EPISODE 1308

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[INTRO]

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FT: Welcome to So Money, everybody. Friday, January 21st. It's Ask Farnoosh Friday. Quick question, we are 21 days into the New Year, at what point is it no longer socially acceptable to wish somebody a Happy New Year? People have differing opinions about this. I happen to think that you can say this well into the month, maybe even at the beginning of February, if you haven't seen someone and you see them for the first time in January of like, let's say, January 25th. I might say Happy New Year. That might be weird, but I also feel like you risk sounding completely blind to the world when you wish someone a Happy New Year on January 3rd, especially this year, when there was not a whole lot to be thrilled about. You know what? Do what feels good. Do what feels right in the moment.

It was a week of giveaways on So Money. In the community, on social media, I gave away books and calendars, one-on-one sessions, all in celebration of the seventh anniversary of this podcast. We are now entering our seventh. We are now in our seventh year, 20 million downloads, and so excited to be a partner with CNET and where we're going to take it. I'm thinking about themes for the year. I'm leaning towards maybe talking about money at the intersection of mental health, money at the intersection of education. Not just going to college but going back to school or other ways to invest in our learning throughout our lives to give ourselves not just a leg up financially but to feel more fulfilled, live a richer life.

Always open to your ideas as well, so make sure that you are in touch. You're following me on Instagram. You're texting me, 415-942-5002. You're subscribed to the newsletter, which the link is in the show notes. A lot of ways to get in touch. It's part of one of my missions in working with CNET, to be more accessible to us that we can bring more of you into this show and into the So Money community.

I'm going to go right to the iTunes review section. I usually wait to do this further into the show, but I'm just going where I'm feeling, and I'm feeling like I want to go to the iTunes review section and pick our reviewer of the week. Maizy Mae this week left review, calling the show a 10 out of 10, practical and helpful. She says she found this gem of a podcast through another one and she is hooked. "I love Farnoosh's insights and can always benefit from gems that she and her guests share. There's so much misinformation and brainwashing, even in my circle of friends, about home buying, retirement planning, just overall financial literacy. And I appreciate having this podcast in my back pocket."

Well, Maizy Mae, thank you so much. I really appreciate this feedback and I agree with you. There's a lot of misinformation out there. I would also add to your list misinformation around cryptocurrency. I have an article coming out next week on Monday, in fact, on CNET about crypto and how we can engage in a more emotionally intelligent way. Understanding that when we think about crypto, it can induce adrenaline, that it can get us over excited, overconfident. How to be more practical as a participant in the crypto space. Believe it or not, I don't recommend buying a random digital coin, whose success hinges on Elon Musk tweeting something about it. In general, I just don't think investing in cryptocurrencies like what it's being touted as, this investment of a lifetime. If you don't do it, you're going to end up poor. Lots of scare tactics being infused in personal finance, but in particular these newer unproven investing strategies. I find them not just off-putting but really concerning.

I'm happy that this podcast in this community can be a place where you feel "taken care of." We only give you the good stuff here. We speak the truth. We tell it like it is. I'd love to connect with you, Maizy Mae, because you left this review. I don't know if he even knew this because you're new to the show. But every Friday, I pick a reviewer to get a free money session with me on the phone. So to get that set up, go to Instagram. Direct message me there. I'm Farnoosh Torabi on Instagram. Make sure you get the blue checkmark next to my name because sometimes there are some fraudsters pretending to be me. Let me know you left this review, and I will send you the link where we can set it up. If you're not on Instagram, that's fine. You can just email me, farnoosh@somoneypodcast.com. Let me know you left this kind review me, Maizy Mae, and I will be in touch quickly.

This week on the show, in case you missed our episodes on Monday, on Martin Luther King Jr. Holiday, we brought on the co-authors of a new book called *Dear White Women*, Misasha Suzuki-Graham and Sara Blanchard. They're the authors of the book, which is based on their podcast as well. They are Asian American women, friends, mothers, and this book is what they call an anti-racism guide that challenges readers to encounter the hard questions about race and racism to push the needle of change in a positive direction. On Wednesday, we had Paco de Leon on, who is the Founder of the Hell Yeah Group, author of the new book *Finance for the People*. I already have people writing in saying how much they loved that interview. They've bought Paco’s book. They've subscribed to her newsletter. They've started stalking her on Instagram. It's a really well written, thoughtful, inclusive book that discusses things like financial inequality, our money blocks, feeling less than, feeling worthless. Paco has her own personal stories to share and so many important tips for readers, how to bring the unconscious into the conscious when you're managing your money, and why money is a proxy for power, and that's a good thing.

Happy belated birthday to my brother, Todd. His birthday was on Tuesday. Fun fact about me and Todd, we are 11 years apart, a very distinguishing age difference. I wished for a sibling for many years on Christmas, my birthdays. Finally, when we were walking back from the fourth grade spelling bee in the summer of 1990, I won, by the way, the spelling bee. The winning word was rewrite. My mother and I are walking back to the car in the parking lot. As you can imagine, this was like a big day for me. I just won the town spelling bee and I thought it couldn't get any better. As we are approaching the car, my mother says, “I have some news,” and she said, “We are going to have another baby. You're going to become a sister, a big sister.” I thought – I mean, talk about some of the most important days in your life. What are the odds of winning a spelling bee and being told that you're going to become a big sister, the one thing you've been dreaming of your entire life, both happening on the same day? Out of control and the rest of history.

My little brother, he's been a huge influence on my life. I like to think the same about myself on his life. If anyone is listening in and you know what it's like to have like a 10-plus year age difference between you and a sibling, it can go both ways. It can either be one that's a very close relationship or one that's kind of distant because you really don't have a ton in common. I feel like I had an entirely different childhood. I feel like I was raised by different parents, frankly, because my parents were in a way different economic place when I was born and throughout my childhood than when my brother was born. That's probably why they waited to have a second kid because they just couldn't afford it.

Anyhow, I feel very grateful for my relationship with my brother, and you can follow him on Instagram. He runs a really cool design firm called Wolf & Whale. It's won many awards. I'm and very proud of him. He is doing his thing. Believe it or not, this is not what he went to college for, but he reached a place in his early 20s, kind of like a quarter life crisis, right? We're like, "This is it. I thought there would be more to like life and feeling fulfilled." He realized that he just had this passion for design and developing digital apps and all the things, and he's doing it. I'm very proud of him. So happy birthday, Todd, on the off chance that you're listening to this show.

We're going to get to the mailbag in just a minute, but I had to share this tweet with you that I came across yesterday. I woke up in the morning. I hate to admit it but I do go on my phone pretty much first thing and I go to Twitter. There was this viral tweet from a professor at Wharton, the business school at UPenn. Nina Strohminger or Strohminger, here's her tweet. "I asked Wharton students what they thought the average American worker makes per year, and 25% of them thought it was over six figures. One of them thought it was $800,000. The real number is $45,000." She says, "Really not sure what to make of this."

I mean, I kind of think the guy or the gal who thought it was $800,000 was just trying to be a jerk. If that's what you actually think, we need to have a conversation. She needs to pull that student out of class and just be like, "What is going on in your life? Let me introduce you to the world." 25% of them thinking it was over six figures. At least it wasn't 100% of them and then it's not great. But that's their way off. You think about why and perhaps it's because a lot of students who can afford to go to, say, Wharton, who not only can afford to go to Wharton but remember, I think, had all of the education and experiences that led them to being accepted to Wharton. Not always but there's a lot of privilege in a lot of those students' backgrounds that then sets them up for the success to be accepted at Wharton.

I think I read in the thread of that tweet that a lot of the parents, the families, the households that send their kids to Wharton are making multiple six figures on average a year, 600,000 something I read. So their life experience would bring them to perhaps this conclusion, but it's like, “Don't you even read the news?” Or how many times have we seen this referenced in articles? Maybe it's just because I look at a lot of financial articles. But if you're going to business school, and a lot of these students are going to then become entrepreneurs and also work for companies where the consumer, the client, is probably making a lot less than six figures, it would behoove them to know the average financial profile of the country. It's kind of pathetic, right? I mean, this is the future of business leadership. We have a lot of work to do, Wharton.

It actually made me inspired this tweet because I thought it'd be interesting to look at various households throughout the country in different geographic locations, different family dynamics, all like, let's say, making that average salary, 45,000, and what their lives look like, how their lives are functioning. No doubt, you're going to see a lot of hardship. It will be interesting to look at a household earning that much and then maybe comparing it to other households that make double that or triple that. I remember reading this article in New York Magazine 20 years ago, 20 or 15 years ago. It journaled the day-to-day spending of different people in the city who made different salaries. So they had a teacher making $38,000 a year. How did she spend her money in a week? They had a Goldman Sachs executive who made 600,000, 700,000 dollars a year. What did she spend or he spend in a week and various individuals in between.

At the end of the article, you walked away pretty depressed because you realize the teacher who makes like $40,000 a year has to spend more out of her own pocket to pay for ordinary things. The Goldman Sachs executive never paid for food. It was always expensed. Transportation was expense. Maybe they had car service that the company paid for. Then the teacher had to sometimes pull out of her own pocket money for school supplies for her students, things that were not even for her. The disparity of not just what they were making but how they were spending relative to what they were making on just basics was horrifying. Of course, that hasn't really changed, so I think it'd be interesting. I know, for me, that's an article that really I never forgot about. So I wonder if there's a value in redoing that today to look at how someone making 45,000 a year versus $450,000 a year, how they spend and the inequalities that pop up.

Okay, enough of my random musings. You can get more of my random musings in my newsletter once a week on Thursdays. You can sign up very easily. The link is in the show notes on your podcast player. Okay, it is mailbag time. Let's get to it. Jen emails, and she writes, “Hey, Farnoosh. I love your podcast. Your latest episode on Dear White Women really spoke to me as a half Asian woman. My question concerns my money goals for my 30s." Okay, I like this already. She says, "I'm about to turn 30. I'm in the military. I have no kids yet. I make over $100,000. I also have no debt." Yay. "I also have an emergency fund of about $65,000. I maxed out my contributions to my Roth, TSP, and I put away $500 a month into a brokerage account. In one of your recent podcasts, I remember you mentioning that your money goal is to triple your salary by 40. I might be misremembering this but I think I would need to up my brokerage account savings to $1,000 a month to make that happen in a decade. Does that money goal make sense for me since I plan to stay in the military for 20 years, which would essentially give me a good pension for the rest of my life? Do I need to be that aggressive with my money goals? Extra background, I don't plan on buying a home anytime soon because I keep moving around as someone in the military. I am married. My husband also makes $100,000. He has no debt. He works for the government. He also has a pension."

Okay, Jen, if I were you, first step is I would try to figure out what your pension may be at retirement, and definitely incorporate that into your retirement savings strategy. But there is a bit of a caveat around that. Like what if you don't stay in the military for as long as you think today? How would that curtail your pension? I assume that you would get something. Even If you quit today, there will be something waiting for you at retirement. But if you were to stay in the military for 5 years, 10 years, 20 years, how would your pension be different based on your years in the military at retirement? Then work backwards. Give yourself these different scenarios and find where your comfort zone is. If you're thinking really like, "20 years I'm going to die hard. I'm going to stay in the military," then maybe you don't need to invest as much on your own.

The calculator, the estimate that I shared on the show and, by the way, don't kill the messenger. This is not my estimate. It's what a lot of the financial institutions that work with clientele and run calculators. They project. Now, they're also biased because they want you to save as much as possible, even if it's more than enough because they make a fee off that. So take it with a grain of salt. But I like rules of thumb and the general rule of thumb is to have about triple your salary by 40 or in your 40s. Okay, let's just give ourselves a little bit more time there. That's a big to do. It's a big lift for a lot of people. So you may want to go online and grab any one of those free retirement calculators, we have them at CNET, to figure out what your estimated retirement needs will be and what you have to do today to work backwards and start saving.

You might have some tools available to you through the military and whoever is managing, let's say, that TSP fund, the Roth. There may be some online tools for you to do this sort of math or maybe even talk to somebody within the military, someone whose job is to help people retirement plan and pension plan. Definitely tap into those resources. But I think you're doing an awesome job, Jen. Thank you so much for being a part of the community and for this really, really thoughtful question.

All right, next up is Audrey, who wrote in on Instagram, “Long story short, Farnoosh. My mother has two older whole life insurance policies that together require monthly payments of $175. She knows this will not be sustainable for her in retirement. I've educated myself through your show about doing a term policy for when you need it and focusing on retirement investing through low cost index funds. I looked at how much she could have saved over the years with those payments, and it’s well over $130,000. What are some options we could look into to make sure to maximize the equity that she's able to take out of those policies to reinvest and eliminate the monthly payments?”

All right, Audrey, thanks for your question. Very nice of you to be looking out for your mom. Before you think about investing that equity, think about how you might be able to use this money to support her needs today and over the next 10 years. If she doesn't have already some savings, some ample savings to cover not just her day-to day living costs but also down the road if she would need to pay out of pocket for medical-related costs, health-related costs, that's also important. So I think I would sit down with her and look at what's on the horizon. What's immediately needed and what may be needed in the next two to five years?

We just finished talking about rules of thumb, and a rule of thumb for those who are in retirement that want to continue investing but not take on too much risk, and this could apply to your mother with this equity that she's going to pull out hopefully from the whole life insurance policy, is to take your age. Subtract it from 100 or 110, since we're living longer, and investing just that portion in equities in the stock market because at this stage, it doesn't make any sense to take on a lot of risk. When you're in retirement, while hopefully you've pared down your expenses and you're leaning on things like Medicare and you've got Social Security coming in, but you really do need cash because the big wildcard in retirement, as we know, is our health-related expenses.

Now, if your mother was in her 50s, early 60s, I would look into long-term care insurance. As we know, as we age, long-term care insurance can be financially instrumental in so many of our lives, as we may need assistance with day-to-day living, whether that's bringing someone into your home or going to a nursing home full-time. Those are the expenses that typically need to be paid for out of pocket. Long-term Care Insurance is something that many people in their 50s and 60s looking ahead will buy and pay into, knowing that in the future they may very likely need this support. The older you get, the more expensive, of course, long-term care becomes. So that's why I would just say depending on your mother's age, this may no longer be something that is financially viable. But I would look at the equity in terms of how we can maximize this to pay for all of the expenses of living and taking care of yourself as we age, investing just a little bit of that if you really could and wanted to.

All right, it's almost tax season or is it tax season? Are you all filling out your taxes because you're that good with money? Still, Josie Growsy writes in with a related tax question. She says, “I've got married in September. And as I'm facing my first tax season as a married person, trying to figure out if it makes sense to file jointly with my husband. We both make about $100,000. We have insurance through our own workplaces. We don't share any bank accounts. And the only real thing we share at this point is a marriage license and an apartment that we rent. Any thoughts would be appreciated.”

All right, so I'm going to give you some general tips. But understand that I'm not a tax specialist. I'm not a CPA. Anyone who is considering this to talk to a tax professional, even if it's just one meeting, and you're paying them an hourly fee of like 150 bucks, the education that you're going to get from them could be really, really helpful. They're doing this all the time. So my advice, just understand that it's just a starting point. But I have written about this, and I'll probably write about it again, and I have a lot of interesting tax stories that are in the queue for CNET Money. So I'll be sharing those as they get finished. But if you are curious about whether filing taxes together as a couple or separately is the right path, here's what I would say. You have two options, right? It’s married filing jointly or married filing separately, and there are a number of considerations to make before choosing that status.

I will say that when I've talked to tax experts, they tend to say that the IRS does play favorites with couples filing jointly. If you file separately, you might, might lose the ability to claim key tax benefits like student loan interest deduction, the earned income credit. You're also left with a lower income phase out range for deductions. So this sometimes leads to a bigger tax bill, and it's why many accountants do like to tell their clients to file jointly. That said, there are some pros to filing separately. If you are somebody, for example, who depends a lot on itemizing your deductions to lower your taxable income, then be aware that when you file jointly, this may raise your combined adjusted gross income that you're reporting to the IRS. So your ability to qualify for certain itemized deductions may diminish. We know that there are minimum percentages of AGI that you have to meet before deductions kick in, whether that's medical expense deductions, accounting fee deductions, unreimbursed business expenses that are related to your job. A lot of these deductions require a percentage of your AGI to be hit before the deduction can be taken advantage of. That, I would say is the biggest potential drawback. Again, if you talk to an expert about this, and when he or she sees each of your individual income and expense profiles, they'll be able to give you a better sense of what would be most efficient for you.

Okay, last but not least, our friend in the audience, Daryl, he texts. He actually texted me. I love this. I love texts. Text me, 415-942-5002. Daryl wants to know, “Is filing bankruptcy to relieve your debt a good idea?” I mean, kind of left me hanging here. I don't know a whole lot about Daryl’s situation. What kind of debt are we talking about? Is he behind on a home payment? Or does he have like just piles of credit card bills? So the first thing I would say, Daryl, is that maybe it could be a good idea. I mean, there's a lot of things you have to deal with in the aftermath of a bankruptcy. Yes, it can clear a lot of your debts, with the exception of probably your student loans. But it is not to say that you have like this clean slate and this new lease on life. You really do have to spend many years repairing the damage of bankruptcy on things like your credit score on your credit profile. It's going to show up when you apply for renting a house and applying for a credit card. It's just something that you're going to have to like face the music of this for years to come. It’s something you really have to prepare for. You may decide, knowing what's on the other side of a bankruptcy, that it is very much still worth it to proceed.

I would talk to a bankruptcy attorney to know all of your options. Generally, there are two types of bankruptcy, which you've probably figured out by now. I assume you've done some googling at Chapter 7. Then there's Chapter 13. Chapter 7 is the most popular. You get to wipe out a lot of your general unsecured debts, credit cards, medical bills, things that aren't attached to tangible assets. So we're not talking about your mortgage or your car loan but credit cards, medical bills, things like that. You don't have to repay the debt. Come up with some sort of structure to do that. That's what Chapter 13 is. Chapter 13 is a restructuring of your debts. It's for people that typically have more money, and they are making money, and they can pay off their debts with a repayment plan. They just need some relief. If you’ve fallen behind on a home payment and you want to catch up, this could be a way to do it.

The National Association of Consumer Bankruptcy Attorneys is a website I would recommend, nacba.org. They can help you figure out what you need, what's best for you. You might have realized that what you really need is debt consolidation first. Before you go through the whole bankruptcy proceeding, maybe you can work with an agency and not-for-profit to help with either debt consolidation or debt relief. I love the NFCC, the National Foundation for Credit Counselors. What you may need first is just an advocate to help you get organized. Call your various creditors and come up with various payment plans that might have a reduction in interest rate, elimination of fees, reduction of what you owe, things like that, before you going through something as substantial as a bankruptcy.

Because like I said, in the wake of a bankruptcy, it may feel great to feel like you don't have this enormous financial weight on you. But it takes, what, like 7 to 10 years for bankruptcy to be wiped clean off of your credit report, and it can take several years before your credit score gets to a place where you could re-qualify for another loan, another credit card. So spend some time thinking about that. But thanks so much for your question. I'm sorry that you're experiencing this hardship. Let me know how I can be further helpful.

That’s our show, everybody. Thanks so much for tuning in. Looking forward to celebrating Todd's birthday. Fingers crossed that we don't get any phone calls from school saying that we've been exposed to COVID, which would mean that our weekend is once again a bust. Here's not hoping. Be safe everybody. Thank you for joining. I'll see you back here on Monday. I hope your weekend is So Money.

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