EPISODE 255

[ASK FARNOOSH]

[00:00:31]

FT: Hey everyone! Welcome back to So Money. Happy Friday, TGI Friday. My voice is a little sore, I have to say. I just got back from FinCon 2015 in Charlotte over the last weekend and I think my son's coming down with something so we're a little under the weather in our household. But still in good spirits and excited for today's episode. As you know, Fridays are now the Ask Farnoosh editions of So Money. Saturday and Sunday we go bye-bye because you know what? I need to sleep. [Laughs] I need to catch up and I think you do too. A lot of you have written saying, "You know we like the seven day format, but it's hard to catch up."

So we are dedicating today to Ask Farnoosh, and as promised as we do these Ask Farnoosh's on Fridays I thought it'd be fun to occasionally bring on a partner in crime as we tackle your questions and your comments. And my guest today, you know her if you've been listening to the show, Sophia Bera. She is a Certified Financial Planner dedicated to specifically helping young adults, young families, millennials get on track and live their best financial lives. She was episode 235 on the show, so 20 episodes back. Sophia Bera is also the founder of Gen Y Planning, and she's back with us today to tackle your questions about money, credit, debt, you name it.

Sophia, welcome to the show again!

[00:02:02]

SB: Thank you so much for having me back Farnoosh. My voice is also tired as well cause I had two conferences back to back, both the XY Planning Network Conference and FinCon as well. So my voice is a little tired, but other than that, I'm happy to get back into the swing of things and I'm so excited to be on your show today. So thank you so much for having me back.

[00:02:22]

FT: Absolutely. I'm so glad we got to connect at FinCon. What did you think of FinCon? Did you get what you wanted out of that? I know there was just so much going on, and conferences, let's be honest, can be pretty overwhelming. But how did you find the event?

[00:02:37]

SB: Yeah, it was so much fun. I met amazing people, I got to see a ton of old friends, but it was huge this year! And so that was a little overwhelming for me. I wasn't expecting it to have grown as quickly as it has. But overall they started doing and advisor track this year, which was really fun and so that was a lot of specific content geared specifically for financial planners, which was so much fun to be able to see that there's enough of us coming to FinCon now that makes it worth it for them to have a separate track, which was awesome.

[00:03:11]

FT: Yeah. And you know, Phil Taylor, the founder of FinCon, was on the show. And he told me back when he was on So Money that he's thinking next year, believe it or not, he wants to introduce and open the doors to consumers. So clients, readers, blog fans, they may be getting their tickets soon. And I don't know, cause I agree with you; it started with just the core bloggers, and then it expanded to traditional media, financial writers, and now it's financial planners like you and even people of New York Times Fame. Like Carl Richards was there this weekend.

[00:03:49]

SB: Oh isn't he great?

[00:03:51]

FT: He is.

[00:03:52]

SB: He's just the sweetest most like down to earth guy. He's just lovely.

[00:03:56]

FT: Yeah I aired his interview this week. I interviewed him at the conference. But Sophia, you know I wanted to bring you on the show because you have such a wealth of knowledge when it comes to specifically helping young people with their financial questions and to be honest, a lot of times it's not about retirement. It's just about getting through what's on their plate currently, whether it's student loans, trying to make more at their jobs, and ultimately making sure that their financial life is in accordance with their personal ambitions and dreams and goals. [Noise] Woah, what was that?

[00:04:30]

SB: Oh sorry, that was a door. The wind just made the door slam in my house.

[00:04:36]

FT: Are you okay?

[00:04:36]

SB: Yeah, oh yeah.

[00:04:37]

FT: Just checking! Okay. We'll move on. [Laughs]

[00:04:43]

SB: But hopefully we can edit that out Farnoosh.

[00:04:44]

FT: Oh no, we're gonna keep it in. I keep all the good and the bad in these days. But let's start with Kris. We have a question her from Kris. She says:

K: "Hey Farnoosh, hey Sophia. My wife and I are expecting our first child in the spring. Yay!"

[00:04:59]

SB: Woohoo!

[00:05:00]

K: "We're planning to open a 529 account soon and creating a budget for stuff like food and clothes. Any other recommendations I should plan for financially for our little one?"

[00:05:11]

FT: Well, Kris I'll just say as a new mom, actually Evan just turned 15 months this week. Yay Evan!

[00:05:18]

SB: Wow.

[00:05:20]

FT: I would say to you Kris, don't buy into the hype. I love that you started a 529 account. You're doing the right thing, you're making the boring good decisions now. Of course there's a lot of excitement to go out there and get all sorts of clothes and the crib and toys, and the industry let me tell you, it's a billion dollar baby industry. There's going to be a lot of pressure to buy the newest, greatest, coolest things for your kid because otherwise you just don't love your kid if you don't get these things. But I would say to you, take it slow, accept hand-me-downs and don't be shy about that. Because especially when it comes to clothes and gear, that stuff, your child will outgrow those things very quickly. So if you can get gently used items in those categories now, do that.

And wait till your kid's born. A lot of times, and I made this mistake, I went out there and I stocked up on a particular kind of bottle and a particular kind of diaper. Well you don't know until your child is born what he or she will like, what they're sensitive to or what they prefer. And so I would say, maybe get one of a couple of bottles, maybe a small back of a certain kind of diapers and another small back of another certain kind of diapers. Use the first month to kind of do a trial and error and then invest once you know what really works for your family and your kid, invest in that. Otherwise you'll end up with stuff that you bought unknowingly that this isn't actually a good brand or a good fit for your kid. So that's one thing that I kinda learned the hard way, that I would suggest.

Sophia, what do you say to first time parents that come to you as clients?

[00:06:59]

SB: Yeah, so I think so much of it is focused on the kiddo, and that this is a great time to look at our own personal finance situation and make sure that we have protection planning in place. And so what I mean by that is term life insurance, I usually recommend about seven to 10 times your salary just as a rule of thumb. And that can be through a group employer plan or it can also be buying an individual life insurance policy for half a million or a million dollars, covering 20 or 30 year term. I'm a fan of having individual policy outside of work so that if you leave the job you don't lose that term life insurance as well. So that's one big thing to think about.

Another thing is, do you have disability insurance in place? Now that you're gonna be providing for somebody else, if something were to happen to you and you were to be out of work for many months at a time, your lifestyle's a lot more expensive now. Having disability insurance in place would usually provides about 60% of coverage on your income. And so that's really important. And then estate planning documents. So setting up a will; when you set up a will you name a guardian for your child. Who would you want to care for your child if something were to happen to you, or happen to you and your significant other. Do you really want the court deciding who your baby would go to.

So it's really important to get some estate planning documents in place. And also just like powers of attorney, healthcare directives, it's a great time to set up trusts, if your wealth is growing significantly or if you have a lot of life insurance. If you have a couple million dollars in life insurance and something happens to you and your spouse, that's a lot of money all of a sudden to make sure that it's in a trust and that you name and executor of your estate and a trustee and whatnot.

[00:08:50]

FT: I love that you're bringing all this up, Sophia. Cause it's not the sexiest stuff, it's not the funnest or the cutest stuff, but it's important and I think that a lot of times there's a lot of distraction around the baby, you're right. The gear, the toys, the clothes, cause that's fun. But more importantly you should really now, now that you have the time, cause I'll tell you, estate planning takes time. Getting life insurance, shopping around for that takes time. And once your child's born, it's a lot easier to just buy a onesie from the Baby Gap on sale than to go, "Oh gosh, I should really get some life insurance." So the type of the time, the bandwidth that you need to focus on these things, now is the time to do it.

And I have another question here actually, along the same lines of I suppose life stages. This couple already has a child together, but they are about to get married. So they had the kid first. Elizabeth says:

E: “Hey Farnoosh. My fiancé and I are getting married soon. We have been living together for three years, we have a child together. We've started merging our accounts, we pay bills from one account but we keep separate accounts as well. My fiancé seems hesitant to set saving goals together. We want to move out of our state in two years and there are a lot of costs associated with that. He is reluctant to cut out luxuries like cable and he isn't saving with me. So how do I get him on board and live a more frugal lifestyle.”

[00:10:23]

FT: Thanks for your question Elizabeth. I mean, this is really, I think, what a lot of couples struggle with. there was actually a study done by the University of Michigan not too long ago that found that opposites attract and particularly when it comes to money. So financial opposites, people who are spenders tend to marry savers, and vice versa. It's kind of exciting in the beginning, but then as you start to build a life together it obviously proves challenging.

What would you say to this Sophia? Because it seems like there are layers to this and it's not just about him agreeing to cut our luxuries. Like there is an issue here of the two of them not getting on the same page philosophically perhaps.

[00:11:03]

SB: Yeah so I actually have a couple of recommendations. The first is to hire a financial planner. I think that they have enough complication in their situation that they could really benefit from sitting down with somebody and going through all these different things. From tax planning to estate planning to figuring out a budget together, savings goals, talking through those things. And then also I would recommend that they do some sort of like pre-marital counselling before they get married because these are things that a lot of times you go through when you're working with somebody and kind of navigating through those things. It's all about communication and having a third party there can be super helpful in getting on the same page as a couple.

[00:11:45]

FT: Is it — it's fixable. That's the good news, right? This isn't a situation where you know what, maybe they should cut their losses and not get married. Because, I dunno, from the outside it seems like there is a lot of discord here and you wonder what's the root of that? But you think it's something that with counselling they can thrive.

[00:12:09]

SB: Yeah I think it's definitely — I mean that's why I think it can be so beneficial to do premarital counselling and to work with a financial planner and get on the same page before you get married. Because these problems are still going to be there once you get married. [Laughs] Right?

[00:12:25]

FT: Yeah. And they're only gonna get more complex, yeah.

[00:12:28]

SB: Right. And it's just there's a lot going on here and I think that they need to know. So she wants a more frugal lifestyle and so that could be a really good thing, or that could be that she has like a fear of spending money at all. I worked with some of those clients too where they're just really, like they're making good money, they're doing well, they can — so the financial planner can kind of help navigate and say like, "Hey, actually you are putting — you put these savings goals in place and whatnot, so it's okay for you to spend a little bit in this area."

And kind of a "yours, mine, and ours" approach is something that I often suggest where they each have a certain percentage of their incomes going towards shared expenses, going in a joint account, and then they would have their own individual accounts where they would have some spending money for each of them where they wouldn't have to answer to the other person, and that can be really helpful.

[00:13:24]

FT: I love that tip. Have a "yours, mine, and ours" account. Sometimes seeing the numbers, for someone who is not convinced yet of living a frugal lifestyle is gonna really be beneficial, maybe what she needs to do is just be a little more convincing as opposed to just saying, "Hey, you know, we're gonna wanna move out of state and that's gonna be a lot of money. So we need to cut off cable." She could say, "If we can somehow figure out a way to shore up a few 100 dollars a month from here now till the next calendar year, guess what? We're gonna have X thousands of dollars and that will allow us to do this X, Y or Z."

So sometimes seeing it, especially with me, I'll say it, they like to see the numbers. I like it too; I'm not saying just men do this, but I know a lot of times men like they think very linear, they're very linear, they wanna see things, they wanna make sure that the numbers add up. So if you haven't done that yet, I would say that could be a good next step to kind of be a little more convincing of why you think it would be helpful to live a more frugal lifestyle. Because at the end of the day you have shared goals and you wanna achieve them.

[00:14:27]

SB: Right. And if cable is something that he values and it's important to him, maybe there is something else that he is willing to give up? Maybe he'll start packing his lunch a couple times a week? Or maybe he'll — maybe they'll cut a membership somewhere else that they're not using anymore. So you might say like, "Hey, if we've looked at the numbers and we see that we need to save $400 a month in order to be able to move out of the state, what are some areas that you think we can cut back in?" And you might be surprised at what he comes up with.

[00:14:57]

FT: Here's a question from Siavosh:

S: “Hi. What is the best iPhone software to keep track of my expenses? I just need to know, what is going out and what is coming in, real simple.”

[00:15:09]

FT: What do you think? What do you like to use Sophia?

[00:15:12]

SB: So one that keeps coming up that I think is really interesting is called "You Need a Budget". So YNAB.com and I think there's a one time fee for that cause there's an online system but then there's also an app that's apparently amazing. And I know a lot of people that have started using that and that's really changed their spending significantly.

[00:15:38]

FT: The founder of YNAB, Youneedabudget.com, is Jesse Mecham. He was actually on the So Money podcast, episode 95. If you go to Somoneypodcast.com and just search for YNAB or Jesse Mecham, that's M-e-c-h-a-m, you'll be able to learn more about the program through that interview and of course Jesse's story as an entrepreneur.

Of course Mint.com has been around for a very long time and it's around because it's popular for a reason. People like it's simplicity. But I have also heard that too, Sophia, YNAB. What people like about that is that it allows you to really plan ahead and really do that forecasting that some of the other tools, and I know this person Siavosh is looking for something really simple, but perhaps maybe you would benefit from something a little bit more detail oriented. Because as you get older you have not just expenses to track, but insurance to track, and goals to track, and a business to track. I think YNAB really serves a lot of those purposes.

[00:16:43]

SB: Yeah and I think the other thing is, if you just wanna track your expenses Mint.com can be great for that because if you're with, especially one of the big banks, it really automates all of those expenses. So it's really easy. You can link your credit card and your bank account to it and what not. However, what I think it lacks is that planning portion of, you know, it's more like — it's not proactive, whereas YNAB is more proactive, where you're assigning dollars to specific areas.

And I think that's what's really helpful and that's what makes people change their habits going forward and allows them to save more in the future. Versus I think when you're just tracking your expenses and seeing where your money's going, sometimes we have a tendency just to beat ourselves up over things they bought in the past, as opposed to create a plan for the future of, "Okay, what are we going to change going forward?"

[00:17:40]

FT: Excellent. Great answer Sophia.

Joe, he says:

J: “I have an extreme early retirement plan.”

[00:17:48]

FT: On this show we've had many people who've talked about retiring at 25, 35. He says:

J: “We save 70% of our income.”

[00:17:57]

SB: Wow.

[00:17:57]

FT: Yeah. Which is one of the common denominators in these early retirees, I've noticed. But he says:

J: “After maxing out our tax advantaged accounts, where should we save the rest? Taxable accounts, Roth? Can we have both? It's been so easy to max out IRA, 401(k), but now that we've finished that we don't know what to do. What are your suggestions?”

[00:18:18]

FT: I don't think you can have — you can have a taxable and a Roth. In other words, a Traditional IRA and a Roth IRA. However, you can't — I believe you can only — the limit's $6,000 so combined you can only invest $6,000. Is that right?

[00:18:33]

SB: So the limit's actually $5,500 and combined you can only contribute that amount total. And I would actually suggest that they consider switching from the Traditional IRA to a Roth IRA in their situation because they're already maxing out their 401(k)'s, they're getting that upfront tax advantage. But now I think it's time for them to diversify amongst different tax buckets. So to have Roth money, 401(k) money. So we have Roth money and then pre-tax money. And then I'd recommend that this couple starts a brokerage account and starts funnelling money into that. Cause if you're planning on retiring early, you can't touch those IRA's until you're 59 and a half. The 401(k) you can sometimes touch, if you're 55. But I mean it sounds like they're going to be retiring way earlier than that.

So they're gonna need to be able to pull money from somewhere, and instead of just having it sit in a savings account, I think a brokerage account is a great fit for that. And you can start a brokerage account at any discount brokerage firm. Vanguard, I really like Betterment, Schwab, those types of companies. And then really starting to put away money there. And then having some money in an online high yield savings account so that if you do need to access it for emergencies or whatnot, that you can do that as well.

[00:20:00]

FT: So question then for you Sophia, if they're — I dunno, he doesn't say what year, what age they wanna retire — but let's say he wants to retire in the next 10 years when he'll be 40. Maybe he does wanna retire even sooner? So given that you can't really touch your 401(k) and your IRA until around 59 and a half, should the put the bulk of their investments in a brokerage account so that it'll be more accessible to them given that it could be 20, 30 years before they — well I suppose 20 years before they would be able to access the other retirement accounts? How should they sort of divide their retirement dollars?

[00:20:42]

SB: Yeah, I mean I think to max out he 401(k) and then max out the Roth's. Another option for this couple too that I just thought of would be an HSA as well, for health care costs. That's another thing that a lot of people are using. You're marking that for retirement as well. And so that would be another kind of pre-tax account that they could put money into. And the limit on that is $3,000 — I think it's around $3,000 for individuals and $6,000 for couples. I think it's a little bit higher than that right now.

But I would say, after doing that to just keep funnelling those dollars into that brokerage account cause they're gonna need to be able to pull money from somewhere. It's also hard when you don't know how much are they gonna need to pull? Are both of them gonna retire at the same time? Or is one gonna keep working? They're gonna live off just one income and then their retirement assets are just gonna grow for a long time and they're not gonna need to touch them for a while?

So I think what's great is that this couple has a lot of different options and flexibility in terms of what they could do with that. And just to confirm the 2015 IRS limits on HSA's, it's $3,350 for an individual HSA plan. And if they're on a family plan they can put in $6,650. And that's pre-tax money that can go towards, that they can use towards health care costs at any time, or they can actually invest those dollars as well for the future, which is great.

[00:22:25]

FT: This sort of dove tails Angie's question. She writes in and she says she's been funding a Roth IRA and an HSA to use for retirement. Are there any other tax advantage places to use for her to save for retirement?

[00:22:39]

SB: You know, not off the top of my head. I think a brokerage account is great for her. A Roth is not a tax advantage account, so just so she knows. She could switch, she could do the Traditional if she's eligible for that, but I think that if she wants to get the up-front tax deduction, but she may or may not qualify depending on her income. So I would probably stick with the Roth if I was her, just cause I like that diversification between tax buckets as well. And I think that a brokerage account is just a great next step for her. That's really flexible money and allows her to be able to really invest for the long term and take advantage of, since she does have extra money, she can take advantage of the compound interest that that could earn.

[00:23:32]

FT: She, by the way, wrote that she has a Money Pension Purchase Plan from her employer. Her employer contributes 10%, automatically, of her salary. So it's basically a pension. Do you hear about these anymore? I'm so — my jaw is dropping to read this. I'm like, "Wait, where does she work?"

[00:23:53]

SB: I do see them. You see them a lot with teachers, firefighters, police officers. But it's very few and far between now. I think it's even, I don't think there's gonna be very many pensions left for our generation. So I think she's doing the right thing by wondering, "Okay where else should I be putting money away?"

[00:24:18]

FT: Let's switch gears now and talk about online calculators. This is a question from TJ. He says:

TJ: "I've been using compound interest calculators on the Internet, a couple of them, and feel as though I have yet to find one that is accurate. And this is because you're only able to input one average return over your investment time frame. I have 49 years until I plan on retiring so I know I will have at least 10 negative return years. Trying to account for these with a lower percentage, say 2% or 3%, won't be accurate because one negative year could take two to three years positive years to recover back to before the negative year."

[00:24:55]

FT: He's very technical, TJ. And he likes to get the exact answer, I can tell. And he goes:

TJ: "I know this might be a little convoluted but I hope you can help me figure this out."

[00:25:05]

FT: Honestly, I would say to check out before I turn this over to you Sophia, Todd Tresidder who is with the FinCon community. He's the founder of Financialmentor.com, he's been a guest on this show. He has some cool calculators on his site, and I think he has it so that you can plug and chug a little differently than the traditional straightforward like "give us one average annual yield". So what do you like? Is there anything online that you'd recommend?

[00:25:35]

SB: I think that TJ needs to not be so concerned [FT: Laughs] about this because I think the big thing is a lot of financial planners are using 7-8% as an average rate of return, and that includes the market downturns. Right? So we're just saying, we're saying that some years you might earn 12%, other years you might earn negative five, other years you might earn negative 20% and then you might have two years where it's 20% and 25%. And then over time that averages to about 8%. But predicting 49 years of stock market returns is really difficult.

[00:26:19]

FT: I know he's like, "Well I know it's gonna be 10 negative return years." Well how do you actually know that? I know that there is a bit of a...

[00:26:25]

SB: And which ones? Right?

[00:26:27]

FT: Yeah right. I mean, historically yes; every five years there's been some kind of negative turn, like really bad or a bit of a — not a recession, but significant enough that it's been noted in history. So maybe that's where he's getting the 10?

[00:26:44]

SB: Yeah and I think, you know, he could really benefit from working with a financial planner. It sounds like he really has a lot of in-depth questions and doing a comprehensive financial plan where some financial planners use really in-depth software where they're actually putting in inflation rates and saying that you income goes up a certain amount per year, and adding in your bonuses, and taking into account social security and how that affects it. If that kind of robust plan is something that he's looking for, there's a lot of financial planners out there that use like Money Guide Pro or different financial planning softwares in order to figure that out. Maybe that's a good next step?

[00:27:28]

FT: Well tell us a little bit about Gen Y Planning. I know that it's unlike the traditional model, or at least the fee model, which is that you pay a percentage of your underlying assets or I suppose of your investible assets. You kind of work on a case-by-case with your clients and it's not so financially heavy and daunting.

[00:27:52]

SB: Well my model is different so that I can work with people among all asset levels and all income levels. And so what I do is I charge an initial planning fee followed by a monthly subscription so that you can work it into your monthly budget just like you would you gym membership, or your cable bill, or your cellphone bill. So I charge $1,500 to $1,999 up front. And then I charge a monthly subscription of $149 to $199 a month. I do a comprehensive financial plan up front, so there's a lot that goes into that initial plan.

And then I give you recommendations and tax planning, insurance, investments, estate planning, and connect you with people in my network that can really help you put your estate planning documents in place, help you get the term life insurance you need, take another look at your property and casualty insurance. And we work together on kind of coordinating all those things, and also figuring out a savings and spending plan, and a debt repayment plan, and what we should do in terms of retirement and investments.

And then I also, some of my clients want their assets managed as well, and what's nice is that I don't have any minimums, so there's just an additional fee for that, which is just under 1% - it's 0.95%. And I use Betterment Institutional for that and I've been really pleased with their services so far and my clients love that it's easy to open an account online. And yeah. And so that's one model I have to serve my clients, and that's called my Financial Accountability Program.

But I had all of these great prospects that were coming to me saying, "Hey Sophia, I really wanna work with you but I just have a few like burning questions that I need answered first and I don't know if I'm ready for working with a planner on an on-going basis. Do you have anything else?" And so I started this thing called My Quick Start Session, and it's a one-time financial planning session. It's a Skype Call or a Google Hangout for 90 minutes. We dive deep into two to three financial planning topics of your choosing, and then I shoot you an email afterwards kind of recapping our conversation and along with that I attach an action checklist that tells you, "Here's what I want you to do this week, this month, and the next few months."

[00:30:01]

FT: Wow. Wow, wow, wow! And so my gosh, you really know the psyche of the young adult! [Laughs]

[00:30:08]

SB: [Laughs]

[00:30:09]

FT: You've really figured it out. Well you are one, so that helps.

[00:30:12]

SB: Yeah, I mean I just built what I would want, and what I would be willing to pay for, and what my friends were coming to me telling me they wanted. Right? And it was like, "I wanna talk to somebody about my specific situation. And I'm willing to pay a fee for a service, but I have a lot of student loan debt or I have a lot of questions about my 401(k) and my benefits, and I don't know who to talk to about that. And I wanna know like can we afford a buy, or should we rent?" And so I think I have a really fun job because I get to help my clients navigate through those things, and figure out a plan to reach multiple goals simultaneously so we can maximize their current financial situation. And that's really fun.

[00:30:56]

FT: Well let's help Jen out now. She has a question about maximizing savings and investing. She's kind of confused about how to balance those two buckets. So she says:

J: “Hey Farnoosh. Love your podcast. For someone who grew up in a household where money was a "not to be discussed", I feel like I'm a bit behind on finance but trying to catch up. I'm 28, just started making a six-figure income,”

[00:31:18]

FT: Well good job Jen. That's awesome.

[00:31:20]

SB: Nice! Congrats.

[00:31:21]

FT: Yeah I know!

[00:31:22]

J: “Trying to save as much as I can. I max out my 401(k) and Roth,”

[00:31:26]

FT: Great.

[00:31:28]

J: “But I'm wondering how much money should I leave in savings versus investing in an index fund? I have about $35,000 saved right now, so is leaving $10,000 in savings and investing the rest too aggressive? What's your advice?”

[00:31:42]

SB: Yeah this is a great question. A lot of people wanna know how much should they have in emergency savings? And my rule of thumb is usually three months of net pay saved for emergencies. So if after she maxes out her 401(k) and has these other health benefits and taxes taken out of her paycheck and what not, let's say her net pay is $5,000 per month, I would have her set aside $15,000 for savings and then I would feel comfortable having her move the other amount to an investment account. So that'd be like 20 grand.

[00:32:21]

FT: And this is after she's maxed out her 401(k) and her Roth IRA with her income she's got, so I assume that's the $35,000 that's left and she wants to maybe do an index fund and a brokerage account, that sounds to me like what she's saying.

[00:32:38]

SB: Yeah. That's how I'm interpreting it as well. So I would say, three months of net pay saved for emergencies, invest the rest, and I wouldn't do just one index fund, I would do an asset allocation of different index funds. So to have her kind of do a little bit more research around that I think would be good instead of just throwing it all in on index fund.

[00:33:02]

FT: And I'd love for you to explain, because you mentioned this when I had you on the show as my guest on So Money, you mentioned your rationale behind the three months savings cushion rule of thumb as opposed to what we typically hear thrown out for everybody else, which is six to nine months. Why three months for a millennial?

[00:33:22]

SB: So I think that millennials can actually, are pretty marketable and can find jobs pretty quickly. I don't know any of my friends that have been out of work for three months, I don't think? And I think if they were it was like a really unique situation. So I think you have to really think about how quickly could I get a job? How marketable am I? How much of my income depends on — how much of my income am I living off of, versus how much am I saving? And then also for a lot of couples, what I found is, for dual income earning households, if you save three months of your net pay and if one of you were to lose your job, that would actually last probably about six months if you were both making roughly the same.

So those are kind of some of the reasons why I've kind of leaned towards that three month mark, rather than that six to nine month mark. And the other thing that's great about Jen's situation is if she had three months of net pay saved for emergencies and she did go through that money, she would then have a brokerage account in which she could tap if she needed to and not have to touch the 401(k) or the Roth IRA or whatnot. So I feel really comfortable with that recommendation of three months.

[00:34:41]

FT: We're gonna end with another question from a Jennifer, a different Jennifer. She's 43 years old. I actually did not send this earlier to you Sophia. This is my wild card question. Hold on! She says:

J: "I'm 43 with a little money in my 401(k)."

FT: She has about $18,000 in her 401(k). She has a lot of unsecured debt — $8,000. Which isn't crazy, but it's you know, it is what it is. It's $8,000. She's got $65,000 in student loans, and then she has $3,000 in medical expenses. So roughly $75,000 in debt combing her unsecured debt, her student loans, her medical expenses. She also owns her home, her mortgage is $1,400 a month, that includes her dues — her HOA dues. She says she lives paycheck to paycheck. How can she save so she can retire in 20 years? Oh by the way, she wants to have a kid in the next year via IVF or artificial insemination.

[00:35:44]

SB: Wow! There's a lot going on. So the first thing that I would suggest is to really get the credit card debt under control and making sure that she's up to date on all of her payments. So hopefully she's at least paying her student loans on time, paying her credit cards on time, paying her mortgage on time. So if her credit score's decent, I would actually have her consider transferring her debt to a 0% interest card, and I know that Chase Slate has one that's at 15% — or sorry, 15 months at 0% interest. So that's one that I would consider doing.

Another thing is making sure that she's on the right student loan repayment program. So that can be, if she has a lot of federal loans, there's different income based programs such as Pay As You Earn, Income-Based Repayment, Public Service Loan Forgiveness if she's working for a non-profit. And so I would have her look into seeing if she qualifies for one of those income student loan programs, specifically Pay As You Earn is probably the best one that's out there right now.

I would make sure she's taking advantage of at least her 401(k) match at her current company. So if she's not contributing at least enough to get the match, I would have her do that, otherwise she's leaving free money on the table.

[00:37:07]

FT: What about having a kid though? I mean where does that fit in to this picture? So obviously it's like, "Take care of your debt first," but not just the financial reality of IVF and AI's is very high, but it's emotionally just such an emotional journey. A lot of my girlfriends have gone through IVF and it's not always a one-shot thing. It's a process, it's a journey, and it's very time-consuming and emotionally taxing. Doing that while trying to get out of debt, would you suggest she kind of compartmentalize and get the debt out first before starting that journey?

[00:37:45]

SB: Yeah I mean I think that if she doesn't get the debt under control and build up some savings, what's gonna happen is she does get pregnant and the baby comes, and now she's also paying off a loan for IVF, she still has credit card debt, she, you know. I mean honestly, in this situation, if she really, really wants a baby and I think looking at selling her home and paying off a bunch of her debt and building up some savings, if she has some equity in her home, could be a really good move for her. But she's really gonna have to think about making big, big moves like what can she do for a side hustle to earn more income right now? Or what can she do, can she switch jobs so that she's making more? Because if having a baby is a really big priority, there's a lot financially that she's gonna need to do to prepare for that.

[00:38:35]

FT: And maybe not retire in 20 years? Assuming that you enjoy your work or you are healthy and your child's only gonna be 20 by then.

[00:38:45]

SB: I was just gonna say, "You're gonna have a college student then."

[00:38:47]

FT: Right, you're gonna have a college student, which and by the way, they're not necessarily just emerging into the real world independent after college. They're coming back, you might still have to support your baby, your child. So maybe, realistically, retiring in 20 years is not the goal. It should be something like 25 years or 30 years.

[00:39:07]

SB: Yeah, and what is retirement now? Right? So that's the other thing people keep saying things like, "Oh millennials aren't going to be able to retire till they're 73," and all of this stuff. And I think that you're gonna see a lot more people phasing into work that they love as they get older and taking different jobs and choosing to work. Because frankly, I mean you have to plan so that — she'll probably live till her 90's. So if she retires at 62 or 63, she's gonna have what? Another 30 years of not working. What is she gonna do? I think a lot of people are gonna want to, you know, a lot of people in their 60's are really healthy now and wanna do more meaningful work.

[00:39:50]

FT: I agree, I agree yeah. And just start thinking about that now, you know, a little bit. What would you like to retire into as opposed to going, throwing in the towel at 65?

Well Sophia, that's all the time we have today. Thank you so much for being my very special guest on Ask Farnoosh. It was really "Ask Sophia". I just sat here and listened and learned a lot. So thank you so much!

[00:40:17]

SB: Yeah, you're so welcome. And I've just had an awesome time and anytime you want me to hop on the show, I would love to join you.

[00:40:26]

FT: Hey, I'm gonna — you know what? Watch what you wish for, because... [Both laugh]

[00:40:32]

SB: Good!

[00:40:32]

FT: It's gonna happen, it's gonna happen. You've been awesome, you've helped us a lot. Sophia Bera, Gen Y Planning. Everybody, check out episode 235 on So Money to learn more about Sophia, including her money mistakes, her philosophies, her habits. Yeah, all the good stuff.

And in the mean time, hope your day is So Money.

[END]

