EPISODE 1467

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FT: So Money episode 1467, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. Friday, January 27th, 2023. How's everybody doing? This was kind of an epic week for me. I got to visit my favorite morning duo on television, Kelly Ripa and Ryan Seacrest. I'm not a morning person. But if the producers for Live with Kelly and Ryan do ask me to join the show, I'm there with bells on. I am gladly getting up early.

On Monday, I happily kicked off the shows weeklong financial series. They just wrapped it today, with a segment dedicated to saving for retirement. They wanted some easy, maybe even like lazy, hacks for managing your retirement funds. So I offered my best tips. I'm going to recap that right now, in case you missed it, and also put the link to the show in our show notes. So you can see the whole presentation. I wore my Eagles green. Sorry, everybody else, but I'm partially from Philadelphia, so got to root for the Eagles.

But my tips, they were short and simple. First, when it comes to saving for retirement and you want to make it easy, let the robots do the work. Gone are the days of needing to cherry-pick the right mutual funds for your portfolio. I remember that distinctly when I was like in my early 20s. All of those early years working, I had to – I was given a 401(k), which was great. But then they're like, "Okay, let us know where you want us to put your money because I'm the expert." So that was a lot of late nights googling random acronyms, trying to pretend I had any clue what I was doing.

But now, of course, with roboadvisors or automated investment platforms, they'll do the work for you. They ask you a series of questions. It takes minutes. Then they have a diversified portfolio for you. It's also a lot cheaper than working with a human advisor. A lot of these human advisors, guess what, they use the robo platforms because they realized their time is better spent working with clients on more layered things, more emotional things, more planning issues.

Tip number two, bank on free money. Take part in your employer's match if it's available, which is kind of like free money. A lot of us don't know what's enough, how much to invest, how to prioritize our investing plan. I always say, look, if you've got a 401(k) at work or some sort of tax-incentivized retirement plan at your disposal, whether that is an employer-sponsored retirement plan or an IRA, do that. Then furthermore, if you have that 401(k) at work and your company provides a match, at least invest enough to earn that full match. Ideally, you want to invest 10 to 15 percent of your paycheck every pay cycle. But if you can't get there right now, at least do that.

Then commit to saving more tomorrow. That was tip number three. This is actually based on a behavioral economics study that found that when people automatically opted into an investment rate increase in their portfolios with every pay bump, with every new year, as their salaries may have gone up, they invested more over the years. Because left to our own volition, we may want to invest more.

But life gets in the way, and then we don't. But when we automatically pre-commit, when we say we're going to save more tomorrow, and these are programs now that 401(k) plans have adopted. You can opt in through your company, oftentimes, and so you're just opted in, and then you're done. Much more likely that you're going to stay the course and then continue to invest more. They actually found in one study that when people did this, they went from saving 3% to an average 14% over the course of three years. It's pretty powerful.

Then this was fun. Imagine older you. So a Stanford University study found that students who viewed age-progressed photos of themselves were more likely to allocate money towards a hypothetical savings account, and they were more interested, this was the kicker, in long-term financial planning. So they became more engaged in personal finance, as they were also more incentivized and more motivated to save for their future selves.

Because you know what? Pictures don't lie. Visualization, as we know, is incredibly powerful. So when you can imagine and really see yourself in the future, retirement is no longer this intangible thing. Like you really see that person, and you're like, “Oh, my God. I need to protect her.” There's an app for that. You can see yourself age-progress. There's tons of apps like Facetune. Probably all the social media platforms have them by now. Those are my tips.

In case you missed the shows this week, all right, are you ready for this? If you haven't watched this yet, I don't know what you're doing with your life. Zarna Garg, the comedian, the one and only, the one in a billion stopped by on Monday and took this conversation to places I wasn't even expecting. I thought we were going to talk about her pivot to comedy, that alone an incredible story, how she in her 40s pivoted from being a stay-at-home mom.

Before that, a lawyer to then stay-at-home mom to then a comedy sensation and how she is everywhere now, touring nationally. She's got a show in the works. She is blowing up on social media, over like a billion views across all the platforms. She's performing at the Comedy Cellar in New York. If you know anything about the comedy scene in New York City, that is the holy grail of comedy stages, but you have to compete to get on that stage. Guess what? Comedy Cellar calls Zarna. I don't know when that's ever happened. They called her, and they said, “Can you come and perform for us?” That's how good she is.

Her comedy is pretty irreverent. She makes fun of what she calls the sacred cows in the Indian culture, like mother-in-laws and brown men. She's like, “We can laugh about that in America, perhaps, but it is kind of considered an attack on culture.” Those were her words. So women who are still living in, say, India or Pakistan or Afghanistan, they will send direct messages to her on social media and say, “We love your comedy.” Unfortunately, it's just the sort of thing that we can't watch with others around. I have to wait for my husband to leave for work, and people are sharing and spreading her videos behind the scenes because they're terrified of revealing that they find their culture kind of funny.

I never really stopped to think about how much laughter is a privilege here in this country. Love this woman. No wonder she's so amazing. She's not just funny. She's brilliant. She's insightful. She's also a mom of three. She's got it all. So check out that episode and support Zarna. I want to get a group together in New York City to go support her at one of her shows. I'm slowly collecting some fans. If you're interested, DM me on Instagram. We'll make it happen for her.

Okay, let's pick our reviewer of the week before we head to the mailbag. This person gets a free 15-minute money session with me, and this week we're going to say thank you to Finally Investing, left a review on Wednesday calling the show practical and real. Finally Investing says, “I started listening to your show during the pandemic. It is my first time learning about personal finance. I've learned so much. Your show got me motivated to save and go for walks in the park. Thanks for all you do.”

Thank you so much for that review. It's, hey, one of the beauties of podcasting is it is something you can multitask with. So I'm glad you're getting your steps in, while getting your financial knowledge. Finally Investing, send me a DM on Instagram or email me, farnoosh@somoneypodcast.com. Let me know you left this review. I'll send a link where you can pick a time for us to chat about whatever you want for 15 whole minutes. Let me tell you, we can get a lot done in 15 minutes. We can solve a lot of problems.

All right, let's head over to the mailbag and super excited. Today's episode is brought to us by Amex Rewards Checking, the first ever US consumer checking account from American Express. Joining us now is Corey Timlin, Head of Consumer Deposits at American Express. We're going to together tackle your money questions. Corey is also going to offer some insights on how to pick a good checking account, like a really good one, because there are so many to choose from. This could be the year to either make a switch or start a new because why not? There are so many interesting offers. I know saving money is at the top of our minds.

But, Corey, first just welcome to the show. I'd love to learn a little bit more about your line of work and what you do every day.

[00:08:45]

CT: Yeah. Thanks so much, Farnoosh. It's great to be here. So thanks for having me. As you said, I'm the Head of Consumer Deposits at American Express. What that basically means is myself and my team, we manage the checking, savings, and CD accounts that we offer to our members. Especially this year in 2023, like you said, a lot changing in this environment. So it's really exciting because we're really here to help our members make the most of their money, and there's a lot of opportunity this year.

[00:09:11]

FT: Yeah. I mean talk about it. The Federal Reserve, the one silver lining, I guess, to all their rate hikes is that we are seeing some better returns on savings and checking accounts, and I've done videos on this. I get questions all the time. They slide into my DMs on Instagram, “Farnoosh, where do I keep my cash?” I did think it was pretty astonishing that your survey found that about half of adults say they either don't know what interest rate their current checking account earns, or they don't even know that their account doesn't even earn one.

How can this be, first of all? Because isn't this kind of how banks get us in? It’s kind of like the featured item, but I guess a lot of us are not aware.

[00:09:55]

CT: Yeah. Honestly, like on its face, it seems a little wild. But it kind of doesn't surprise me, and the reason – Let’s be honest. Like life is really busy, and I think what ends up happening is customers have had the same checking account for a number of years. It maybe does the basics. Really for them, they think like, “What's the use in switching?” It's been so many years, maybe even decades that interest in checking, rewards on debit purchases, these just weren't things. But that they are now, and it's important for people to see that.

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FT: How we act sometimes doesn't line up with how we feel and what we know is like the right move. Amex also found in that same survey that 74% of adults, 7 and 10, say they want to maximize their finances by leaving no benefits off the table. 71% would be willing to switch checking accounts if that meant earning rewards and not paying fee.

We know intelligently like what we should be doing with our money. But sometimes, like you said, life gets in the way. Life gets busy. We run out of time. Or for whatever reason, we don't make the move. But don't let this be the year that you don't make the move. So we're going to get more into some of your insights. I'm looking forward to that, Corey, on just how to get the most out of your checking account, in a moment.

First, I want your help with some of our listener questions. First, we're going to help out Mary Grace. She listens to the show a lot, and this is not her first question. I love like a third-timer or a fourth-timer audience listener who wants to ask a question. The door is open, everybody. But she wrote on Instagram to me, wondering about which savings goals she should prioritize this year. She's deciding between saving for her kids' college, which is not for like another 10, 15 years, saving for a bigger house, or because with all the recession worries, leaving money in cash for what she calls a rainy day. But that's just like life happens, whether that's you got to get a new car or you have a sudden repair or a medical bill or what have you or you do lose your job.

I'll start, Corey, by just giving my two cents. Then I would love to hear your thoughts on prioritizing your savings. What I would say to you, Mary Grace, and anyone else who's thinking about this is that the rainy day reserve for me and I think for a lot of financial plans that want to not run on scarcity and fear is to have that taken care of, to have that emergency account, rainy day reserve, whatever you call it. Essentially, this cash that is liquid, that is accessible to you in a moment where you just have to cover your costs immediately.

There may not be a paycheck to cover it. There may not be enough of a paycheck to cover it. So I mentioned a few examples, things like medical emergencies, auto breakdown, home emergencies, repairs, things like that. Or you do lose your job. I know in the last recession, 2008, 2009, when you looked at sort of the peak unemployment during that timeframe, it was taking Americans who were unemployed about seven to nine months to find another job. That's, hopefully, the worst-case scenario.

I don't think we're there. I think if you wanted to really cover your bases with your emergency account, to have about a six-month rainy day reserve, and that's six months of your absolute bare bone necessity expenses every month times six. It's not your salary every month times six. It's your necessity costs times six, if you can keep that. So that's number one. That's how I would prioritize this list.

Then beyond that, it's kind of a balancing act, I think, between saving for kids, which is a future, future event, which you can actually – I wouldn't even call that saving, right? You're investing for that. I hope opening up a 529 plan or something like that to really get – Take advantage of compounding over those 5, 10, 15 years. Where saving for a house might be a little bit of an earlier goal that you wouldn't want to invest that money. You wouldn't want to risk it. So you would put that somewhere else.

But trying to balance those two is – Sometimes, just it comes down to what's left. The one thing I will say, the one caveat I will say is that with college, Corey, and I have two young kids, you don't have to pay for all of it. I am giving every parent out there permission to say, look, take care of your needs, in tandem with your kids' needs and not to put all of your eggs in that college savings basket. There are things like federal loans, scholarships, grants, work studies, taking a gap year, all of that we've talked about on the show. So not to think that you're a bad parent if you don't exclusively save for college above all.

I'm going to take a breather. I'm going to sit my water here and, Corey, let you take the reins here. What do you – Any additional thoughts for Mary Grace on how to prioritize her savings goals?

[00:14:52]

CT: Yeah. Well, like you, Farnoosh, I definitely empathize with Mary Grace here because I am the father of two young daughters as well, six and four. So college savings and investing is something we're thinking quite a bit about. I don't know, though, that I would add much to how you just talked about the optimizing those goals. I think that that makes perfect sense. Certainly, rainy day/emergency/just in case, whatever you want to call it, I think that that has got to be the priority. So hopefully, that's where Mary Grace would look first.

Then after that, it's a little bit of just the balancing act, right? Where do you want to go based on what you have left? What I would say, though, maybe is to help on how optimizing. We talked a little bit about the fact that a lot of people don't know what their interest rate is on their checking account. But same thing on the savings, wherever you're going to put that money, just make sure your money is making money for you.

I would also say, as much as you can, make it automatic. Like that's probably the second thing I would add for Mary Grace is once she decides where she wants that money to go, make it automatic so that's it's flowing out before you really have to think about it.

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FT: Yeah. We didn't even mention this that you have to run the calculations too. That you're not just doing this with the assumption that college will be this much, that the house will be that. You're going to like really get realistic, the more granular you get about what will a forecasted cost be of public versus private education by the time your kids are ready for school. Reverse mathing that to see, okay, what is that on a monthly investing schedule to get to that goal?

Again, I'm not saving maybe for all of that, but 50% of it. So that's when I'm going to commit too. What does that look like for me on a monthly cadence in terms of saving and investing? Same with that home down payment, what's your timeline? Is it next year? Is it this spring market, which we've talked about on the show? That could be a pretty a better market than the previous, I suppose, for some buyers looking for "deals" or just not 16-way bidding wars. But is it this year? Is it next year? Is it five years from now? Is it I don't know? Okay, that all matters in terms of what sort of prioritization takes place.

I say every single month. But maybe I should say every single week, every single day. Sometimes, the more granular you get with like, okay, what is this goal in terms of a daily savings rate, that feels a little bit more attainable because we think, "Oh, my God. I need to save $20,000 by Monday." But if it's like it's $10 a day invested in a portfolio over the next 5 years, 10 years, I think that feels a lot more doable and less overwhelming for people.

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CT: Yeah. I think something you touched on that's really important is college sort of has a very defined timeline. If you know how old your kids are, you probably know when you're going to need those college funds. Whereas with a new home, there's so much up in the air, depending on what your timing looks like. So that's the other thing.

The beauty of – When you're talking about the rainy day savings, if you're directing your funds there, and maybe you're not sure on when the home purchase is going to be, well, that can become part of the pot that you use for that home whenever you make that decision. But you're right. There's a lot of different variables in play, and just making sure you know those is really important.

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FT: Not to keep on this question for too long. But I want to – I recently was talking to a So Money listener about, gosh, if she loses her job, how much does she have in savings. She's like, “I only have four months of rainy day reserves. And I know I should have more like six or eight, ideally.” I said, “Yeah. But let's also remember that you're going to collect unemployment, and you're probably going to get a severance.”

So I want people not to freak out over like having to have six months. If you've got four, if you've got five, and you're going to just hold on till you have six before you start doing anything else, like paying off high interest credit card debt or investing, I'd say like start doing the other things. You're very close. Then when you factor in this other money that could come your way in the event of an unemployment scenario, that's going to get you to the finish line, to that six-month finish line probably or maybe even more, depending on how long you've worked for your employer.

So always remember that too, is that sometimes we get hell-bent on like, “It has to be six months. And until I get there, nothing else can happen. The house down payment savings can’t happen. The saving for –” No. I mean, let's like give ourselves some flexibility and also be realistic about what would happen in the event that you lose your job. You're not going to probably continue to have all of the same expenses, right? You're probably going to go through some major –

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CT: [inaudible 00:19:27] some adjustments. Yeah.

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FT: Yeah. You're going to start to pare down some of those expenses, so don't freak out. Next, Ruby wants to know. Speaking of jobs, Corey, she says, “Should I apply for and take a higher paying job now or stay put and secure through the recession?” Can we put secure and recession in the same sentence? I don’t –

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CT: They seem to work in opposite directions.

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FT: Yeah. So I think you and I agree, Corey. There's no such thing as total job security, and that's even if you're self-employed. I just think that you always have to be prepared, unless you have a contract, that is, that says that we must pay you until the end of the year or whatever term. There's no guarantee that this job or any future job is secure, Ruby. I think the decision, it has to come down to your personal sense of financial security. If you do have those cash reserves that we just talked about, at least a few, if not more months in the bank and have access to things like, then you can more freely decide to stay or leave.

When you have that cushion, whether you stay or leave, you can feel confident about weathering any career changes or surprises. I feel like sometimes when you just feel financially whole and powerful, you can do whatever comes your way. You'll be able to manage. That said, one of the best tips I ever got my first boss, I think it was one of my first internships in college, Corey, she said, “Always have your resume out there.” There's no harm in just applying. You don't have to take the job offer. But it's good to know what's out there.

She says that she could get a higher paying job now. Are you sure? Has that job offer actually come across your email? Every day is changing in this environment I feel like. You better be knocking on wood to say like, “Oh, everything's secure.” I think you really have to play the game and see what's out there. Put your name in the ring for certain jobs and see what comes back because then you'll have a better sense of, okay, whether the current job you have is more secure than what's actually out there.

Corey, how about you? Any like employment advice? It's a little bit out of your wheelhouse, but I think you – We all have life experience.

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CT: Yeah. These are all discussions, whether it's with colleagues or friends, family members. These topics come up quite a bit. The one thing I would say like that I 100% agree with you on is financial security. It's a very personal thing. So I think Ruby really has to address for herself, what does financially secure mean to me? I think that will be helpful as she thinks about this next step.

But there's also – One thing we didn't talk about is, yes, there's a lot of news out there that there are layoffs in varying industries. But there are also still pretty tight labor market in some areas. We should just make sure – Has Ruby actually had the conversation with her own leadership? Can she actually get a raise where she is? Is she sure she hasn't?

Then the only other thing I would add, especially when I have this conversation with friends, think about – We talked about running all the numbers when we were thinking through like what to save for. But also think about all of the dimensions of a career change beyond just salary. That's the one thing I like to say and to think about. Is she also taking this role or looking because she thinks she's maybe maxed out her potential? Or are there cultural challenges in the company she's in? So think about all of those dimensions. Then just make the best decision.

But I like what you said. I mean, networking is always a good thing, and you can always just kind of figure out what else is out there.

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FT: I really appreciate that, Corey. I think something is prompting Ruby to think about a job switch. Certainly, money is an important reason to switch jobs many times. But what else? If she were to stay, she's going to make potentially less. But also, what else is she going to be at risk of in this current job? Again, can't hurt to always just look and see what's out there. Certainly, this is industry specific to when we talk about layoffs, like you mentioned. She didn't say exactly what industry she's in. But if she feels secure at her job and has been sort of seeing higher paying opportunities out there, this sounds like she's not in tech. If I had to guess, tech's a big spectrum, so maybe not crypto is my guess.

All right, let's talk about your expertise, Corey, which is where to keep our cash. This actually comes up so much from my audience. Do they put it wherever they can get the highest yield? What should they consider before switching banks or opening a new checking account right now? What if I make the wrong decision? There can be some regret.

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CT: Yeah, yeah. I think, first off, it's great that people are asking this question because coming all the way back to the beginning, when there's the opportunity to get more for your money, you should always be seeking that out. From my perspective, when it comes down to looking for a new checking account, I sort of think of like two very clear themes. You want to think about value, and you want to think about convenience because I think that is what really customers want or what people want out of their banking products.

Now, on the value side, you kind of hit on it, right? There's definitely much higher interest rates out there than there were even a year ago. I think if you were having this conversation a year ago, we would have been talking about the best you could get was half a percent or less. Things are just changing now. Debit rewards on checking accounts really weren't a thing, even a year ago. We're starting to see some change there as well.

Then I would also say be very aware of what fees you're paying, right? Sometimes, that's a little bit of leakage that we might not notice when we're paying minimum balance fees or ATM fees or overdraft fees. Those things can definitely bite in a little bit. Then on the convenient side, look, life is pretty much lived digitally right now. So you just want to make sure that you feel good about the mobile app that you're using or the website for the bank is really fitting your needs.

At the end of the day, for rewards checking, this is exactly why we built it the way we did. We wanted to be able to deliver all of that value through higher rates, debit rewards, limited fees, without having to sacrifice convenience.

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FT: It can be very problematic if all you're looking at is the rate. By the way, the rate can change.

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CT: That's right.

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FT: But you know what doesn't change is that relationship that you have with your bank, the convenience, the access, the other things that are more of the fixed attributes of that account. Yeah. I think that's really smart advice. But still, we – Going back to that earlier statistic, how so many of us, we don't maximize our checking and savings, and we sort of don't feel like our bank is – We have a relationship with this institution. What's behind that?

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CT: I mean, I do think it comes back to something we talked about earlier, which is it's a little bit of inertia. It's a little bit of life just gets in the way. I completely understand it. I'll be honest with you. I was having a conversation with some friends, probably mid, late last year everything that was going on in the interest rate environment. So the topic of what people were earning on their savings accounts came up. These are the things we talk about, Farnoosh, when you're in the banking environment.

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FT: Why didn't you call me? I don't –

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CT: Now, these were –

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FT: Don’t you know?

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CT: But these are –

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FT: I’m experiencing FOMO right now. Yeah.

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CT: Yeah. Well, exactly. There were some lawyers and doctors in this conversation, and they just had no idea, like completely no idea. They looked and it’s like, “Oh, my gosh. Are you telling me like I'm earning pennies, and there's some significant interest rates out there?” So again, I think no one wants to miss out. But I think it's just having to do that little bit of extra work. When you do that extra work, I think what you can find is you can really get that value, and you probably don't have to sacrifice the convenience.

I know that one thing people will always tell me is, “Yeah, but I don't want to have to have a checking account here, a savings account at a second place, my credit card is at a third place. Now, I have half a dozen apps I'm tracking, all different logins. That's just a lot, right?” So the ability to pull it all together in one place is also something we're really excited about.

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FT: Yeah. It can get very complicated very, unnecessarily, very quickly, when you've got all these different accounts. Then people are like, “I didn't even know. I didn't even know I had an old 401(k) at this place.”

So let's help out our final listener here, Gail. She feels like she has to – She needs a reset. She came and started the year with some financial goals. She's, for whatever reason, just been bogged down. Help is, basically, what she's coming to us for. So I just want to start by saying that this is why I don't set resolutions. I think it's just an unnecessary pressure we put on ourselves at the top of the year when we have just come out of a typhoon of like travel and family and work deadlines and all that stress that comes with the end of any year. Then, oh, hey, January is supposed to be somehow different. No, it's just Tuesday, and yesterday was Monday.

We put on this pressure, the sort of artificial pressure. So that said, I do think that the new year is like an opportunity to come in with things that you do want to drill down on or change or reinvent or what have you. But you don’t have to feel like you have to do it all by a certain month or deadline.

I think, Gail, I would just give her this piece of advice, is to go back to that original plan, whether it was to save or get out of debt, and find the easy wins that she can perform in the next two to four weeks. Like what is – Let's just say getting out of debt, for example. Is there a credit card with like a really low balance or a bill that she has to pay that she can do in the next pay cycle and feel really good about it and start building that momentum, right?

We had an interview recently with Nicole Stanley. She's a money coach, and she was giving this same advice, where when you can kind of create bite-sized goals for yourself that are all leading to a bigger thing, that's what's more humanly possible, frankly. That's what's more humanly sustainable. So do yourself a favor and give yourself these easier wins. Go for the lowest hanging fruit, initially, so that you can build that confidence, build that momentum, start seeing results, and that'll get you closer to the finish line, whatever it may be.

I don't set resolutions. I know myself. Like there are going to be – January 8th, I'm done. It's over.

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CT: Yeah. I think I prefer the term check in to resolution. Whenever I start, whenever I think about my – Whether it's – I don't want to get into the eating healthier. Sometimes, that's even harder. But especially when it comes to the finances early in the year, sort of the check in feels a little bit better.

But one of the things you mentioned that I think is so like really is resounding with me, just think about the conversation we're having. We talked about having six months of cash reserves or saving for college or saving for a house down payment. I mean, these can be really daunting tasks, right? Like they can feel huge when you're at the beginning of them, and you talked about paying off a bill. But even if your goal is to get to six months of your expenses, well, if you're starting from scratch, you're starting from zero, getting there in a week or two, it's impossible. So you're likely to just forget about it.

So sort of break that up and celebrate those small wins. Maybe it's the first $500 or the first $700 or the first $1,000, whatever makes sense to you. Just make sure you're celebrating those wins and having some compassion for yourself. Because I think we're predisposed to think negatively about our financial position. But when you're on that journey, that's something to be proud of and just really to break that up and think about those small steps.

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FT: Yeah. Such great reminders because it's very easy, like you said, to feel like you're in competition with yourself or some others. That's no way to feel like a winner. It's just defeating, self-defeating.

Well, Corey Timlin, thank you so much. Corey, Head of Consumer Deposits at American Express, for giving us all this important information about choosing a checking account, the important things to consider before making the jump. For more, everybody, you can go to americanexpress.com/rewardschecking. I hope your weekend is So Money.

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