EPISODE 1482

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FT: So Money episode 1482, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. Friday, March 3rd, 2023. Firstly, huge shout out to the most important girl in my life who doesn't listen to this podcast yet, but she will soon. Colette, my daughter, turns six today. And, boy, is she thrilled to be getting older. She also lost her first tooth this week. She said to me, "Mommy, I'm so excited about getting bigger." I said, "Slow it down. You have a lot of years ahead of you and enjoy being six and being coddled and taken care of." Excited to celebrate with her this evening and then next weekend with friends and family.

Speaking of celebrations, last night, I was in New York City to celebrate Tara Schuster's book, *Glow in the F*cking Dark*. You may remember Tara was on the show on my birthday, February 15th. She's also the author of *Buy Yourself the F*cking Lilies*. So got a group of us together last night to support her book launch in New York, and I snagged two copies of her book, two signed copies of her book, that I want to give away to two So Money listeners. If you want a copy of *Glow in the F*cking Dark* by Tara Schuster, which is all about how to heal your soul, if you're kind of in a dark place, or you've been dealing with a lot in your life, and you want to get on the other side of things and do it simply, she's got simple practices.

In fact, the subtitle is *Simple Practices to Heal Your Soul with Someone Who Learned the Hard Way.* I've got two copies. To enter to win, listen to that episode with Tara. That was episode 1475. Leave a review of that episode in the Apple Podcast review section. I'll pick two reviewers next Friday on the show to get a copy of her book.

Speaking of reviews, let's pick our reviewer of the week. This week, we're going to say thank you to RyanB43, who left a review, I guess, last week calling the show absolutely informational.

Ryan says, “The show is amazing. Whether you're already financially wealthy or just beginning your journey to wealth, this is where you should start or continue. I feel I'm in the middle of my wealth journey, and I get so much out of listening to this podcast. Thank you, Farnoosh. Always excited to hear the next one.” Ryan, thank you. Get in touch, farnoosh@somoneypodcast.com. Let me know that you left this review, and I will send you a link where you can pick a time for us to connect and have a free 15-minute money session.

Next, I want to talk about Boston Globe and how they featured So Money as one of their favorite podcasts to help us navigate the tax season and beyond, Boston Globe. You know I'm from Worcester, right? So Boston Globe was our go-to paper and the Worcester Telegram and Gazette. But Boston Globe, thank you so much for recognizing So Money as a top podcast to help you get through the tax season.

They also recognized Brown ambition by Mandi Woodruff and Tiffany Aliche, Popcorn Finance by our friend, Chris Browning, HerMoney with Jean Chatzky, Afford Anything with Paula Pant, Journey to Launch with Jamila Souffrant, and Frugal Friends, which is a new podcast. I haven't heard of Frugal Friends before. I'm going to check them out, hosted by Jill Sirianni and Jen Smith.

Now, big news. I have launched, wait for it, another podcast. Yes. In partnership with Penn State, where I went to college. It's called Better Business, and it's a series of interviews highlighting the day's biggest issues and concerns shaping the world of business. So you can imagine everything from climate change to the minimum wage, women in the workforce. I host the show, and we invite researchers and professors from Penn State, as well as those in the industry, to come and give us the perspectives of like what's the data telling us, what is the real world telling us, what are some solutions. It's been a passion project of mine, and it's been going on for the past year behind the scenes. I somehow got it done between working, parenting, and figuring out what to make for dinner. Big shout outs to everybody at Penn State, the Smeal College of Business, and WPSU, who were so involved in making this show a reality. I have the link to Better Business.

All right, before we get to the mailbag, one other item I want to go over which is Pitch Please. I talked about this last week. This is my annual, sometimes twice a year event in New York City.

Immediate event where I invite entrepreneurs, influencers, people maybe like you in the audience to join me in New York and be connected to top media editors, producers from the Wall Street Journal, NPR, Fortune Magazine, ABC News, Live with Kelly and Ryan. The list goes on. We have an incredible lineup this spring. It's happening April 28th in New York. Just a few spots left and we still have early bird pricing. We left the early bird pricing on pretty much the whole time. So if you want to go, check out the link in my bio. Reserve your spot today. The the event always sells out. It's a lot of fun. So if you're interested in getting out there more, connecting with the media, telling your story, sharing your expertise, I hope to see you.

All right, let's head over to the mailbag. Questions about high-yield savings accounts, a couple questions about 529 college savings plans, including the new law that allows you to roll it over into a Roth IRA, and how can someone help their kids be so money? Let's first talk about high-yield savings accounts. Our friend in the audience, Abby, wants to know, “I'm looking to put my six-month emergency fund into an HYSA, high-yield savings account. Is this the right move? I have about $10,000 now, but I'll have about 15,000 by summer, and hope to continue to grow this emergency savings to at least 30,000. And then I'll start investing any extra money into the stock market.”

She also wants to know, “What rates should I aim for in a high-yield savings account? It's ideal for me to not have a bunch of accounts with different institutions. But if my current bank can only get me 2%, is it worth putting it somewhere else? Would my bank try to match a rate elsewhere? I've never used a high-yield savings account before, so I don't know where to start.”

All right, Abby, your first question is, is a high-yield savings account the “right move?” Sometimes. Sometimes yes, sometimes no. But I think you want to take into consideration your immediate need for this money and the potential conveniences that you may have with your current bank that, yes, is offering you just 2%. Remember when it was just .02%? Now, we’re like coughing at 2%. It's not the best rate, of course, out there. I've seen as much as 4%. So are you getting the best rate? Maybe not.

But sometimes, that's not the deal breaker, right? The deal breaker is so many other things, like there is a convenience factor to having all your money in one place. I know that like where I bank, I'm not getting the best rate. But when I opened up a HELOC with this bank recently, they gave me the lowest absolute rate, a special rate, in fact, for customers. So thinking about kind of like what else you may want in your banking life and how the current bank that you're at could reward you for being a customer.

They don't usually match rates. You can ask. But typically, the bigger banks, the person on the phone, the person working there is not empowered enough to like change your savings rate. It's not like a mom-and-pop sweater store, where they can give you a 15% off or something, just because they feel like it. It has to go through like all this bureaucracy, and I just don't see it happening. But, sure, you can ask. All this to say is that high-yield savings accounts have their merits, especially now with interest rates going up. But if you're contemplating between your current bank that's offering 2% and another bank down the road that's offering 2.5% or 3%, this is what my friend, Ramit Sethi, calls three-dollar questions. He says we got to start asking the $30,000 questions.

Now, Abby, your question about HYSAs, given the savings that you have and the rate you could potentially earn, let's say at most 4%, we're talking about a $600 question. So if it's easy enough for you to transfer this money to a better yielding account and be free of any worries that you're going to need to access this money in a pinch or may want to benefit from your current bank's customer benefits that they give sometimes like lower interest rates on loans. Like maybe this high-yield savings account doesn't have ATMs, but you don't care. Then fine. Transfer the money. But keep in mind that rates can change. It's not guaranteed. So it's a $600 question. Is this worth the hassle?

If you want to address the more expensive question, I have one for you. You kind of alluded to this in your question. The bigger question, I think, that is worth answering is when will I start investing. You said that you're going to start investing once you have at least $30,000 in savings. Well, unless you're spending like $10,000 a month, I don't see why you have to wait to have 30,000 in emergency savings to start investing. That's going to stretch you, hopefully, many, many months. The later you start investing, the more money you could be costing yourself.

So once you hit 15,000 in the account this summer, I would say start socking away a little bit in the stock market. It's important to save before you invest, yes, but not important to have all of the money before you begin investing anything. We know that time matters. Investing even just a little bit but over a longer period of time can net you far more than somebody who starts in a few years, starts to catch up by investing more money every month. It's a lot harder for that person to arrive at the same number you're going to get to because you just started earlier with even less money.

So the HYSA question is like a $600 question. The investing question here, when to start, and I think you should start sooner than you're telling me. That could be easily a $60,000 question. But, no, I don't have anything against HYSAs. But I think that to be simply transferring your money to a new bank because of their interest rate, you haven't done enough homework. You have to really think about the implications of being with this new bank and not with your current bank, and what that transfer could potentially cost you down the road, and also keeping in mind that HYSAs, those rates are not locked.

All right, let's move over to a couple of our 529 college savings plan questions. The first from Jasmine who writes this, "Hey, Farnoosh. I have 529s for my kids, and I contribute $500 per month to them. My oldest child will start college in a few years in 2026. The money is invested in age-based 529 accounts. Because of how badly the market is doing lately, I find that I contribute $500. And then within a week, the balance drops by $500 or more. It feels like I'm literally just throwing money away, and it would be smarter to just put it in a high-yield savings account, don't you think? Or should I stay the course until we need the money in three years? I know you don't have a crystal ball, but how do families evaluate the situation and make a decision?"

All right, Jasmine. Thanks for your question. Yeah. College being three years away, you don't have a whole lot of time to waste here. It's normal to be nervous and afraid of what's going to happen to your balance and those contributions that seem to be just getting eaten up by stock market volatility. I get it. Question for you, Jasmine. How much money – If you stopped contributing right now to college savings, and it just kind of continue to compound or do its thing, like let's say it grew. Let's be conservative. Let's say it's going to grow an average of like 3% between now and when your kids are ready to go to school. What would happen to the balance? Would it grow enough where you'd feel good about paying for college?

That's a bit of math that I want you to do before getting into like the next steps. It's just kind of figuring out what do you have. Is it “enough?” If you stopped contributing altogether, and the balance kind of stayed where it was at, maybe grew a little bit or fell a little bit, give or take, where would that leave you in terms of affording college for your child? Beyond that, I think it's important to remember that although your child is going to college in three years, the money is not going to be entirely taken out at that time. The money remains invested while they're in school, kind of like your 401(k). You don't take all of the money out at age 59 and a half or in retirement. You start taking it out in drips.

So while that $500 a month that you're contributing right now seems like it's getting washed away because of downturns in the market right now, within the next seven years, there's a really good chance that you're going to make up for that loss and then some. If you think you have “enough,” for what you'll need by the time college rolls around, and you would prefer to stop contributing, you can and instead contribute to a high-yield savings account. I don't think it's a terrible plan.

529 plans are supposed to adjust to become less exposed to stock market volatility as your child grows up, and they approach college. I would recommend speaking with someone at the 529 company. Hear them out as far as the performance, and maybe there is a different kind of investment available for the remaining three to seven years that's less invested in stocks and more in bonds. So talk to the portfolio manager and see how you still feel.

Okay, next. Emily has a question about 529s and the new rollover laws. So here's her question. “Farnoosh, I just learned that starting in 2024, Americans can rollover unused 529 funds into a beneficiary's Roth IRA with no penalty. And I was wondering if this is something my husband and I should consider. Here's our situation. My husband's grandfather was very kind and set up a 529 for my husband when he was a kid, and my husband used some of the money to get his degree, but luckily also got a lot of scholarships and still has 40,000 in the account. We're both happy with our careers, our education, and we think it's unlikely we're going to use this money for education. We may use this money instead for our future kids.

But with this new law, does it make sense to convert some of it or all of it into retirement? We're in our late 20s, and we each have about 40,000 in Roth IRA and 401(k). So for a total of 80,000, we plan to have kids, one or two, in the next two to five years, and we'd want to be able to provide college education for them. Ultimately, the choice is up to my husband, but any insight would be greatly appreciated."

All right, Emily. Thanks for bringing this to all of our attentions. This is a big story in the IRS 529 world, putting on my nerd glasses here. So here's a little bit about the law. As we may recall, last December 2022, Congress passed that $1.7 trillion federal spending package. Within that, there was a provision that allows for tax and penalty-free rollovers from 529 plans to Roth IRA accounts, which we know are great because they allow for tax-free withdrawals in retirement. But here's what you need to know, what we all need to know about this new provision. You can rollover up to $35,000 only, and it has to be done over the course of a lifetime, from any 529 account in the beneficiary's name to a Roth IRA in that beneficiary's name.

So for you, Emily, you've got 40,000 in your husband's account. That means he can rollover almost all of it to his Roth IRA, except for 5,000. I'm going to get back to you in a minute, but I wanted to go over some of the other interesting rules related to this. You cannot rollover the entire lump sum right away to a Roth IRA, if it exceeds the annual limit, which this year is $6,500. If you're 50 or over, you get to do an extra 1,000. So again, Emily, if your husband does decide to transfer this money to his Roth IRA, he'd have to do it over a number of years. So $35,000 probably would take about five to six years to do this, in accordance with the law.

The 529 account also has to have been in the beneficiary's name for at least 15 years, which it sounds like that's your case, Emily, with your husband that the grandfather set this up when he was little. Now, he's in his 20s. So just keep that in mind too. Along those lines of like the beneficiary, this was interesting I thought because in my mind, I'm thinking, well, if you're a parent, and you've got this 529 plan for your kid that you've had for 15 years, but your kid then doesn't go to college, could you just put it into your Roth IRA? The answer is no. If you're changing the beneficiary of the 529 plan to you, parents, instead of your kids, and you're like, "Great, I'm just going to roll this into my Roth IRA. More money for me," not so fast. When you change the beneficiary on your 529 plan, and you do want to roll it over into a Roth IRA, you got to wait 15 years to do this. So it's possible, but you have to wait 15 years.

Back to you, Emily. Should your husband take advantage of this? I don't think you can really go wrong. I think it's going to come down to what are your goals, which you outlined a little bit. You have the goal of sending your kids to college, your kids that aren't born yet. But look, I started a 529 for Evan before he was born because I'm like that. Nothing wrong with that, getting a little bit of a head start. But I always say the priority should be the parents before the kids. When you're deciding between retirement or college, always go with retirement savings first. You can afford college in many more ways than you can retirement.

With retirement, you just got to do it yourself. Hopefully, you've invested enough and you arrive in retirement with enough. But with college, if you get to college, and you're like, “Oh, I don't have enough,” well, you could apply for scholarships like Emily's husband did. Or you go to a more affordable school. There's no such thing as like a scholarship for retirement, right? So I think the priority should be your own retirements. So with that, maybe you take that 35,000 over the next number of years, $6,500 a year to put in his Roth IRA. Then you've got still $5,000 in there. You can change the beneficiary to your children to a child once a child arrives. Now, you've kind of addressed both things. But mostly, you've addressed your retirement.

I'm just like working this out out loud, and I think that's what I would do. I would take the 35,000 out of the 40,000 and contribute in the right amounts every year to the Roth IRA. Keep that 529 plan open, but change the beneficiary to a child once a child arrives, and you're giving that kid a $5,000 head start. Wow.

All right, last but not least. Sticking with kids, Joe wants to know, “How do I help my kids be so money?” A little bit more about his question. He says, “My wife and I are in our mid to late-40s. We have a three-and-a-half-year-old and a soon-to-be seven-year-old, and I feel pretty late in getting them rolling as far as long-term wealth. I have this fear because both my wife and I carry really significant debt, and I just don't want this to be their reality when they are my age. All we have for them right now is a UTMA account, which is, essentially, a custodial account for the seven-year-old, and we have a low-yield savings account for our three-and-a-half-year-old.

My question is this. Is there one account that I should have for each of them today? What's the best option? It's sort of overwhelming with all the information with 529s, which I don't really love because they're limiting. There's Roth IRAs. That's the option I'm leaning towards. Maybe I should do a simpler high-yield savings. As you might imagine, there's a lot of time and research that goes into making this decision, and it is not easy. Thank you for all the information you're putting out there and the time to read and hopefully respond."

Yes, Joe. I am responding. You're asking all the right questions. But I have a question for you, Joe, which is this. What kind of success do you want for your children, the financial success? Clearly, you don't want them to go into debt, like you mentioned. But let's get more specific. Okay. It can't be all on you to raise perfect financial angels. You know what I mean? Listen, my parents, they didn't have any accounts for me growing up. But what they did do for me, which was foundational, and I credit them, and I am where I am today because of this, is that they talked about money with me. They talked about their mistakes. They talked about their wins. They included me in some of their decision making.

We had a guest on the show recently, Dan Sheeks. That was on February 22nd. We had Dan Sheeks on the show. He's the author of *First to a Million*. He's like, "You know what? If you've got a teenager in the house, you need to show them how you're budgeting. You need to show them your bills. Have them click the mouse and send the money to the different billers to really make it real for them." So I don't want parents to be under all this pressure to be like, "I have to get all these accounts together, and I got to start investing for my kid now." Yeah, that's great. That's all icing, though.

Foundationally, you have to have these conversations with your kids. I think that lately, we have been talking more and more about generational wealth and particularly if you're like a minority family or a family that didn't have a healthy cycle of financial wellness through the generations, and you want to start fresh and create more prosperity for the next generation. I get that. Of course, it helps to have money for them, waiting for them when they're young adults. But there's no good and arriving in your adulthood with money when you haven't had the education to go with it. So I'm going to get off my soapbox with that.

But to answer your question more specifically, Joe, about like where do I start, is there one account, again, what kind of success do you want for your kids? Do you want them to, A, graduate from college debt-free? Then, yes, a 529 plan, although you're not a huge fan, is probably the best way. I know that it's not like putting money in a brokerage account. You can take it in and out whenever you want. But increasingly, the 529s have become more flexible. So like I just talked about, you can roll that into your child's Roth IRA down the road, if they don't go to college.

If you, B, want them to be set up well for retirement more in the future, then I would go with the Roth IRA. To qualify, your child needs to be making money. So at a young age, the most common way is for parents to set up a business and have their kids be a technical employee of the business. Otherwise, they have to prove income from another source. Maybe that's a lot of times modeling or acting. Not sure what else is feasible at a young age, where your kids are at. But when they're teens, and they have work permits, then they can set up Roth IRAs for themselves.

Or is it plan C that you want to just have money set aside for them when they're young adults to do whatever they want with? Then a custodial account or a brokerage account that you manage and then transfer to them usually at 18 is the other way to go. But to answer this, you have to know what mostly you want for your kids. I would just say that if you're going to go with option C, which is just do the UTMA, which is essentially a brokerage account that they'll have in their name when they're 18, that they've also got the literacy to go with it because, otherwise, it could give you the opposite effect of what you're hoping for, right? They just go on a spending spree, and then they do end up going into debt.

There's a lot you can do in the absence of a special account for your kids. I'm just going to say that again. You can have an account like a 529. You can have a UTMA. You can have a Roth IRA for them. But if you can't do this for your kids, you're not parenting wrong. Don't stress over it. There are many ways you can give your kids a huge leg up in their financial lives, and it simply starts with being transparent with them about money, engaging them when they're curious about money. They're going to ask maybe awkward questions like, “How much do you make? Are we rich? Are we poor?” And you may not have the answers right away.

So instead, you say that's a really important question, and I want to think about it, and I want to get back to you. Just putting away something for your kids, wherever you put it for a future date, that's more than what most kids will ever have. Remember that. You can't really go wrong with whatever sort of saving or investment vehicle you choose, but anchor it in what you most want for them. Hopefully, that will give you some directionality that you're looking for, Joe.

Thanks so much, everybody, for your questions. I love these questions this week. A reminder, if you want a copy of *Glow in the F*cking Dark* by Tara Schuster, go back and check out our episode with Tara. That was episode 1475. Let us know what you thought of it in the review section in Apple Podcasts. I'm going to pick two winners to get signed copies of her book next Friday. So stay tuned next Friday. In the meantime, I hope your weekend is So Money.

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