how much is enough, the benefits of tax advantage accounts, like Roth IRA's, and what small business owners can do to catch up on their savings. First, let's go back and hear from Jean Smart. She's the founder of Penelope, a FinTech startup platform, revolutionizing retirement solutions for small business owners.

Jean's story is really personal. She's the daughter of Korean immigrants who ran small businesses without a retirement plan. She saw firsthand the risks of not saving for the future. In our full interview, Jean and I discussed the state of retirement readiness in America, why small business owners often delay setting up their retirement plans, and how new tax incentives are making it easier and more affordable than ever. In this excerpt, Jean explains why now is the time to act and the costs of not doing so.

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JS: The numbers are pretty bleak. We always think there's a lot of opportunity to be had, but right now, just at the very highest level, one in four Americans have nothing safe for retirement. When we say zero, not $1. Two-thirds are living paycheck to paycheck. In certain metropolitan areas, even households or families making over 200,000 are living paycheck to paycheck. They would done a great job as a culture of showing how easy it is to spend money.

There's so many different platforms by now, pay later, do things on layaway. We're always delaying ratification, but we haven't done enough to probably share in saving and investing, etc. Although I think there's a lot of hope for millennials, because millennials have so much access to information and they've got more time to actually save. That leaves about 57 million Americans in that slot that are not prepared.

Combine that with some general stats around longevity. So, in 2024, every day, 12,000 people are turning 60. Every day. If you turn 60, the chances of you living to 90 is one in three. If you're – I know, we're all trying to – our net worth, it's significant. You'll have more – it's presumed that you'll have more resources. So, it isn't just families or individuals as a society, as a country. There are some major concerns that we have. I think very recently, Larry Fink of BlackRock, could not bet out just around the state of retirement and how we need to come together to do so much more.

The good thing is a majority of Americans, about 90% of us work in these small businesses, very small businesses. So, most of the small businesses do not have a retirement savings vehicle, which has been the standard way, is a really simple, easy way to work. You put a little bit away on the power of compounded interest. You're not paying income tax on the money that you suck away. It's been a really good system for 40 years.

There's been a big push both at the federal and state level with bipartisan support to actually trigger this, knowing that 10 years from now, five years from now, 20 years from now, the situation is a little bleak. So, secure 2.0, which is new legislation that came out last year, providing wholesale, broad-based, significant tax benefits up to 16,500 for the first three years for small businesses who have not activated a plan make the cost almost a minimum, certainly with our plan.

I think while it is dire and there's a lot to do, you can see both at the federal state and even local level, people are starting to act and they're starting to require. So, in addition to, I always call it so the carrot and stick at the federal level. You've got these tax incentives, but at the state level, you've got a stick. California, Oregon, Illinois, several states are moving towards implementing fines if you are not set up. I think that will be the big draw in terms of getting people to activate more.

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FT: That was Jean Smart, creator of the Penelope Retirement Platform. If you're a small business owner, take Jean's advice to heart, because the cost of not offering retirement benefits, while it's an expense today, it will far outweigh the cost of starting a plan in the future. there are tools and incentives now that make saving accessible for businesses of all sizes. Check out the full interview with Jean, where we talk about her entrepreneurial journey. How Penelope, her company, is helping to close the retirement gap and why saving just a little bit now can compound into a pretty secure future. The link to that episode is in our show notes.

Shifting gears to talk about taxes and retirement, which are inextricably linked. Few people explained this better on the show than Hannah Cole, the creator of Sunlight Tax. Hannah is a tax expert and an artist, and her mission is to demystify taxes for creatives and small business owners. In our full interview, Hannah and I discussed everything from self-employment taxes to how artists can build long-term financial security. In this excerpt, she shares one of the most powerful tools for retirement savings and the cost of putting off investing in an IRA.

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FT: Can you talk about how to stash an extra $130,000 in your savings. I'm confused. I want to know all about this, because I would like that. That sounds, like a good deal.

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HC: Yeah. It's a little bit my hang-up that I really want, especially creative people who I think often discount the fact that they're ever going to be able to retire or save enough money to retire. I dedicate space in my masterclass every single time to showing people what the math of compound interest looks like over a career span. Basically, if you are investing. So, hopefully, Farnoosh, this is your audience, right? This is like –

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FT: My language.

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HC: Why we listen here. If you're investing over your career span. I show the math with when you're investing using tax-advantaged accounts, like an IRA, how much money your money earns in your last year. Basically, the mistake that people make is they put off funding their IRA. They're like, oh, I'll do it next year. It's not a big deal. I'll just wait a year. But I actually show you the math that if you put it off for one year, it costs you $130,000 over the span of your career, because that is how much money your money itself makes in its final year in there.

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FT: Yeah. The maximum contribution this year, I think is –

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HC: $6,500. Unless you're over 50.

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FT: Right. Over 50 is ketchup contribution. We showed this in my investing masterclass in January, which is just how much like $10 a day or funding your IRA in a year, you know where that will leave you that one year's payment in the future. It's really powerful. The math does not lie.

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HC: The math doesn't lie. I think a lot of us who like either felt some aversion to numbers or we were creative and told we were bad with money, which I find to be just not really true, ultimately.

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FT: No.

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HC: I think a lot of us just discount the fact that it's possible. So, it's part of why I'm so dedicated to showing that math, like no, no. Let's take a moment and look at this growth curve of your money, because it's kind of incredible how powerful compound interest is, like if you're making 8% annual return and, of course, your listeners will know that the stock market goes up and down. 8% is an average, not a guarantee. But if you're making 8%, the compound interest, whatever amount you put in this year, it will double in nine years. Every nine years your money will double. I mean, if you've done the math on doubling, you can see that it starts to form a curve. It goes up and up and up and up.

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FT: Hannah's advice is clear. Take advantage of the Roth IRA while you can. It's one of the most effective tools for tax advantage, retirement savings, especially if you're just starting out or if you have unpredictable income. That full conversation with Hannah, which includes more on her tax strategies for small business owners and creatives. That link is in our show notes.

Now, let's hear from Katie and Alan Donne again. There are a couple who retired in their thirties and forties with a million dollars in the bank. How did they do it? In our conversation, we talked about their strategies, their decision to leave compulsory work, their current nomadic lifestyle, and how they calculated exactly how much they needed to retire early. In this excerpt, Katie and Alan break down the 4% rule. It's a simple formula that helped them determine their retirement number and why their big believers in low-cost index funds for long-term growth.

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AD: It was five years ago, we actually reached what we would say is our five number. Our target was very stereotypically, one million invested, which at the 4% rule gives you 40 grand a year to live off.

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FT: Okay.

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AD: Year ago, we're like, “That's it. We’re one. Goodbye, world.”

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FT: What were you doing? What was so bad about the compulsory work that you wanted to get out of that?

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KD: Well, you enjoyed your compulsory work, but I was in the corporate world. I used to be an actuary. It was okay. I enjoyed the people I worked with, but it was meh. It wasn't what I loved doing. I mean, that's why I quit my job.

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AD: I think I got to the stage where commuting and daily alarm calls, daily alarm clocks were not fun anymore. I'm a big fan of no alarm clock and just getting up whenever the world wants you to.

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FT: We're going to go a little bit back and forth, because maybe I should have started with the before, the during and the now. But I want to get people really excited for this potential of following in your footsteps. Describe more of this current lifestyle that you have. You mentioned you own nothing that requires keys. No car, no home. How do you get around? How do you decide where to go next? What are the things that you've decided not to invest or spend on that then allows you to have this flexibility of travel?

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KD: Well, to answer some of your questions. How do we get around? We tend to stay mostly in medium to large-ish cities. We like to walk everywhere if we can. We all stay in a neighborhood that allows us to do that, to walk to the cinema, to walk to restaurants and cafes where we get our laptops out and work on our projects.

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AD: Fitness is very important. We just decide, like the first two months of this year was spent on the beach in Mexico. There's a wonderful place called Puerto Vallarta. It has amazing food.

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FT: Heard of it.

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AD: Right on the beach fronts. We can go in the beach in the morning, swimming, and then, like do some bits. It's just a wonderful lifestyle. The no-keys things means, we get to borrow other people's houses via Airbnb, hotels.com, finding local people.

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KD: Because people say to us, “Don't you miss not having the home?” I say, “Well, I do have the home. It just changes way more frequently than most people.” We just move from one home to the next. It might sound cheesy, but Alan, you are my home.

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FT: It's the two of you. Are there any pets? Are there any dependents?

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AD: No pets. No dependents. We decided a few years ago that kids affected our spreadsheet a lot and we weren't that excited. There were lots of role models that we saw not enjoying kids. We just decided we wouldn't do them.

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FT: A lot of we in these conversations, but were there moments where it was, I felt this way. And she felt, Katie didn't agree. I would love to get into the mess of it a little bit just because I can't imagine. It was like, okay, this is great. Thumbs up. Let's do this smooth sailing, Puerto Vallarta, here we come.

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KD: You're absolutely right, Farnoosh. There was some interesting time that we say where we struggled to get on the same page. To go back a bit of a way, when we first met, we were kind of total opposites in terms of our upbringing. Alan's dad was very entrepreneurial. Very, like let's just make stuff up and see what happens. Alan was very much of that mindset. I had come from a very traditional upbringing of, here is the standard path that is set out for you, you know, you get the good grades to be able to go to the good college university to then get the good corporate job. That's what success and happiness is, is to have that good job.

When I met Alan and he said, "You may don't have to follow that path. You know, like there's other ways of living." I just like shot down at that point. I was like, "What do you mean? This does not compute this. I don't understand you." There was a lot of ways that we clashed in the early days and actually, I mean, we met 19 years ago. Over those nearly two decades, we're still figuring it out. It's still a process to align where we're going and what we want to do in life.

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AD: Yeah. The traditional background tends to point out everything that could go wrong with entrepreneurship or financial independence. Whereas I was always like, "Oh, we could do this. here's everything that's possible." That really hold us in opposite direction.

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KD: Yes. Because I was very fear based, very kind of, "What's the rest of my tribe going to think." To put it back into prehistoric terms of when we evolved was like, "I might get kicked out of the tribe if I do this. What are other people going to think? This is weird, ill-guilty."

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AD: I don't care what the tribe thinks. Most of them do silly things. If you want normal results, do the same as everyone else, and you'll just have bad finances and be in debt. I kind of realized early, you have to do different things if you want different results. I am willing to be judged for doing things differently. Because I'm unhappy. Whereas Katie was like, "We have to be safe. Don't tell people that you're doing things differently."

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FT: Yeah. You mentioned you made the decision to not have a family. Financially, it didn't work on the spreadsheet, but I think also, what it's afforded you is the ability to have more mobility. Not that like having a family, having kids means you have to stay in one zip code for the rest of your life, but you have yourselves to consider, exclusively and not others. I know families that move, because they have to, because they're closer to healthcare. That's important for their children or school systems that are important for their children or frankly, they have grandparents, they want to be around, because they can't raise their families easily on their own. They realize the importance of being close to family.

You came up with these 1 million numbers and using the 4% rule $40,000 a year, but you were also just 40 and 35 when you decided to retire. How did that math compute knowing that you are, as you say like dedicated to health and wellness? You're going to live long lives. God willing. How are you going to make that stretch?

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AD: Well, it's interesting you say stretch, because that's the general assumption of everyone is that you retire earlier. It has to stretch further. What we've actually found is that retiring earlier means you have more time for your money to work with you. Our net worth has doubled in the 5 years since we've – which is crazy. We're now worth 2 million and we have 80,000 and this is pounds to live off. That has given us a fantastic lifestyle.

One thing I would like to add just on the kids' bit is lots of people write off everything we say, because we don't have kids, but I just wanted to say to your audience. Mathematics doesn't care whether you have kids or not. Math is math. All of financial independence and investing is about the math, the returns, and the period of investing.

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KD: We kind of say tongue in cheek when we say, you know, the kids didn't fit into the spreadsheet, but it was also, I think what you touched on fun is as well, saying it didn't really fit into our vision of how we wanted to live our lives. When we started becoming more intentional with how we were spending our money and how we wanted to live, the natural progression of that is like, "Oh, do we want to follow the standard path as well in terms of having a family?" It just made us start to question everything –

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FT: I loved Katie and Alan's episode so much. I actually aired it twice in 2024. But if you're catching it for the first time here, you can go back and listen to it. We have the link in our show notes. What I love most about their story is that they prove that early retirement doesn't have to be about deprivation. It's about intentional living and a commitment to flexibility. If retiring at 40 isn't your goal, I think their advice on calculating your enough number can apply to all of us who are looking to just plan smarter.

Coming up after the break, what is it like to live exclusively on your social security paychecks? We had a guest this year from the Wall Street Journal who did a deep dive interviewing multiple retirees across America who are doing just that. We'll hear from her and her insights in just a moment.

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FT: Now, on the other end of the retirement spectrum, what is it like to retire, not with millions, but mainly your social security check to rely on. Wall Street Journal reporter and Anne Tergesen stop by at So Money this year to share her findings on this lesser explored retirement reality and article profile Americans who had saved little to nothing for retirement, but are navigating this stage of life with resilience, creativity, and sometimes hard learned lessons. These insights hit close to home for millions of Americans. Did you know that one in seven social security recipients, ages 65 or older, rely on their benefits for nearly all their income? That's according to an AARP analysis.

Social security replaces roughly 40% of a retiree’s pre-retirement income and the average monthly check is $1,900. Imagine stretching that for housing, food, healthcare, and more. Now, here's Anne, our Wall Street Journal reporter guest, sharing the story of one woman she interviewed, Kathy Rote. She's 73 years old. She worked as a disability advocate and now creatively manages her limited budget on social security.

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FT: Well, so you profiled with Veronica, several people, including Kathy Rote, who is 73 and living off of her paycheck of $1,040 per month. Kathy was an advocate for people with disabilities her entire adult life. She's a retired social worker. If you had to summarize some of the themes along the lines of the strategies that these folks were implementing or implementing, because to be honest, that's what I walked away really appreciating about these profiles and is just how creative these people have to be to afford not just the basics, because some of them do have active social lives. What were some of the takeaways you found and how they were going about designing their lives in this retirement where they're mainly living off of social security?

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AT: Sure. I'd love to talk about Kathy. She's one of the two people who I interviewed. She's just a wonderful person to talk to. A very interesting life that she's had, which is the case for most of the people who we end up profiling in this series. You realize how everybody's had like a very interesting life or it's just been fascinating to talk to people.

Kathy really, as you mentioned, she's been an advocate for people with disabilities her adult life. She worked for years for a nonprofit in San Francisco area. That was at the forefront of helping people with disabilities live independently. Kathy was in charge of their housing program. She's also a social worker. She has a lot of knowledge of the world of how people can get hooked up with benefits that might help them. She herself has done that to a decent extent.

I mean, for example, she actually owns her house, thanks to an inheritance she got years ago. But before inheriting that property she was able to qualify for Section 8 housing, which is a federal program that subsidizes housing. She also has been able to qualify for federal programs that help her with her Medicare costs, her prescription drug costs. Those are the ones that directly come to mind, but she was just a font of knowledge of all these different programs that people lower income seniors can qualify for.

There's a tool out there called Eldercare Locator. There's a network of – I think they're called area agencies on aging that can help people, kind of hook up with local programs. I actually spoke to this great nonprofit up in Maine that routinely helps low-income seniors up there. I think actually people of all ages get help with their utility bills, which during the winter up there, your utility bills are going to be really high. That was one strategy that I felt like needed to be highlighted. I was really happy that Kathy was willing to talk to us, because she was just a master at navigating those things.

[OUTRO]

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FT: That's a wrap for our yearend review. Looking at smart retirement strategies shared on So Money in 2024, whether you're a small business owner, whether you're dreaming of early retirement or just trying to make the most of your savings. Remember, small, consistent actions can lead to a secure and fulfilling retirement. Special thanks to my guests, Jean Smart, Katie and Alan Donegan, Hannah Cole, and Anne Tergesen for their wisdom and actionable advice. We've got the full episodes in our show notes. You can also go to somoneypodcast.com for these episodes and much more. I'll see you back here on Wednesday, when I'll be sharing more of the best of 2024. Specifically, the best advice for raising money savvy kids. I hope your day is so money.

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