EPISODE 1088

[ASK FARNOOSH]

[00:00:35]

FT: You're listening to So Money, everybody. It's August 28th, 2020. Not a rerun today. I know I've been playing reruns on Monday and Wednesday, and we'll continue next Monday and next Wednesday. It's just that time of year. You need a break. I need a break. We have over a thousand episodes. Today we've got back with me, I'm going to introduce her in a moment; my friend, Georgia Lee Hussey. She is my co-pilot often on these Friday episodes answering your money questions, Founder of Modernist Financial, all the way from Portland. She'll be here in a moment.

A couple housekeeping items. Today is the last day to apply for the So Money Equity Learning Scholarship. This is a program, a small, mini $2,500 scholarship, but hopefully will go a very long way for a family that I've designed in response to the systemic catastrophe, which is the country's educational system. Especially now in the COVID era, so many parents are being just forgotten about. We're failing families. There's already an education gap in this country and largely led by your socioeconomic position, your race and now with COVID, it is exacerbating that gap, because the kids who really need to go to school for all sorts of reasons, not just education, but food and security are not going to be able to get that this fall if they are going digital.

This program, this $2,500 scholarship is just mainly to help a family that needs tutoring support, educational support, supplemental learning, as the Zoom is not the end all for learning, especially when you're seven and you have a learning challenge. I've created an application. We've got many people who've applied so far, but we have also people donating to this cause, and so we may be able to help more than one family.

How to apply? Go to Instagram and check out my post, the So Money Equity Learning Scholarship to learn more. You can go into my bio on Instagram. The link is right there. It's a Google Doc, so I'm not going to bother telling you the long link right here. It's in my Instagram bio. If you e-mail me, farnoosh@somoneypodcast, I will send you that link, so that you can apply, or you can apply on behalf of a family member or friend.

This could become a recurring thing. We've got already having discussions behind the scenes with not-for-profits and rich people who want to support this. Maybe we will – hopefully, we will be doing more of this as the year goes on. Hopefully, we'll just go back to normal. That's the goal, is to get everybody back to school safely.

Next up, let's go to iTunes and pick our reviewer of the week. Apologies, I forgot to pick one, a person last week. It just didn't happen, so I'm going to pick two winners this week to catch up. We have a reviewer who on August 20th, left a million stars, she said. We only have five, but she said a million. She's a Latina entrepreneur living in Miami with her husband and two teens. She says, "We listen to most of your podcasts." She loves how empathetic the show is and I am, understanding each moment that we are going through as a society. She loves Black Wealth Matters Series. Oh, my gosh.

I want to pronounce your alias here. Tsunun. T-S-U-N-U-N. Thank you so much. Your words are very powerful and have really moved me. I would love to connect with you and talk about how I can help with your money questions. E-mail me, farnoosh@somoneypodcast, and we will get a time on the calendar together.

Also, on the same day, August 20th was apparently a very catalyzing day for reviews, or maybe it's just when iTunes decided to release them. Josh Crisp on August 20th, "Entertaining, insightful and actionable." He wrote, "Whether you're well established as someone who can translate creative energy into financial success, or just getting started on your money journey, this is a must-listen podcast for you. Farnoosh does an incredible job leading conversations that cover a huge breadth of topics."

Josh Crisp, thank you. I would love to connect. Same deal. E-mail me, farnoosh@somoneypodcast.com. Or, you can always direct message me on Instagram. Let me know you left the review and I will get in touch with a link, so that we can connect and make time for each other. Thank you so much. As always, the reviews keep them coming. It helps me to stay informed about what you like, what you don't like, and an opportunity for us to connect and it is for me an incredible education.

Okay, moving on, you've been edgy of your seats waiting for me to introduce her back on the show. We have Georgia Lee Hussey, my friend, all the way from the pacific northwest coming at you with some answers. She's always got the best answers. In fact, one of her answers inspired an article on Bloomberg, which you'll be reading about soon. Georgia Lee Hussey, welcome back to So Money.

[00:05:53]

GLH: Thank you. It's always a pleasure to get to talk through folks' questions and see how we can get back to values, as well as really good financial questions, or answers.

[00:06:03]

FT: That's what I so appreciate about your approach to personal finance is that you really take into consideration the person and you are really good at reading between the lines and what is this person not asking really in their question that is really the crux of it all. What I was telling people earlier, is that you helped me basically, inform my next Bloomberg opinion piece. You were on the show, I believe, in May. We helped a listener who was struggling with whether or not to ask for a raise.

At the time, it was – I mean, it still is a really sticky situation, especially if your company's doing okay, but the world around you is falling apart and your industry could be hurting, is it appropriate? Is it going to come across as not reading the room? How do you approach asking for a raise? I tackled that in my next column and I exerted some of our discussion on that episode reappearing in the Bloomberg piece. Your advice is traveling far and wide, Georgia.

[00:07:09]

GLH: Glad to hear it. It's one of the joys of my work is that I get to work with individuals and families, but it's really fun to be able to say, to be able to speak to broader concerns in a larger situation. I'm excited. I also just want to acknowledge what a important element of financial planning and our sense of ourselves is valuing our human capital; the wisdom, the creativity, the hard work, the effort, that is the crux, the engine of our financial lives. I love it when folks want to ask for what they're worth.

[00:07:48]

FT: Yes. It's all about the way you frame it, and I think in any good negotiation, knowing not just what you need, but what your employer needs and coming at it like that. Check out the article, but also listening back to that episode back in May. It was in Ask Farnoosh. I think it was – well, it was on a Friday, so hope that narrows it down. Georgia, you got back from vacation recently. Where did you go? I want to go on a vacation. I just don't know what to do with myself.

[00:08:12]

GLH: It's true. Well, I took a little cabin by myself up in the mountains above Portland. No cell service, no Wi-Fi. Me and a bunch of fantasy novels and art supplies. It was really, really lovely. I needed a break. There was too much input, not enough centering. Normally I go to a Zen monastery near my house every three or four months for a meditation retreat. It's of course closed, and so I've been really craving quiet and stillness and solitude. It was very enriching. I am ready for about three more of them next week.

[00:08:58]

FT: Yeah, take me with you, please. It's so good to have you back. I have rounded up some really, I think thoughtful questions for us. These all came in through the pipeline in the last week or so. Glad that we can address these in real-time, more or less.

The first question is from our friend, Maureen, who writes in and she actually went to the So Money Podcast website and clicked on Ask Farnoosh and typed up this pretty long e-mail and I've abridged it. Here's the gist. She says, "Hey, Farnoosh. I'm celebrating my 51st birthday this month. Congrats, Maureen. I have set a goal to double my net worth in the next eight years." She wants to ring in her 60th with a pile of cash. I like it. She says, "I need your help."

A little bit of background on Maureen. She's in the process of divorcing her partner. She was married for 21 years. “Always felt that he used money to control me. We are debt-free and we have a shared net worth of approximately four and a half million dollars, split between our primary home.” Most of it is their primary home. Some cash and retirement accounts. She had hoped to retire at 55 from her full-time corporate management life, because of the stress. Since half of her assets are going to go to her partner in this divorce, she's finding herself looking to reinvent future goals. She says, she feels lost with all the possible options.

“The home value is very high,” she says, “and neither one of us could likely afford to buy the other person out.” Most of their retirement accounts are in her name and her husband, her ex-husband has been self-employed. His income is significantly lower than hers. Here she is. She's got about $900,000 or so in retirement. The question is what are some good investments that could help me be on track to double my net worth in eight to 10 years? She says, “I'm a hard worker. I like to invest in real estate. I'd like to learn more about the stock market potentially.”

She just doesn't want to keep going on this corporate America hamster wheel for the rest of her life. That's the question. Actually, she had many more questions, but that I thought was a good enough one for one episode. Maybe we'll do more, Maureen, over the next couple of episodes. I don't know. Georgia, I guess my first question and I don't know the answer to this, is just why does she want to double her net worth? Do you think that's arbitrary? I mean, wouldn't it be worth just actually getting close with the numbers for a minute? I do think she'll need more than $900,000 in retirement. I don't know. What's the first step here?

[00:11:47]

GLH: Yeah. I think you've absolutely centered in on the most important question, is why double your net worth and whose goal is that? Because that sounds like the externalized number, or rule that Maureen has held on to as being essential to her retirement goals. I don't know if that has anything to do with her retirement goals. Depending on how much she spends, that may not be necessary.

I think the first thing is to check in on what she actually needs to do, given her net proceeds from the divorce. What needs to happen in order to get her to where she wants to go. Because if she changes her lifestyle costs, or downsizes her home, there's a variety of things that she could do that could get her to that goal. I would say, as I often do, I feel only certified financial planner can help you analyze, then the various properties that she owns, the cash that she has, the retirement accounts and say okay, in order to get to here in at 60 or 58, here's what you need to do in order to meet that need.

I think that's the essential part is to move from a position of thinking about her financial plan as her and her ex, but rather, what does Maureen need? Because I think that is a radical thing for many people to do, especially women. Also, I think it can get a much better answer that's maybe not as overwhelming. That would be my first recommendation.

[00:13:34]

FT: Yeah. She said in her words, “I always felt my partner used money to control me.” Well, no longer. Honestly, I would be looking at that four and a half – I’ll be looking at that home, that she says that their net worth, their combined net worth is four and a half million. 75% of that is the house. Okay, so you sell the house and you take your half and you're close to doubling at this point, your net worth. You catapult. You catalyze that goal. You may realize after you do that that you're good. If you keep working and saving at the pace you are, you'll be fine.

[00:14:18]

GLH: Yeah. I think the questions about how to invest to meet that goal are very essential, because this is about the age in our early 50s. It depends on the person, but usually in early 40s to 50s, folks realize that retirement's going to be real and we need a plan. How am I going to get there? That is where the investment strategy can become essential, because it's not just how are you going to get there over the next eight years, it’s how is that money going to last and be there and outpace inflation and take advantage of the markets until you're 75, or 95? I think that's a very important element and this is how to how to make sure that what you do have is properly allocated to meet your needs for the rest of your life, not just to get you to that retirement date.

[00:15:06]

FT: What's a good rule of thumb for knowing how much you will need annually in retirement? I know there's the 4% rule, but then that's before you even get to that, what is the lump sum in your portfolio? I mean, look at these calculators, they're all over the map online. None of them are the same. One calculator is telling me, I'm going to have to replace my entire income in retirement. I'm sorry. No, because I'm not going to have a mortgage, hopefully. I'm not going to have two kids depending on me. I'd like to think I'm going to spend a little bit less in retirement, or not need to make as much money in retirement. What is your rule of thumb?

[00:15:43]

GLH: Yeah, it's a good question. The 4% rule is not a great one to utilize for a variety of mathematical reasons. I use 5% as a placeholder number. When you get much above that, it can be hard to keep up with inflation, because if you're spending – you think you're going to get 7% return over the course of your life and you're spending 7% out of the portfolio, you're just eating up that return and there's no place for inflation, so inflation starts really consuming the corpus, or the amount you have invested.

Basics, I have a million dollars of assets, I can comfortably pull off $50,000 of living expenses. The way our calculations work is that's your net income that you take out and doesn't include taxes. We are assuming that you've built up your assets in a way that's in a tax-efficient manner. That means you've got a bucket of money that's taxable and in the market and growing, you've got a bucket of money that's tax-deferred, like your 401k, or 403b, and then you've got a bucket of money that's tax exempt in a Roth IRA, for example. Then you probably own some real estate.

I think the other important element is that in your total net worth, about one-third, two-thirds, so one-third should be your used asset. It's like a house car, art collection, whatever your stuff is and the other two-thirds should be liquid growth assets that are actually actively supporting your lifestyle. That can help people place the personal home versus their real estate investments, for example.

[00:17:29]

FT: That's a really great breakdown. That's more specific than I was thinking you were going to tell me, but that – 50 is pretty late to be having this question, but also, better late than never. I think, because to be honest, at 40 it's still so [inaudible 00:17:42].

[00:17:43]

GLH: Yeah. I will say, Farnoosh, on this last trip that – COVID and this last little vacation I took, was a – I've had theories on okay, how am I going to sell my company and sell it to my employees and yada, yada? I've always had these ideas. Then I really got clear on I want to retire at some point. I would like to work part-time. Starting to really live physically into what that future self wants and can want.

I think, it's a phased realization, but the sooner you can get a fee-only CFP on your side, you can do just some hourly check-ins a couple times a year just to make sure you're on track. You will be so much more efficient than trying to do it on your own. Because I see people doing stuff that they don't even realize the assumptions that they're making about how to meet their goals that often are very inefficient. It could be a lot easier if they paid for some – just a little bit extra help.

[00:18:41]

FT: Okay, that was a lot of help for our friend, Maureen. Thank you for your question, Maureen. I know you had a couple other questions, but I think through this we answered probably many, many of your question marks.

Next is Muns Jess on Instagram. She says, "My question is how do you negotiate for a raise with a –" They must know you're on the show, because we always get a raise question when you're on the show. She said, "Specifically working for a public institution, for a government job. How do you negotiate a raise?" She says, "Every review and time I get asked to do more, I bring up the topic of getting compensated for my extra duties. However, they say their hands are always tied. Is my only option to change jobs at this point if I want to make more money?"

I mean, this is the thing with government jobs, it is a very regimented schedule of earning. You can only make – I have many friends who've worked for government jobs and only for a period of time, because at some point you want to make more. The benefits are great from what I hear, but the trade-off is the salary, not so great compared to private sector. I don't know if there is a workaround. Do you?

[00:19:58]

GLH: Yeah. I have some ideas on this. I think first, would be the benefit of a public institution is that you can look at the salary schedules for your job and other jobs throughout the institution you're working for. A lot of folks will like the organization, or the government, or the school, or whatever it is they're working for and be able to say, "Okay, if I move to the development office, if I move to this, if I get this extra degree, if I do this, then my –" They can clearly see, here's the payoff for that time and money that they're investing into their human capital.

I would say, that would be my first project would be looking at, is there anything else I would want to do in this organization that would be meaningful, but also get me more money? The second is I would use your social capital to work with your mentors, network and just get some download from folks on what they've done to move up in the world. Because we know about pay inequities, I would ask some white men about this, because they are more likely to have been able to negotiate a higher salary, or have some insight on what they've done to move their career forward. Or if you see any women who've moved forward.

That might be where you get the answer, you just can't do it within the organization, or you might get that, "You know what I did, or what I heard my friend did, or here's what this person I know how they moved forward." I think there's often more intangible resources available to us. Then I would finally say, I strongly believe in the value of hiring a career coach, because they can often open your eyes to skills that you have and potential career paths that you wouldn't have thought about. I've had often recommended that for our clients. When they're in a transition period, or they want to make more money, it's really money well spent and they can often help you with negotiating skills as well.

[00:22:03]

FT: Yeah. I just had a walk, a power walk, masked power walk with my friend, Alice Task, who's a career coach. She is busier than ever for a good reason. I think I think people are turning a corner. In, March, April nobody was really investing in their careers. It was just holding on for dear life. Now for various reasons, people are looking to make a move, whether it's within their companies, or beyond. If you're listening and you're like, "Yes, yes, yes," allisontask.com.

She's been on the show a number of times. She's got a great book out too, called *Personal Revolution*. She's a dear friend and fellow Montclair resident here with me. Part of the reason why I actually moved out here, because just good people. Montclair is full of good people. All right, that was excellent advice for our friend Muns Jess.

Shannon has a question about pension contributions as part of retirement savings. She wants to know what our advice is for accounting for pension contributions as part of retirement savings. She works for a state government and will be vested in two years in this pension. Approximately 10% of her pre-tax pay is deducted for the pension and she doesn't know what the payout will be 25 years from now. She maxes out her Roth IRA, contributes another 10% of her pre-tax take home. For that, she just wants to know in the grand scheme of retirement calculations, this goes back to our first listener, how do you account for a pension? I feel, unless you're going to die at your desk at this job, it's probably not going to be a huge amount in the grand scheme of it.

[00:23:47]

GLH: Oh, I love a pension.

[00:23:48]

FT: You love a pension.

[00:23:49]

GLH: Oh, my God.

[00:23:50]

FT: I stand corrected.

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GLH: When I see somebody come in with a pension, I'm always A, shocked that they still exist, because they – a lot of congressional work was done to unwind the access to pensions and basically, the employer's responsibility to make sure that we have money in retirement. They are glorious things, because they are guaranteed income for the rest of your life. There is nothing, a financial plan likes more than including a pension and social security into a plan. It just gives a lot more room.

[00:24:21]

FT: Predictability.

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GLH: Predictability, exactly. Pensions operate much like your social security, which is easily one of the most valuable things that we have access to in America in terms of solidifying our financial plans in retirement. Like social security, often the longer you wait to take the income, the higher the payout is. What you can do is go on to your government pension website, there's almost always a website. I can't imagine that that's even legal to not have one. You can go on there and request illustrations. That illustrations is basically an income illustration, if you were to take your pension at age 62, 66, 70.

Depending on your current age, I would recommend that you peg your requests to whatever your full retirement age is for social security. It's based on your age. For me, it's 67-years-old. I have some clients at 65, etc. It basically will tell you how much you're going to get per month in retirement if you start taking it at 62, 67 or 70. Almost always, there is a much higher payout at 70 than there is at 62.

Now some people have this mistaken belief that you should take it while you can get it thinking. That's a pretty short-term understanding of how cash flow works in retirement. Again, this can be why it's really great to work with a fee-only CFP, is that they can figure it out for you and show you the benefit. I've seen people where they're age 62, the income doubles if they wait till 70. You double that income and that's guaranteed for the rest of your life. That is huge. It's like a beautiful flowering extravaganza for financial [inaudible 00:26:16].

[00:26:16]

FT: I've done this. It's so much fun, everybody. Because what other website will tell you what money – that you're going to get money, you know what I mean? It's a fun thing. When you're having a bad day, just go on the social security administration website and find out how much guaranteed money you're going to make. When you're having a bad day at work, it'll remind you why you should continue working.

[00:26:36]

GLH: Farnoosh, this is why we like each other so much. This is what fun looks like to you.

[00:26:42]

FT: Can you actually put fun in social security administration in one sentence? Yes, you can.

[00:26:47]

GLH: You can.

[00:26:48]

FT: For this specific project of going and figuring out your payout in your retirement. Yeah, I've done it. I'm going to do it again, [inaudible 00:26:56].

[00:26:57]

GLH: Great. One more point I want to make about pensions, is that if you were to try and go out and buy guaranteed income, you'd have to do something called buying an annuity from a private insurance company. Just to talk about the difference in an internal cost, social security, last time I got the numbers, which have been a few years now, the internal cost on social security was 0.28%. Similar to a Vanguard fund. Very cost-reasonable.

To buy an annuity is usually about 4%. We're talking a hugely more expensive way of getting guaranteed income. Definitely vest into that awesome pension. Then at that point, you can decide, “Do I want to keep paying into this and stay at this job, or do I want to move on to something where I can build a different set of assets for retirement to supplement the garden?”

[00:27:49]

FT: I mean, it goes back again to what we were talking about earlier, these government jobs, they may not have the most attractive salaries, but man, you get a pension.

[00:27:56]

GLH: You get a pension. I have clients who get 12% to 16% retirement contributions. That's pre-tax. That's a huge, huge increase in income. I mean, I dream of being able to do that for my employees. That's the most glamorous thing I’ve ever heard.

[00:28:14]

FT: Okay. Last, but not least, a question from our friend, Brian, who has a Roth IRA. He's got a good amount of cash in the account and he's hesitant to invest it. He's got the Roth, he put money in it, but he hasn't actually done the next step, which is to put the money in an investment vehicle within the Roth, whether that's an index fund, or ETF. He says, that the market just seems really high right now. Do you think it's a good idea to hold off for a little while and see how things pan out and maybe buy low? Look, timing the market, people still want to do it. What do you say?

[00:28:52]

GLH: Why do they still want to do it? There is zero evidence, Brian, to support you being able to time the market. Once you buy in and 10 years to 15 years have passed, it does not matter if you bought at the top of the market, or the bottom of the market, especially if you were buying into a well-diversified, globally allocated mix of stocks and bonds.

The other thing I want to point to is that there is a feeling when I listen to NPR, the radio, that says the market is high. Well, if you actually look at the market year to date, it's flat from the beginning of the year. If you look at international assets, they are down still significantly since the beginning of the year. The feeling that we know better is not to be trusted. As Warren Buffett, I can summarize his saying, when everybody else is greedy, be scared. When everybody else is scared, be greedy.

This is a great example is that if you feel scared to get into the market, that's exactly the same time you should just be getting into the market, hold your nose, close your online access and go do something more interesting. I strongly recommend you just put that money in there, put it on automatic buy and do something else with your time.

[00:30:19]

FT: I came across another great quote today. It was from – oh, gosh. Another huge investor, grandfather of investing. He said, don't look for the needle, buy the haystack.

[00:30:30]

GLH: Right.

[00:30:31]

FT: John Vogel. I never thought I'd be writing down quotes from old white men, but here I am. Listen, so great to have you on the show. Always fun. I mean, you made social security fun in 30 minutes of a show.

[00:30:46]

GLH: It's super sexy.

[00:30:47]

FT: That's a superpower. Georgia Lee Hussey, thank you so much. Please take me on your next retreat. In the meantime, don't be a stranger. We'll have you back on the show soon enough. Thanks again.

[00:30:59]

GLH: Yes. Thank you so much, Farnoosh.

[00:31:01]

FT: Everyone listening, hope you have a great weekend. I hope it's so money.

[END]]