EPISODE 1428

[INTRODUCTION]

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FT: Welcome to So Money, everybody. It's Friday, October 28th, 2022. E-e-e-ehem. Got my voice back for about 95% of the day. Apologies ahead of time if things go awry. But thank you for bearing with me last week. Had to run a partial rerun just because uh it was just too much for my voice. I had to rest it, too, for a speaking engagement in Denver the same day.

First, shout out to NAPFA, inviting me to their conference in Denver. I have to say, love the room. Love the room of financial planners. These are my people, right? We talked about when she makes more and how to – Either themselves, in their relationships, or in their clients' relationships. Install, implement, advice, and tactics, and strategies for thriving when you have disparate income in your marriage. Talked about that last week. Just another shout out to NAPFA, because we are a big fan of NAPFA here on So Money. We love the fee-only financial planners. Have many of them on the show to help me run this program.

Today, a much different kind of Friday for me. It wasn't speaking on stage in front of hundreds of people. Instead, I was in a classroom of 23 5-year-olds. I volunteered in my daughter's kindergarten class to help with their art projects. And let me tell you, I am exhausted. After one hour of just sitting around a table with five to six kids at a time. They did stations. All together, I probably did get to hang out with every single one of these children who are just absolutely precious. I feel like the world is going to be okay with these kids running the show. But I'm exhausted.

And it just reminded me how much energy you need, and stamina, and patience to be a kindergarten teacher. My daughter's teachers are just going to get some nice Christmas gifts this year.

No. But seriously, I'm just beside myself. I mean, I have kids, right? And I work. And I have kids. And the energy that was drained out of me in that just one hour was unprecedented. I think it's because – You know, the saying goes. Everything I need to learn or know, I learned in kindergarten. these kids are consuming so much information. And a lot's coming at them.

And I was tasked with helping them through these different crafts, which included following directions. There were like 18 different steps. I was losing track. And of course, not every kid's on top of it. And I'm trying to like follow them around, like, "Hey, can you sign the sheet? Hey, don't forget to put your little scraps of paper in the ziplock. And put your name on the ziplock. And then put the ziplock in the piece of paper onto the table over by the door. And then come back." And then, "Oh, you have to go to the bathroom?" Oh, my gosh! Oh, my gosh!

I'm just really happy that I host a podcast and I don't run a kindergarten classroom. True story. I have a substitute teacher in kindergarten. And I'll never forget, we gave her a run for her money that day. We ran around her in circles. And ultimately, she walked out on us. She was like, "Screw this." And just left. And I'll never forget that. It's a story that I've told ever since it happened. I have a lot of memories of growing up. And that's definitely one that sticks out.

Anyway, pulling the curtain back on what goes on in my life, day-to-day. A lot of work. A lot of parenting. A lot of losing my energy. Much respect for all teachers out there. And I do think that everything you need to learn, you learn in kindergarten. These kids are learning about cooperation. They're learning about sharing. Having thoughtful conversations with one another. They did a whole cleanup session after their crafts. This was so cute. The teacher just put on music. And literally, a few kids went and got brooms. Kids were on the floor picking up scraps. Nobody was complaining. I was like, "You guys are welcome to come to my house."

I'm very happy that I'm feeling better. Because the most important thing, one of the most important things to happen to us this fall, is happening in two weeks. Our family is gearing up for an international trip to Paris. I've never taken my kids across the Atlantic Ocean. I love Paris. I studied abroad in Paris. This is my way of showing my kids the world. Hopefully this is the first year of many more trips to interesting parts of the world.

I'll never forget this one parent, he and his wife would take a month every summer and go somewhere with their children. And they would task their children with creating the itinerary. And a month gives you a nice chunk of time to learn the culture. Maybe pick up on some of the language and just immerse yourself. And I thought, "Wow! What a privilege."

Of course, both of them are self-employed. It's something to work towards. I did reach out to the community on Instagram. And many of you had some fantastic do's and don'ts, especially traveling in Europe with kids. But by the way, I also discovered that Europe, and Paris in particular, can be quite a accommodating to kids, which wasn't the case when I was a student there. I think things have shifted.

Now, my friends who just got back from France are telling me that even the fancy restaurants, the ones with white tablecloth and the hot spots, there's kids there until like nine o'clock at night. I don't know if I want to drag my kids out to dinner until nine o'clock at night. But that's comforting to know that I won't be walking into a restaurant getting side-eyed. You know what I mean?

All right, speaking of side eye, I am side eyeing this student loan relief plan, you know? It's a step in the right direction, this Biden loan forgiveness plan, which is vowing to cancel up to ten thousand dollars in federal student loan debt for borrowers earning less than 125, 000 a year, or 250k. A year for married couples. Or up to 20K for low-income Pell Grant recipients. This is a step in the right direction.

But this week, I'm writing about in my column how it really falls short. Specifically, it falls short in terms of helping to narrow the racial wealth divide. On this show, I've had conversations with guests about this. And finally decided to write a big piece about not only why this is a lacking program, but why we do need to center our focus and the reform around supporting black Americans with student loan debt. The reality is there is a disproportionate burden on black borrowers. That 1.7 trillion-dollar student debt crisis, more black borrowers are saddled with that debt. And it's because of the racial wealth gap.

Just to go through some important bullets. Black households have about eight times less wealth than white household. Probably because of that, they borrow $25,000 more for higher education. And it just becomes this cyclical issue. Higher loans means they're paying more compounding interest over the years.

And because we know there is a pay equity issue and a job opportunity issue when you are black, they earn less on the dollar than their white counterpart. It becomes harder for them to pay it back than other groups. And then there was this study that found, in 2019, from Brandeis University, that after 20 years of enrolling in school, college, the average black borrower still owed 95% of their original student debt.

My whole opinion is that we should center reform on racial inequities. Because then, we're not just helping black Americans, which by the way, is the core group of struggling borrowers. But everyone who was sold, can I say, false bill of goods? Raise your hand if you went to a high school where your guidance counselor said, "Apply anywhere you want. You can always take out a student loan. And it will pay off." Okay? That happened to me.

Good thing I came home with that news. And my dad nearly had a heart attack. He's like, "That is not true. You do not want to take out any debt to get an undergraduate degree in this country." If you want to take out debt, take some debt out maybe for graduate school. But please, unless you're going to Harvard, I don't think that you should be taking out high five figures, six figures worth of debt to get a basic college education.

And so, this false bill of goods that we were sold by counselors, lenders, college administrators, and let's not forget, our elected leaders, about the reality of an expensive college degree. Check out that column. I would love to know what you think about the student loan debt relief plan.

And then I go on to outline some ways, some policy reforms, for addressing specifically the student loan crisis in the black and African-American community. I'll put that link in our show notes.

All right, it's time to go to the iTunes review section and pick our reviewer of the week. This person gets a free 15-minute money session with me. And this week, we're going to go back in the reviews to end of September and say thank you to K Wheels. K Wheels, relieving review. Calling the show validating and empowering.

"I've been listening to this podcast for about a year, and I feel compelled to write a review after listening to today's podcast on financial trauma." I never thought a podcast on finances would bring tears to my eyes. But I feel so seen and less alone in my financial journey.

"I have a history of financial trauma. I began listening to this podcast series with the intention to erode the shame over time as I expose myself to terminology, knowledge, all of it, on money. I still have much to learn and recover from. But I'm so thankful for Farnoosh and her podcast as I navigate towards financial well-being."

Wow! I'm so glad the show is here for you, my friend. And I do think it's important that we talk about money in the context of mental health. It's not something that we discuss enough. And so, if you're listening and you're an expert and you want to talk about trauma and money, I've had some really fine experts on the show in recent months. But I don't think there is, again, a shortage of these types of discussions. And the more we have them, the less taboo it becomes. And the less, to use your words my friend, shame, gets spread within the community. This is such a huge and heavy emotion, shame around our money. And it needs to stop.

And I would like it to stop first by some particular financial experts out there, I won't name names, who tend to use a lot of shame. Why aren't you paying off your mortgage early? Why are you taking out a mortgage? Why do you have credit card debt? Right? Who gets away with talking like this? I'll tell you who.

Listen, I want to talk to you. Let's get together, K Wheels8. You can email me, farnoosh@somoneypodcast.com. You can direct message me on Instagram @FarnooshTorabi. Let me know you left this review. I'll quickly send a link where you can pick a time for us to connect. Thank you.

This week, if you missed it, we had two next up honorees on So Money. Next up is a new, brand spanking new list of 25 of the most innovative, freshest, diverse voices in personal finance curated by Next Advisor. I also helped consult to finalize this list.

Ellie Jobe stopped by on Monday talking about how she used her stimulus check to build a seven-figure business. That's right. And she did this on top of being a single mom of four kids. At the time, sleeping in her mom's living room during the pandemic.

Then on Wednesday, we spoke to Jeremy Schneider, who retired at 36. But that's kind of a question mark. Because I wanted to probe that. I was like, "Jeremy, seriously? Retired? You're on this podcast. You're talking about your course. I don't understand. What is your definition of retired?" And so, we got into it.

But the truth is he did get five million dollars. He cashed out at age 34 selling an internet company that he started in college. He's doing okay. And technically speaking, he probably could would just sit on a beach. But he's got a different idea for retirement and some good advice for those of us who are a little worried about the stock market.

And speaking of the stock market, man, this show is just going like snap-snap-snap. Recession Help Desk this week is about a listener's concerns around the stock market. And maybe she needs to do something with her money because she's not happy with the returns. Here's what she asks. "Farnoosh, my husband and I invested $300,000 last year. And with our luck, the market started tanking."

Well, first up, can I just stop right there? This wasn't your luck. It was everybody's luck. Everybody is kind of in the same camp right now. If you've been investing in the U.S stock market, you're not happy. Don't be too hard on yourself. That's just number one. Okay. Keep going. Keep going.

"This was our first time opening a brokerage account. In the moment of fear and frustration, my husband sold our investments. And we lost thirty thousand dollars. Then, I reinvested. And now we are down another ten thousand dollars. What would you recommend? Should I stay with the current brokerage and keep our current investment advisor? Or transfer our money to a new Robo advisor to save some money?"

All right. My friend, like I said, don't feel bad. That's tip number one. Everyone almost is losing money right now in the stock market. That includes me. I'm not worried. And I don't think you should be either. If you are like me, a firm believer in investing for the long haul. We know that we have to expect these down moments, which sometimes lasts months, years. But if you're investing for decades plus, you should not be worried about these short-term volatile moves. If you don't need this money right now, why are you touching it? You already moved it. And you saw those losses got actualized. Thirty thousand dollars became a very real loss for you when you cashed out. Had you just let it ride, who knows? I mean, maybe in a couple months, or next year, you would have looked back and gone, "Oh, that was just a really bad week, or a really bad year. And now I'm up again." I didn't actually cash out at that loss.

I would encourage you and your husband to hook up with your existing advisor and be sure that you are properly risk adjusted for your goals, for your risk tolerance, for when you want to retire. Because here's the thing, if you're nervous and you're fearful, I don't want to say ignore your fears. That's not who I am. I'm all about coming face to face with your fears. And sometimes your fears are just saying get educated. Learn what's under the hood. If you're nervous, maybe it's because you're at a place in your life where you just don't want to take on a lot of risk anymore. You might have been a little riskier five years ago. But maybe your life has changed. And I can respect that. And this financial advisor should respect that.

It's important to revisit your portfolio to make sure that, "Hey, if you're like 90% exposed in the stock market and you want to retire in 20 years, that might be too aggressive." You might want to shift that to a more balanced portfolio of stocks and bonds. Go learn. Go learn from your financial advisor, your financial advisor that's attached to the current brokerage you're working with.

If you don't like this person, if you're not happy, if you're not comfortable, then, yeah, maybe you could go to a robo advisor and just have a more DIY approach to your portfolio management. And of course, it's cheaper. But then you don't get that high touch aspect.

But I would just hang out and stay put and get a little bit more educated about what's happening in your portfolio. Does it align with who you and your partner are in terms of your goals, your values, where you want to go? And then go from there. But this idea of moving things around because of what you're seeing happen in the stock market or from your statements is not the way that long-term investors build wealth. This could really harm your goals to grow your money. Because when you cash out, you miss out on the upswing. Avoid missing out on more upswings. They will happen. They're down the road. So, just try to stay the course.

All right next question, also to do with investing. Danielle writes in. She says, "Hey Farnoosh, I'm a huge fan of your show. I've been a loyal listener for many years. I have you to thank for educating me and providing a framework for how to begin my financial journey coming out of school." "

"Well, I've recently moved to another job. And my question is around my 401k. I'm going to need to roll over my previous company's 401k and the contributions to my new company's 401k plan. Given the market conditions being down 25%, I'm scared to proceed with the rollover right away. Are my losses actualized when rolling over my 401k to another company?"

All right, Danielle, the short answer is yes. You do have to more or less sell your positions in the investments that are in your current 401K, your previous employer's 401k. And then take that cash, directly roll it over into the new 401k, and put that money in as close to the asset breakdown that you had in your previous portfolio. In some cases, you'll find the exact same mutual funds. In other cases, it'll have to be some alternatives that are very close.

But don't worry about whether or not the stock market is up or down. When you're doing a rollover, it's very quick. And you will be more or less immediately reinvesting, okay? If your current 401K is down 25%, the new 401K probably is down by a similar amount. You're basically going from apples to apples.

Most 401K rollovers happen quickly. They're pretty fast. You roll it over, and then the new mutual funds and ETFs are purchased fast. And so, you can roll it into your new employer's plan. Get it reinvested without really locking in those losses, if you know what I mean. We talked about that with our friend earlier in the Recession Help Desk about, yes, cashing out. You're actualizing those losses. But in your case, you're just sort of like taking a quick, quick loss. But then almost immediately putting that money back into an identical portfolio, more or less. All right? So, don't worry too much.

Next up, a question about credit building. Tina has a question about college students establishing credit. Here's what she asks, "My college student wants to establish credit on her own. And she believes the only way to do this is to have a credit card. I thought taking out a personal or a signature loan from a credit union could just be as good. What are your thoughts?"

All right, Tina. I don't know if you knew this about me. But in previous years, I worked at credit.com. I was a writer for credit.com. I did a ton of work and research related to credit. This is something that I totally like to geek out on. The verdict here is that taking out a credit card is not the only way to establish credit. Uh-uh.

If you have a student loan, a car loan, a personal loan, if you are piggybacking on a mother or father's credit card as an authorized user, you are establishing credit. I just laid out a bunch of ways that you can establish credit. A lot of people in college right now have credit because they have student loans. But I will say this, your college student is correct in the sense that managing a revolving line of credit, like a credit card, is a heavier, more substantial variable in the credit score calculation.

Having a variety of credit is important as well. So, credit card, a student loan, a car loan, eventually maybe a mortgage, all of that gets factored into your credit score in a positive way, assuming you're managing all that debt responsibly. Because credit score calculators like to see that you have the ability to manage all types of credit and credit plans. But the revolving line of credit, the credit card, is the big kahuna of credit scores.

I do think that getting a credit card in college if you are ready to handle the responsibilities of borrowing money and paying back your debts on time, I do think it's a wise time just start. Because having good credit means having credit for a long period of time. And if you can show that you've been doing this since – hey, since I was 21. Since I was 22. That's something again that credit score models like, lenders like. So, you're both kind of right.

All right. Next up is a question about paying a nanny. Kathleen writes in, "Hey, Farnoosh, I'm a new mom to a sweet baby girl. And as I'm enjoying my very generous maternity leave, I'm anxiously starting to think about returning to work and what child care will look like for our family. We are planning to hire a nanny, which got me thinking about the finances and logistics of that option. And how I should start to save for that planned expense? I'm curious if I should set up a separate account to start putting money toward the cost of our nanny, which wouldn't start until September of 2023. Do people typically pay a nanny directly out of their routine checking accounts or a separate account? It seems like a large expense, where if I have a good estimate of how much it'll cost per year, I could maybe use an account that could earn some interest in the meantime. Appreciate any thoughts you might have."

All right. So, Kathleen, congratulations on your sweet baby girl. Love to hear that you're getting some time off and it's paid. I wish more employers would do this. Hello, federal government. Hello, corporate America. Please watch Kathleen and her company.

Okay, off my soapbox now. I have had a great experience working with our nanny for, I guess, now – Well, she just left us. But it was about eight years working with our nanny. For the entire time, we were paying her through a payroll company. There are payroll companies out there specifically for caregivers in your households. If you want to work with a company that can track the hours, issue the tax forms at the end of the year, I think that is a great way to protect you and your caregiver.

The caregiver gets to have things like Social Security benefits, and just automatic taxes taken out of his or her paycheck. And as the employer, also gives you a lot of peace of mind showing that there is a record of all the transactions and record of all the payments.

And so, you might want to start there talking to someone at one of these nanny payrolls services or caregiver payroll services. There is an annual fee. But, again, I think it's worth it if you are looking for a system that is going to be looking out for both you and your nanny.

Now, in terms of where to put this money, a lot of people pay out of a checking account. I did that myself. Direct deposit into your nanny's savings account, checking account. I will say this though, there are a couple of tax benefits that you should be aware of. There's a dependent care account, first thing. This is a type of FSA, a flexible spending account. And this is usually offered through the benefits package at your company, which if you have generous time off for maternity leave, I would think maybe they also have this in their benefits package. But look into this. Call HR, email HR, ask, "Do we have a dependent care account that I can access?"

Essentially, you can use this to pay for up to five thousand dollars of child care related expenses. This includes your nanny's pay using pre-tax dollars. Now, five thousand dollars goes very quickly when you have a full-time nanny. But at least it's for that five thousand dollars, you can keep it in this FSA, use those pre-tax dollars. Depending on your tax rate, an FSA can save around two thousand dollars in 2022. I'm not sure about 2023. But you can look that up. And again, you can check with your HR or your accounting department.

Secondly, there is the Child or Dependent Care Tax Credit, which is an IRS form, 2441. You can itemize care related expenses on your federal income tax return. A lot of families will get a 20% tax credit on up to three thousand dollars worth of care related expenses for one kid. Six thousand dollars of care related expenses if you have two or more children. This means your tax credit can be worth up to six hundred dollars for one child, twelve hundred dollars for two or more children.

This is just an FYI. It doesn't matter where you're keeping this money as far as how you're paying your nanny. But just know this, because this will help you come tax time. Keeps you organized. And with the payroll company that you work with, again, they'll provide the paperwork so that you can easily account for this when you do your taxes.

And that's my spiel on paying your nanny. I'm a big firm believer in paying on the books. Even if you're not using a payroll company. Just being really organized in terms of keeping a log of the nanny's hours. Having him or her sign in and sign out. Having a paper trail of all of the payments. This is just important, again, for both the caregiver and the employer to protect them in case there's any misunderstanding over the pay. And of, course when they go to do their taxes they want to have an accurate record of their work and what they earned.

Always have a contract. Renew that agreement periodically. I believe in giving raises to your caregivers annually, bonuses annually. This person has what I believe to be the most important job in your household. The most important job in your household. And so, taking care of this person and being respectful of this person ensures that everybody is happy and everybody has a successful experience.

If you have more questions about that, let me know. Good luck to you. Enjoy the rest of your time off. It sounds like you're not going back until the New Year. So, oh, that's just wonderful. Enjoy that baby.

And that's our show, everybody. Thanks for tuning in. I'm so glad to be back. I'm so glad to have my health back. For all you early trick-or-treaters, have fun. Be safe. See you back here on Monday. And I hope your weekend is so money.

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