

EPISODE 1431

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[INTRO]

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FT: Happy Friday. Welcome to So Money. I'm Farnoosh Torabi. You are listening to Ask Farnoosh Friday, where we answer your biggest money questions that have come through all of the different channels; Instagram, my email, which is farnoosh@somoneypodcast.com, and of course, by visiting the website, somoneypodcast.com. You can click on a button. It's called Ask Farnoosh, and type away. Or leave a voicemail actually. That's always fun.

I'm dedicating this show to the very hot sexy topic of social security. That's right. If you have been losing sleep over whether or not you are going to get yours, I got some answers, and I've actually reached out to all of you on Instagram earlier this week and said what are you curious about when it comes to this government insurance program that is seemingly back on the chopping block as some Republicans are against Social Security. They want to end the program, and a majority of Americans want to keep it.

It is constantly a topic for debate. It's sort of the thing with Social Security. It started back since the, well, post-Depression, New Deal era, FDR. President Roosevelt passed along with Congress the Social Security Act, which was designed back then to help the elderly and people who were perhaps disabled to pay into some sort of insurance fund out of each paycheck and then have that for them in a time of need. A great program, in my opinion, that is set to be depleted in the next 13 years.

That doesn't mean that the program is going away. It just means that if you expect to get Social Security between now and the next 13 years, there will be enough to get that payment on time.

After that, though, we have to think about what we may need to do to continue those payments coming. We're continuing to collect the taxes, so the money will more or less be there but not fully. So are we going to have to delay Social Security and give it to people at a later time? Are we going to have to reduce the payments? TBD.

But there are certainly some lawmakers out there that want to abolish this, and I'm in the camp that if I had been paying into Social Security for the most of my adult working life and even during my teen years, when I was a hostess at a restaurant and then worked other shifts, I better get something, right? Or there are going to be some very angry old people born in 1980, walking the streets and picketing. More on your questions in just a moment but just to tell you this show is going to go deep into Social Security.

It's a hot topic right now. A lot of us are searching for this topic, again, because of the politics of the day. But also because we know that there was a recent announcement that Social Security payments starting in January, for those who are already receiving them, they're going to get a bit of a pay bump, more than 8% cost of living adjustment raise. Social Security gets adjusted every October for inflation. So that is, I guess, good news for those of us who are already collecting.

This is my last episode before I go to Paris. Heading out tomorrow with my family, very excited. We've got our list of to-dos, including going to the Louvre and the Eiffel Tower and Versailles and the Luxembourg Gardens, which I hear are great for kids. We have some dinner reservations, and then we're just going to kind of leave it be, see what happens. Get spontaneous. I tried making one restaurant reservation on my phone just today and thought, "Okay, I'm going to do this. I got the courage. I'm going to speak French. I'm going to ask for a very simple thing," which is a reservation on Sunday for our party, which is actually a big party of seven people.

I got pretty far on the phone with the gentleman, and there's just all this noise in the background. You could tell it was like prime time, and so maybe I wasn't calling it the best time for him to have his undivided attention for me and to be patient with my lack of fluency. But he was like writing down what I wanted. He's like, "Okay. Sunday, got you. Okay." But he's like, "Seven people," and then he kind of went off, and I was like, "Wait, I'm sorry." I totally lost track

of the French, and I kind of froze, and I think what he was saying was that I couldn't reserve for seven people, that they don't take reservations that big.

So I lost control of the conversation, and I said something like, "Ce n'est pas possible?" Like, "It's not possible?" and then he just hung up. So if that's any indication of how our reception is going to be in Paris, I mean, it is what it is. At least the city's pretty, right? So make sure you're following me on Instagram to get the behind the scenes of our Paris trip. Hopefully, I'll come back with some advice, dos and don'ts. For anyone else who's headed out there, I got you.

In case you missed our episodes this week, please go back and check out starting on Monday. We talked to Dyana King, who talked about how motherhood inspired her financial freedom journey. She's a single mom of two, creator of Money Boss Mama. She got out of tons of debt. She has saved a nice chunk of change. You know what? She's doing it all on a pretty modest income. I liked the story because oftentimes we hear about millionaires and people who went from rags to riches, and Dyana's kind of in it. She's still building wealth, she's accumulating, and she's managed to achieve financial freedom at this stage with, again, not making the millions of dollars or the high six figures and doing this all, as she has been raising two children.

On Wednesday, we spoke to Vanessa Menchaca-Wachtmeister, 29-year-old Mexican American who is living abroad. Why she decided to not pursue law school, much to the chagrin of her immigrant parents who encouraged her to study and be "successful" by going to law school. But she did the math. She extrapolated what it would mean for her future, and she said no way. She went abroad, and now she has 10 revenue streams. I was taking notes during the episode because I'm curious. How does one, who is not a European citizen, get to Europe and stay there? It's my fantasy.

All right, let's go to the iTunes review section and pick our reviewer of the week, and this person will get a free 15-minute money session with me. This week, we're picking AK5646, who left a review earlier last week calling the show so good. So Money is so good. Here's the review. "Hello, Farnoosh. I listen to your podcasts on money and absolutely love it. I started tuning in a few months back, and I find myself making my way through all the older episodes gradually and looking forward to the new episodes that you put out. The guests are so diverse, and I walk away from each episode with practical advice and a whole lot of reassurance.

Coming from a family that never spoke much about money or investing, your Podcast is a great learning tool for me. I appreciate how you pace each episode because it makes me feel like I'm learning a lot in a short period of time and getting sound advice. Even the episodes that I feel aren't directly related to money topics that apply to me leave me with new knowledge and insights. Thank you.”

Well, thank you so much for your review, my friend. Let's get in touch. Email me, farnoosh@somoneypodcast.com. Or DM me on Instagram and let me know you left this review. I'll send you a link, and we'll hang out. We'll talk about what's going on. I just finished talking to a reviewer who paid off all of her credit card debt in the pandemic, thanks to the fact that her student loans went on deferment. You know how some people in the government and politicians were poo-pooing the student loan deferment and all the help that we were giving everyday Americans for the worst crisis of our generation and saying that we were going to like take advantage and just go spend or be frivolous?

No. Okay. I don't know about you. But everyone I've talked to who benefited from either PPP or student loan deferment got their financial life back together, in some ways. They didn't go out and buy cars. They paid off their debts. They paid off their credit card debt, or they invested more, or they saved more. Come on. Clearly, they don't know there's a whole audience of people out there that actually care about their financial futures and would do the more responsible thing when they get the chance, when they get a break. That included someone that I spoke with recently who left a review, and she was able to, like I said, pay off all of her credit card debt, \$25,000.

She sold her house as well, cashed out, got a nice chunk of equity, and is looking to use that to pay off some of her student loans, as well as investing for retirement. I got to say I'm so touched and proud with everybody who listens to the show and doing all the smart, powerful things with their money. If you'd like to connect with me, leave a review. It's a very good chance that we will be talking in our near futures.

All right, let's go to our Social Security questions. I sent a Q&A on Instagram. I immediately got dozens of replies. I actually wrote about Social Security this week on CNET. It's my Hot Mic

column. I'll put that link in the show notes, so you can read, as well as listen to my thoughts on this very, very important topic. So first of all, why is Social Security even that important? So a little context before we dive into what's next and what to do in the face of potentially not getting Social Security. So what it is and why it was created was in 1935, Congress passed the Social Security Act. This was, again, during the Great Depression, and this isn't welfare, which is one misperception that many people have. If you're anti-welfare and anti-social services, social assistance, you can include Social Security in this. This is a completely different instrument. This is a tax payer funded program. You are paying into this, okay? This is not a handout. It's funded by taxpayer payroll contributions.

Initially, back in the '30s, the program was set up to provide for the financial needs of the aging population and some disadvantaged Americans. This was a very hard time in America. We had a war going on. We had the depression. So we created the Social Security Act. Then soon after that, we started to send out the very first Social Security paychecks, which became a huge source of financial livelihood for Americans who were retired or who were in desperate need, disadvantaged, disabled.

There are a lot of misconceptions, like I said, about Social Security, that it's some kind of welfare, but it's insurance that we are paying into. In fact, one in four households today gets 90% of their family income from Social Security, and that's according to the Social Security Administration. Along with retirees, Social Security also provides benefits, as I mentioned, disabled workers and some family members of deceased workers.

The median check that people are getting right now from Social Security is \$1,600 a month. It's not going to solve all of our financial needs. So it's important, but it's not like it's going to pay for everything in retirement. But let's face it. There are so many unknowns in retirement. For as much as we're investing on our own, it's nice to know that we'll arrive and have some sort of guaranteed income to pay for basic necessities. Frankly, \$1,600 a month, time is maybe not going to get you very far in New York or in New Jersey. But in some parts of this country, it is a majority of some people's monthly expenses.

Now, let's talk about probability. What is at risk? What's the probability of Social Security actually going away? This came up from multiple people, whether you are in Gen X, Gen Y. The Social

Security Administration says this. The fund, which we've all been contributing to, has only enough in reserves to pay retirees for the next 13 years. If you're not planning on retiring in the next 13 years, you got to listen up. As a country, we really need to think about what we want to do as far as reform with Social Security. The last time Social Security went under any sort of major reform was in the '80s.

I was talking to an expert for my piece this week. His name is William Arnone. He's the CEO of the National Academy of Social Insurance. It's a nonpartisan group that is just really here to educate the public about Social Security. He said in 1983, I believe, was the last time Congress did something really significant around Social Security, which is that they extended the age at which you start to collect so that they could stretch the funds. He said, "Guess how many people are still in Congress who were there in the '80s, who were participating in that old Social Security overhaul?" I guessed maybe 10%. There's over 500 people in Congress. He said six, six people.

There are very few people in Congress that actually have a memory of how Congress got together to collaborate, to think in a bipartisan way how to bring Social Security into the next generation. So that's a little worrisome. Are we going to get consensus over what is going to happen to Social Security? I mean, historically, this has just been an ongoing debate about what is the fate of Social Security. What should be the fate? William Arnone from the National Academy of Social Insurance said that this is like an ideological battle that's been going on, basically, since the inception. It's nothing really new.

But hopefully, hopefully, between now in the next 13 years, there will be some sort of material change that will maintain Social Security. I don't believe that it's going to exist in its current form. But something has to happen because after 13 years from today, our taxes will only afford about three-quarters of the scheduled benefits. So we're either going to see a reduction in our checks or something else.

The Biden administration has proposed a plan to lower the cost of living for seniors, and that includes taking care of Social Security, preserving it. But let's be real. I mean, we have to sort of hope for the best, plan for the worst. That's our philosophy around here. What does that mean? That means that we got to continue to save and invest on our own, take advantage of those

401(k)s, the Roth IRAs, the traditional IRAs, the brokerage accounts, investing in ETFs and index funds in a low-fee way to be able to be prepared for the day when maybe you'll get less than what you're expecting or worst-case scenario, nothing from the Social Security program.

The comfortable retirement number right now in this country, I was reading, is 1.25 million in the bank. That's what adults think a comfortable retirement now means. Then you think about when average retirement savings have actually plummeted by 11% just in the past year. There's a lot of catch up, and there's a lot of fear around not being prepared for retirement, which makes Social Security that much more important to preserve it. But we also need to do what we can to create that buffer.

People wanted to know when I asked on Instagram about what are your Social Security questions. People said, "Are baby boomers guaranteed to get Social Security?" I think the answer is yes. I think that if you are a current retiree, you're on your way soon to retiring, you probably have the least to worry about when it comes to those Social Security monthly checks. Seniors, by the way, are also due to get a pay bump starting in January because of that cost of living adjustment I talked about earlier. That's going to increase payments by almost 9%, 8.7%. So for the average beneficiary, the average SS recipient, that's an extra \$146 a paycheck. So that'll bring it up to about \$1,800 a month.

The cost of living adjustment is a good thing. This means that your Social Security dollars can, hopefully, retain the purchasing power against inflated prices, which we've seen on everything from food to travel to gas. If you're curious to know what your new paycheck will total, you're supposed to get something in the mail in December from the administration. You can also go on to the Social Security website to get your new total, and that website is ssa.gov.

How about Gen Xers and millennials, though? I'm in that cohort. I'm right on the border of Gen X and millennials. I was born in 1980. What are we supposed to do? So I kind of alluded to this. We got to just hope for the best, plan for the worst. Social Security may not fully meet our needs in retirement. We know this. But I would also encourage us to go onto the Social Security website and use their easy calculator to see what might be coming our way, when it's time to retire. There's an easy calculator. You punch in a few very few numbers, and it will tell you

based on your earnings and how long you've been working and when you anticipate getting the paycheck, starting the paycheck. They'll tell you whether it's 1,600, 2,000.

I did the math on the website, and I am on track to collect over \$3,000 a month at full retirement age, which is 67. That goes for Tim as well, my husband. So collectively, together, we could be getting anywhere from 6,000 to 6,500 dollars a month in retirement. You don't think I'm going to factor that in to my retirement calculator? Yes. Maybe I'll take half of it and factor it into my retirement calculator. Maybe I won't get that full – Together, we won't get the full 6,000. Maybe we'll be lucky. We'll get 3,000 or 4,000 at this rate, unless something improves, and we can go back to getting what we were supposed to get.

I'll tell you what, though, there going to be a lot of outraged Americans, if we don't get what we are due because we've been paying into this, as I said, through taxes, through payroll taxes. So they can't just turn the lights off on this program. They're going to see some angry seniors protesting. So my advice for everybody is go online, use the calculator, see what you're estimated to get, and then take it with a grain of salt. Continue to invest on your own, 10 to 15 percent of your paychecks annually into a retirement plan.

That way, if whatever happens to Social Security. You'll at least have that waiting for you. I don't think you're going to regret it. No one ever arrives in retirement going, "Gosh, I just saved so much money. It's a waste, too much." No. Who says that? What if you retire early? This came up a bit because I know that many of us in the audience are interested in FIRE, retiring early, not waiting till you know 60s to throw in the towel. One listener messaged me and said, "What if I work less than 30 years? Will that be detrimental to my Social Security income?"

To answer this, important to know just kind of how Social Security gets calculated, right? So the short answer is, yeah, maybe it's not a great idea to stop working and making zero money before 35 years. That's the target date. That's the target number because how much you earn during your 35 highest earning years is what factors into the size of your Social Security paycheck. If you worked fewer than 35 years because, whether it's you retired early, and you didn't make any money, or you took some years off to take care of a family member and didn't make any money, those years will total as \$0 earned. That can bring down your average Social Security earnings.

We've talked about this a lot when we are talking about, say, stay-at-home parenting and how it's not just money that you're losing today. But it's also money that you're not contributing through payroll taxes into Social Security and to your 401(k), potentially, and other investments that you would have gotten because you're getting that paycheck. So important to keep all that in mind, as you consider taking time out of the workforce.

Is there any hope for Social Security for Generation Z? What about the teens? Somebody wanted to know. Personally, I just, again, hope that Social Security doesn't evaporate and become just a figment of our memories. Especially, like I look at my kids and, of course, I'm going to be investing for them. I've learned at least that much from my podcast and some of the amazing people who've come on and have started custodial accounts and, obviously, 529 plans for their kids.

But beyond that, even Roth IRAs and custodial accounts and brokerage accounts, so that they can start investing for their kids before they even learn about investing themselves so that when they're in their 20s and 30s, they can start ahead, and we can continue that generational wealth. Certainly planning to do that for my kids and anyone who can do that, I would encourage you to do it. Not at your own detriment, of course, right? Take care of yourself first before you start investing for your kids.

But along the way, I think it's helpful to have Social Security as well because Social Security doesn't just help sort of retirees, right? It's also there for those of us who become disabled, those of us who may lose a partner or a spouse through death, unexpected death. So there's so many benefits to the Social Security Act. It would be really sad if it went away, and I think Gen Z – I want to educate Gen Z on what this is, how it came about, why it's important, why we need to preserve it and vote for it.

As I was talking to my friend, William Arnone, he's the CEO of the National Academy of Social Insurance, he was really concerned about how the next generation, the current generation, is understanding what Social Security is. He's sort of writing it off as like, "Oh, that thing my grandma gets every month." Or it's welfare, which is, again, not true. We don't respect it for the

real value that it provides to society. So Gen Z, fight for this. Learn about this. Push for systemic changes in laws that will make life affordable for everybody, that can help level playing fields.

But don't wait to take it upon yourself to invest for your future. That doesn't mean just opening up a 401(k). That means negotiating for more income. That means doing your best to avoid that credit card debt cycle, being smart about how much you borrow before you go to college, not taking on more than you can pay back. I'm optimistic that Gen Z will be one of the most informed and inspired generations to date. Look at all the access and resources they have that we didn't have growing up.

There's a downside to that, right? Too many options, too much information, who to trust. We talk about how to navigate all that on the show and, hopefully, you use your BS detector. But point is, is that the information is out there, and it's being promoted now more than ever. So Gen Z, hopefully, will be really ready to embrace this and work for this and push for this and along the way investing in themselves so that they're not putting all their eggs in the Social Security basket because I don't think it's going to be there like it is for our grandparents, unfortunately. But hopefully, it will be there in some way, shape, or form and continue to help so many people like it is today.

That's our Social Security 101. Thanks to everybody who sent in those questions on Instagram. I consolidated a lot of the questions because some people asked a lot of the similar same questions and so that's why it felt like maybe there weren't as many, but there certainly were dozens of questions but many along the same themes.

Au revoir, my friends. I will see you on the other side. Make sure you're following me on Instagram for all the fun behind the scenes experiences. As my friend said, she's like, "I can't wait to live vicariously through you." Yes, use me. Use me for all of that. I'm so grateful that you've decided to join here on the show. If you like what you're listening to, please subscribe, leave a review, and I'll see you back here on Monday. All-new episodes next week. I hope your weekend is So Money.

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