EPISODE 1443

[00:00:00]

FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1443, Ask Farnoosh.

[INTRO]

[00:00:37]

FT: It's Friday. It's Ask Farnoosh Friday. Welcome to So Money, everybody. I am Farnoosh. It is December 2nd, 2022. I hope everybody had a really good Thanksgiving and enjoying the start to the last month of 2022. I am ready for the New Year. I have some fun things ahead, obviously, the holidays. We're going to go on a trip to San Diego with my family, and I have a story about that, how I saved mucho dinero recently on that trip.

But first, I want to touch base on our Thanksgiving. So it was a big deal at our house. We – My husband and I hosted our family, including my parents. His mom and stepfather and my brother and his fiancée were here. So it was 10 people around the dinner table. It was a lot of fun, very grateful that we could all be together. I think I went to William Sonoma three times in a week before the dinner, just to make sure I had everything I needed, and I wouldn't look like too much of an amateur, hosting all these people for a very important dinner. I'm glad to say it went off successfully.

During the holiday, I got some exciting news. So I think I've mentioned that my brother is engaged to an amazing woman named Hannah, and I'm really thrilled for them. They're going to be getting married next fall in San Diego, and we got to talking about their plans for their bridal party, groomsmen, bridesmaids. What are you guys going to do? Todd, my brother, mentioned that he's got a big group of guys. He's got a lot of friends from high school and college, and he wants to include my husband as one of his groomsmen, which we thought was really special. Thanks, Todd.

Then things got quiet. I was secretly wondering if maybe Hannah was going to ask me to be in her bridal party. Then finally, my mother spoke up and said, “Hannah, what about you? Have you thought about your bridesmaids?” I was like, “Mom, no.” It was like all happening in slow motion, and Hannah said, “Yeah. You know, I'm going to have a few friends.” Then my mom said, “What about Farnoosh?” Oh, my God. Guys, I was so embarrassed. This is not where I wanted the conversation to go. Like, personally, I would – I mean, I'd love to be in her party. I just know that this is a very personal decision, and maybe she wants to keep it small and tight. I get it. I certainly wasn't going to ask, and I certainly didn't want to put Hannah on the spot.

But my mom was really good at doing that, and Hannah replied and she said, “No.” Then it got really awkward. I was like, “Wow, she really doesn't like me.” Then Todd said, “Well, the truth is we actually have a different role in mind for Farnoosh.” I was thinking, “Oh, you're going to have me hand out programs or something like that.” They said, “No, we'd actually like for you to officiate our wedding.” Oh, my gosh, everybody. This was – I don't get too emotional, and this – I was like, holding back tears because I did not expect this ever, and I've never done anything like this. I just felt so honored.

So that's my big news. I'm going to be officiating my brother and Hannah's wedding next fall. So you'll hear all about the run up to that and how I'm going to be terrified and going through all the hoops. But if anybody has gone through this process and has had the honor of officiating a wedding, let me know. I want to start researching what to say, what to wear, what not to do. I just want to make sure I'm making them happy. So anyway, that's my big news.

The other big news, money news, is that we're going to San Diego after Christmas to see my brother and Hannah on the West Coast. They moved there recently, and we planned this trip over the summer, when flights were out of control. Airline costs were so high because of gas prices and because of flight shortages. I bought these tickets to San Diego. I was so angry that I had to pay this amount of money. But I said, you know what, I'm going to buy the refundable tickets because if anything happens, whether we get COVID or we get other kinds of sick or prices drop, I can always drop these tickets for any reason, get a full refund, and book something else or book another time.

Do you know what? Last week, over the holidays, I went online and I saw our exact flight, exact date and times, were so much cheaper. For the four of us, we saved $2,000 by rebooking. So I ditched the refundable tickets and immediately booked these new seats. So I saved $2,000 that way, and I'm also researching hotels a little bit more. We had booked this hotel that my parents had recommended, and it was pricey. But I thought, well, this will be like – I want to make this as much of a vacation as possible. So we booked the expensive hotel. Then I did some more research, and I found another hotel four minutes away on the same street, a boutique hotel, lovely, great rooms, great rates. So I booked that instead and paid a third for hotel. So all in all saved thousands of dollars by just keeping my eyes open. The refundable tickets certainly helped.

So I recommend this. I don't buy trip insurance. This is actually a tip that was verified by my friend, Brian Kelly, who's the Founder of The Points Guy. He has been on this show, and he said, "Yeah, that's a great idea. Never buy the trip protection plan that they try to upsell you right before you go to buy your tickets. Instead, if you can, splurge for the extra $100 per ticket per leg, it's a lot, to get the refundable tickets." But right now, in this environment with trip cancellations, whether that's on your end or the airline's end and prices also fluctuating week to week, month to month, it pays to pay a little bit more for that kind of insurance, which immediately grants you a refund.

With these trip protection plans, there are so many caveats, so many exceptions that you're not really getting what you think. You're just like, "Oh, I'll just pay an extra $45. I can get a refund no matter what, anytime, any reason." Not always the case. So I got the refundable tickets. So glad I did. I saved tons of money. That's my So Money moment in November. You're going to hear me plug this a couple more times before the end of the year. But if you don't promote your own work, who will, right?

So the So Money 2023 Calendar is available for purchase. It is fully restocked now. It was running low. It's back in stock. Go to pageaday.com. Use the code SOMONEY23, one word, SOMONEY23, and get 20% off my So Money Page-A-Day Calendar. A lot of you have been over the years asking me for something to hold, to give, to cherish with the So Money brand, with the So Money essence, and this is my way of doing that. I am really proud of this collection of advice and tools and strategies that we've jam-packed into these Page-A-Day calendars, which can sit on your desk at work, at home. You can buy one for each of your desks around the house. You can gift it, great stocking stuffers. I hear people are buying multiple for friends and family, and jumpstart your New Year with some So Money advice.

I'm also running a promotion right now on my Instagram. If you go to my Instagram feed, it's pinned at the top. I'm running a promotion to give away three free copies of this calendar. The deadline to enter is tonight, midnight, Eastern Friday, December 2nd. So if you're listening to this podcast over the weekend, I'm sorry that that promotion is over. But if you're listening to this episode on Friday, the clock is ticking. Go to my Instagram @farnooshtorabi. Go to the pinned image at the top of my profile that has me holding a bunch of the calendars. Read the caption. It's like four steps to apply, super easy. You can do it within seconds, and you might win several copies of the calendar. I'll announce a winner next week.

If you missed any of the episodes this week, we spoke to Jon Hilsenrath on Monday, who is an award winning economics writer and author of the new book, *Yellen: The Trailblazing Economist Who Navigated an Era of Upheaval*. It is his biography of Janet Yellen, who is the Treasury Secretary and has held so many important prominent economic roles in our government. Learn how she navigated sexism, her unconventional marriage, and why she didn't always lean in.

Then Wednesday, financial advice for blended families, if you are a stepparent, you are a modern family. How should couples and step parents manage expenses? What are the important conversations to have before getting married? Our expert, Cameron Normand, is a Co-Founder of The Stepmom Summit. She joined to share insights from her work and real life as a stepmom to four children.

All right, let's transition now to our Recession Help Desk. GDP went up in the most recent quarter. So I don't know what's going on in the economy. I feel like next week, we're going to be kicking off a series on the cost of living, and I interview an economist, Gene Ludwig, who doesn't really trust CPI and the unemployment rates as they're currently being reported, because he's like, “The reality is Americans, low and middle-income class in particular, are really struggling. These metrics that we use aren't depicting the true reality of the economic hardships out there.”

So, yeah, GDP is up, but I don't know. I feel like still everyone's holding on for a recession in the New Year, as I am. So here we go, Recession Help Desk. An audience member wants to know, “Farnoosh, I'm 26. I'm a woman. I want to buy a house. I'm looking for ways to protect my money from inflation. I'm considering buying an I bond, where the rate is currently over 6.8%. My credit union’s CD rate is 1.4%. It seems like a no-brainer to get in with I bonds. But am I missing something?”

All right. So my advice to our audience member here is this. If you're strictly comparing savings vehicles by their current interest rates, of course, the I bond, which is a government security, we've covered it on the show, it tracks your cash alongside inflation. It's the clear winner, right? It's going to outperform a CD. It's going to outperform a high-yield savings account. But it's not without caveats, right? It's important to know that with an I bond, you have to keep your money in it for at least one year. To earn the full interest rate, whatever it is right now, 6.89%, you are not to touch your cash for five years.

So for our audience member who's interested in buying a home at some point within the next, I don't know, is it a year, 2 years, 10 years, that's going to make a difference as to where you might want to park your cash. Because if you do want to tap this money sooner than later, you may want to go with a savings vehicle that offers more flexibility. CDs, you can get them for terms as low as three months. So depending on when you need this cash to buy this home, you may prefer to save somewhere else.

Finally, I do recommend high-yield savings accounts right now. Some are offering as much as 3% returns, some higher. I think with the Fed’s rate hike campaign, we know they're intending to raise rates more in the coming months. I think we're going to see a little bit of respite in the savings arena, where we can fetch a little bit higher yield. Interest rates on loans will go up, but savings will too. So if you're looking for a better place to save, it's a good time to be shopping around, especially these high-yield savings accounts.

All right, over to the mailbag. Our friend, Nicole, in the audience wants to know about her 401(k) options and whether she should be approaching them differently. Here's the question. “Farnoosh, together, my husband and I have earned between 450,000 to 550,000 per year for the past several years. During that time, we have fully funded our Roth 401(k)s that come with a match, believing that the ability to pull out our contributions and growth tax-free in retirement outweighs the benefit of getting a modest tax break today. Is that true? Should we be thinking about our 401(k) options differently?"

She wants to add that they both have traditional 401(k)s from earlier working years, and their current company's matches are contributed to traditional accounts. So they have some long-term diversification. But is that enough? "We are in our late 30s," she says. "We have two young children. Our only debt is our mortgage, and we have actively contributed to 529s for the children, and we have separate brokerage accounts for shorter term goals." Nicole has listened to the show for years, and she says, "I value your opinion highly."

All right. Nicole, I'm here to just say keep it going. I like what you're doing because you're diversifying your tax exposure in retirement. Ideally, you have no tax exposure in retirement, right? But the truth is you can't put all your money in a Roth 401(k). There are limits to that. Based on how much you are earning, it is important to invest more for retirement. We often say that in retirement, you want to assume that you're going to need to live off of anywhere from 70 to 80 percent of your current income.

So in retirement, it's not like you're going to be able to live off of $100,000 a year. You might need to live off of closer to what you're making now. A little bit less, but it all really will depend. So you need to invest more than maybe in just one type of retirement savings vehicle. It's great that you're maxing out the Roth 401(k) because that, as you say, will allow you to pull contributions and growth tax-free in retirement. But you got to do more, right? Outside of the Roth, there's nothing else that allows you to contribute today to have your money grow tax-free for your future.

So then you go to a traditional 401(k), a brokerage account, which you are doing. I feel like as long as you're maxing out your Roth opportunities, that's great. Beyond that, the traditional 401(k) is great. Then the brokerage account, as I always say, is like third in the hierarchy because once you've exhausted all of the savings vehicles that provide tax benefits, whether that's to save today or in the future on taxes, you then move to the brokerage account, which doesn't offer tax incentives per se. But it does give you that flexibility and that opportunity to tap the money in the short term without being penalized.

So, Nicole, I really think you're on the right track, you and your husband. Happy to hear you've also been investing for your children's futures. My book editor reached out to me recently, as I'm working on the final edits of *A Healthy State of Panic,* and she said, “Hey, just curious. What is the most common question that your audience asks you?” I thought about it, and I was like, “Well, I mean, it's so many things that my audience asks me.” But if I had to put a theme around it, like what is the underlying question of the question, and I think it's something like what Nicole is asking me, which is like I just want to make sure I'm on the right track. You want verification. You want maybe a second opinion. You value my opinion, which I so appreciate, and you just want to hear my interpretation of what you're doing.

Really, I think that's so normal because in our financial lives, we may feel a little bit of insecurity. We don't have all the answers. Even if we feel like we're on the right track, it helps so much to feel more confident that we are on the right track when we hear, yes, keep it going from somebody else, or, hey, maybe think about this differently. I'm being really honest with you, Nicole. I do think that you have really thought things through. You're being very careful and methodic. I would do what you're doing, I would totally do what you're doing.

Next, we have a question from Devisa, who wants to know how to navigate the PSLF program, Public Service Loan Forgiveness, which is, as we know, a financial aid program for people who work in public service and federal, state, tribal, or local government, or for a nonprofit organization, forgives the remaining balance on your direct loans after you've made 120 qualifying payments, while working full-time for a qualifying employer.

Now, our friend, Devisa, has a question because she, like many people, wants to take some time off work and wants to know how that may or may not impact her eligibility for PSLF. So here's specifically her question. “Farnoosh, my husband and I just got married three months ago after dating for over 12 years. We bought our dream home last year when interest rates were low, and we're looking to start a family in the next year or two. I am an OBGYN physician assistant in New York with over $100,000 of student loan debt, and I'm currently on your six out of 10 for the PSLF program.

My question is after our kids are born, we are likely having two, I plan on taking six months of maternity leave for each newborn. This is my dream. But that means I'll be out of work for about a year due to maternity leave. Right now, I am saving up so that we have enough money to cover our expenses. While I'm out on maternity leave, I was informed by my job that only the first six to eight weeks are 100% paid based on my salary. That's using PTO, vacation, and personal time. But if I want to stay out on maternity leave for six months, I could file for short-term and even long-term disability and get 60% of my salary pay.

Here's the question. If I decide to file for disability so that I could get some type of paycheck while out for the remainder of my maternity leave, would my monthly payments still count towards PSLF? That will be an entire year that I'm out on leave, and I don't want my $800 payments to not count towards this, just because I'll be out on disability. Part of the criteria to be eligible for PSLF is you have to be making payments while working full-time at a nonprofit, government, 501(c)(3) entity. Am I still considered a full-time employee, even if I'm out on mat leave? I would hate to file for disability if that means I would prolong my student loans for another year. Any advice you have would be great."

All right. So I had to look into this, Devisa, and I, first of all, just want to say I feel so much for you. I remember when I was contemplating having kids. Well, even before that, I was working as a singleton in New York, and my colleagues who are older, further along were in the process of like having kids and all that. One of my colleagues came back from HR, she was six months pregnant, in tears because she discovered, like you, that only so much of her mat leave would be paid. Beyond that, she'd have to file for short-term disability. She just felt so unsupported and worried too about her finances.

This is America. This is the state of America, where, unfortunately, we don't have guaranteed paid time off for family leave, and this is something that I will fight for, and I will vote for, and we so need. But in the meantime, to answer your question, I looked into this, and you're right. You have to be full-time employed to qualify for PSLF. But two things. Have a conversation with your employer because your employer is the one who's going to report you as being full-time or not.

Although you're going to go on disability, I assume you're going to keep making these payments. I assume you're still going to be on company payroll, and I assume you're still going to be classified as a full-time employee. If nothing changes in terms of your classification as a full-time employee, then I don't see why that should raise alarm bells to the government and why they should disqualify you. So talk to your employer about how taking disability, whether short or long term, may or may not affect your status as a full-time worker.

I also want to point out that I looked at the collegeinvestor.com, where I read about the breakdown of PSLF, and here's what it said. That the 120 payments made under the PSLF program do not have to be consecutive. So if you take a few years off of public service work and you come back in, you can come back in where you started. The clock just stops. It doesn't go back in time. It doesn't cancel. Think about it. If you get laid off, if you quit your job, you want to take a break, you want to work somewhere else, and come back into nonprofit work, that shouldn't negate all of the years that you have paid towards these 120 payments. So that should be reassuring to you that even if your employer says you're going to be part-time now, or we're going to take you off the books for whatever reason, that those six years won't get cancelled. That may be it's just that when you get back to work, that's when the clock starts again. It's not ideal, but it's better than going back to zero.

Also, White Coat Investor is a great website, a great book. They have a forum, where you can ask questions to others who work in the medical field. I actually searched for you a little bit there, and I did find a conversation similar to yours happening in the forum. So somebody asked, “Hey. If I have a disability event and I'm working for a not-for-profit, how does that impact my PSLF qualifications?” This person in the forum said essentially this, that you got to talk to your employer about how they classify you, how they mark you down as employed. Are they marking you down as full-time or not talk?

Talk to your loan provider as well or your loan servicer because this was interesting. This was brought up in the forum. A unique aspect to someone going, let's say, on disability or seeing their income dropped due to a medical event, due to taking time out of the workforce, even if just part-time, you may be able to submit updated information to your loan servicer. As long as you're like “employed” by this not for profit, but your income drops because of disability, ask your servicer to recalculate your payment amount, your loan payment amount.

If your scheduled monthly payment under an income-driven plan goes to zero because of your financial situation, those payments of $0 still count towards the required 120 monthly payments. Lots to think about but two things, I think. Talk to your employer. Talk to your loan servicer. Explain what you're going to do. Very important, ask how your employer is going to report you, whether it's full-time or part-time. Then talk to your loan servicer about, hypothetically, if I go on disability, but I'm still “full-time employed,” but my income is reduced, does that mean I also can pay less in student loans? Of course, make sure that the clock is not going to stop on those 120 payments. Good luck to you.

Honestly, for me, when I saw my colleague come out of HR in tears, I'd be lying if I said that that wasn't one of the critical moments in my young adult life, knowing that I wanted to have a family one day and realizing, you know what, if I continue to be under the system of corporate America, I don't really have a lot of options. Or I am going to be dependent on corporate HR practices, which, gosh, I wasn't very optimistic about them. I'm glad I was pessimistic back then because I think it all fueled my intent to ultimately become an entrepreneur. It’s not to say that it's easier, but at least you feel more kind of in control and in the driver's seat when it comes to your income and your time and how to design your life.

All right, next up is Krista, who says that she has been working with a financial advisor who she trusts. It's been many years working together, eight years. She's 35, female, partnered but not married, does not plan on having kids, but close to her extended family. The question is about insurance. She says, “Last year, my advisor suggested that I open a variable universal life insurance plan, VUL, in place of contributing solely to my Roth. It was described very favorably, and I trust her. So I went with it. Given the recent episodes around life insurance, I'm feeling a bit confused as to whether I made the right decision. Are you able to clarify the types of life insurance and what makes most sense? Or maybe refer me to a prior episode. Thanks, Krista.”

All right, Krista. I think I have a lot of more questions than answers here for you. But really, the questions are for your advisor. If I was there, I would have asked a lot of questions, like why are we telling me not to invest in a Roth? I don't have kids. I don't have dependents. Why am I getting a very expensive life insurance plan when term life insurance is more than likely adequate?

For everyone listening, what is variable universal life insurance? It's a type of permanent life insurance. There's a death benefit, as well as a cash value. Like a lot of permanent policies, there's long-term protection, and it's designed to stay in place as long as you live. I'm sure it was described very attractively, but there are disadvantages. One is that your money is getting invested in the stock market, like it would in the Roth. But it's still not guaranteed returns. The cash value can drop with the market, so there is that risk. It's very expensive compared to standard insurance policies. There are maintenance fees. There are high fees associated with these kinds of permanent life insurance policies.

So for all these reasons, I just don't really understand why the average person who doesn't have a very complicated life, who doesn't have a ton of money, and they've exhausted all their financial tools, that they want to now up level to this. This is expensive. If I told you, if I had a dollar for every person who has emailed me or stopped me on the street or asked me somewhere in my life, “Farnoosh, what do I do? I have this whole or permanent life insurance policy. It's so expensive. I'm thinking of quitting it. And I'm like stuck because I've paid into it all these years. If I stop now, it's like money wasted. But I would much rather have this money for myself to invest in the stock market. I don't need this. I was sold into it.”

You really have to do the math. Do you need this, and is the return better than what you would get just investing in the stock market? Because you've got to factor in those high fees. In the end, the answer may be no. It sounds like you just got it. Maybe if you cut ties with it now, it's not a huge loss. Just cut your small losses now, rather than those who come to me a decade in, and they're like, “Oh, gosh. What have we've dealt – What have we done?”

It's nice to think about having a fixed income in retirement. But I don't think it should be in lieu of investing in other retirement savings vehicles like a Roth or traditional IRA or your 401(k) at work or even a brokerage account, for that matter. I don't think variable life insurance should be the first thing you're getting, as you are designing your financial life and you're creating a financial plan. This sort of insurance is very nuanced. It's very expensive. It's very specific to who it's marketing to. I just don't think you're the target market. That's my honest opinion.

Lastly, I don't think your financial advisor who sold you this was trying to do you a disservice. I think they probably came to you in good faith. But they're also making money off of this. Public service announcement to anyone ever being sold a financial product, always know what the other person, the salesperson’s incentives are. That's why I always like working with CFPs, certified financial planners. They're fiduciaries. They put your financial interests before theirs. If they sell you anything where they're getting a cut, they must disclose that.

That's our show, everyone. Thanks for tuning in. As a reminder, because I got to be my biggest advocate and also I really love this calendar, the So Money Page-A-Day Calendar, available now for 2023. You can go to pageaday.com, find the calendar there, and use the special code for our audience, SOMONEY23, to get 20% off. I hope you have a great night, and I hope your weekend is So Money.

[END]