EPISODE 1506

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FT: So Money episode 1506, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It is April 28th, 2023. You're listening to this while I am hosting my annual, sometimes twice-annual, all-day New York City workshop called Pitch Please that I co-host with my friend and media pro, Susie Moore, who has been on this podcast a number of times.

I may be foreshadowing here. But if it's anything like past events, Pitch Please today is going to be jam-packed with insights and intel on how to make those really important difficult sometimes relationships with the press, the media because you want to get out there more. You want to tell your story. Share your advice because you're a thought leader. You're an expert. You are someone who should be listened to because you've got some things to say and some help to give us.

We have folks from all walks of media from the Wall Street Journal, Real Simple, NPR, Good Morning America, NBC. These folks and our guests just love hanging out with us because, a little secret, the press also needs sources, right? They need people who know what they're talking about, and we love to bring these two worlds together. If you want to learn about our next event, stick with me here. Join the newsletter at the minimum, farnoosh.tv/newsletter. That's how you're going to get all the news, the announcements related to the Pitch Please and of course, everything else that I've got going on.

This week's episodes were pretty amazing. I'm not going to undersell. Listeners actually reached out to me to share how much they appreciated our guests this week. That doesn't always happen. But on Monday, we kicked off the week with Dr. Neeta Bhushan, who wrote a book called *That Sucked. Now what?* It's a real talk guide to personal growth that draws on embracing the suck, which, I mean, let's be honest, times are tough. We've all got sucky stories. I actually volunteered my suckiest financial moment with Dr. Neeta. She put me at ease. I went there. I got a little vulnerable. You may or may not have heard this story. It was a recent financial sucky moment. You can go back to the episode 1504 to learn about that.

Dr. Neeta herself has had some really unfair setbacks in life, tragedies really that came about when she was a young girl and how she navigated that, plus another big explosive setback and challenge and hardship in her marriage. Talked about that. Here she is today, standing tall and helping so many people navigate their own adversities, challenges. We talked about resilience, this word that we often throw around that deserves a reframe, she said. Because we use it so much, it has gotten diluted. But she kind of brings the power back to this word of resilience, and I so appreciated her time with us.

Then on Wednesday, y'all, Luvvie Ajayi Jones back on the show with details of her next book, which will probably go on to be a fourth New York Times best-selling book. This time, it’s a picture book. It's called *Little Troublemaker Makes a Mess*. It's the story of how young Luvvie discovers what happens when doing something nice means breaking some rules. I told her I want to give this to my kids. But I want to make sure that it's going to be good trouble because like it's good enough trouble that I don't want them to be in, that I can handle. But she said, “No, trust me. This is how you learn how to stick up for your friends, be an ally.”

Of course, things as adults we continuously need to remind ourselves how to do, give ourselves the courage to do. We talk about when you're at work, for example, and there's – something awkward goes on, and you want to speak up, and you're wondering what is going to be the risk. Is there going to be backlash? She offers an incredible mindset shift, a question really, a simple question that we can all ask ourselves when we're in those moments, where you want to stir the pot for a good cause. But we're a little afraid to because we know that sometimes that can backfire.

Listen to the end of that episode as well because I talk about how to enter to win a *Little Troublemaker Makes a Mess.* If there's a child in your life that you'd like to give this to, stay tuned to the end of the episode, and that book will come with something else cool. So if for no other reason, check out Luvvie's episode to learn how to get a free copy of her book.

Okay. So Monday, this Monday, May 1st, can you believe it's going to be May 1st, I'm hosting a free master class on money and fear, taking the steps out of *A Healthy State of Panic*, giving them to you early. This is open to those who bought the book early in March as my earliest birds. I did something I wasn't planning on doing, but here I am. I've reopened the cart. So if you want to squeeze in and get a seat on this May 1, Monday, May 1 call, which I will be recording. So even if you can't make it on Monday, you can still get the recording. Go to ahealthystateofpanic.com to learn how to reserve your seat. All you have to do is basically just buy a book, let me know, and I put you on the list, and you'll get the Zoom link to tweet. All right, let's do this. What are you waiting for? Let's hang out.

By the way, there are going to be other giveaways on this call. So you want to join, and you want to join live so that you can maybe get other cool stuff. I have a lot of stuff to give away. Coincidentally, today, this Friday, if you're following along on the So Money Page-A- Day Calendar, which I will admit I got a little behind on myself, but I flipped to today. The message is about fear. I can't make this stuff up. I'm going to read it to everybody.

Today, Friday, April 28th, stress test, time for a stress test. Pinpoint your financial fears to overcome them. Here we go. What keeps you up at night? Really think about it. At moments when you should be feeling relaxed or happy, what financial woes do your thoughts turn to? Whatever those stress points are, it's important to reflect and identify them. Don't hide from them. Don't run away from them. Don't pretend they don't exist. Because from there and only from there, you can confront those stressors head on and create a plan to address them. Hopefully, this will lead to less anxiety down the road. That's the tip.

In *A Healthy State of Panic,* I offer a number of stories of how this exact exercise has brought me more comfort in my financial life, more security in my financial life, and more money in my financial life. So more on this on the call on Monday, if you're interested in joining for our master class on Monday. Also on that call, I'll be giving you some of the behind the scenes of this book process. If you want to write a book, and you want to ask me a question about that, there's going to be a whole section, a whole period reserved on the call for you to ask me anything you want. Like what time do I go to bed? What do I eat? What do I don't eat? What's in my bank account? Well, I don't know if I'll tell you that. I mean, maybe.

All right, we're going to head over to the mailbag very soon. But, first, as always, let's go to the review section on Apple Podcast to pick our reviewer of the week. This person receives a free 15-minute money session with me. This week, we're going to say thank you to Crystalballer575 who says, “The show offers great advice through the ages.” I'm going to try not to cry because these ones really get to me when people tell me how they have been listening to the show for a while, and it's been helping them through the many chapters and sequences of their lives.

Okay, so here we go. Crystal says, “I first came across Farnoosh during my college years. My dad gifted me her book, *You’re So Money*, which ended up being a guidepost of sorts for me. I took so much wisdom from it and returned to it time and time again throughout my 20s. Now, I'm in my 30s. I'm married with a toddler, I have a mortgage, and I'm finding her wisdom just as useful during this period in my life. Her podcast is not only full of great financial advice but also thought-provoking and insightful interviews with experts on many topics. I am so grateful to Farnoosh and for my dad for introducing me to her all those years ago. Looking forward to many years to come.”

Oh, my gosh. Well, can your dad come on this call too? I feel like we need the whole family here, Crystal. Thank you so much for sticking with me, for entrusting me. I hope I haven't disappointed you along the way. Maybe some days you're like, “I don't know what she's talking about.” But even so, that's okay. I think we're allowed to disagree sometimes with the people that we ultimately do trust and want to come back to for advice. I love that I've been able to be someone who, even though I didn't know it, was with you all of these years through so many transformations and now as a mother, as a wife. I can't wait to meet you.

So get in touch. Email me, farnoosh@somoneypodcast.com. Let me know that you, Crystal, left this review. If you're on Instagram and that's easier for you, just direct message me there. I read everything. Let me know you left this review, and I'll send you a link where then you can pick a time for us to have our 15-minute call. Thanks so much, Crystal.

All right, it's mailbag time. Let's hit it. We have questions about picking a new bank, investing advice for those approaching age 50 and older, and what to do with an old 401(k), especially if it's still sitting in your previous employer's retirement plan. All right, first up, Lucy writes in, “Farnoosh, I love your podcasts and all the honest, thoughtful advice you dole out for free.” Yes, thank you. That is intentional. I like to just give you all the things for free. I do most of my work b2b, business-to-business, my business to other businesses. I work with clients. I work with brands. I work with sponsors so that everything I can bring you is free, for the most part. I mean, this podcast is one big example. My books cost money, yes. But the goal there is it will be a return on your investment.

Here's Lucy's question. Her question is about ONLINE BANKS, which she puts in all caps. So this is a big one. She says, “I recently inherited a good chunk of money, and I wanted to take advantage of these great interest rates everyone is talking about. But these up to four percent rates are not to be found at traditional brick-and-mortar banks, big or small. I opened accounts at Ally Bank. I opened one up at Marcus. But now, with Marcus in the news selling its loan division, and David Solomon, the CEO, seeming uninterested in Marcus overall, and recent regional bank panics, and the closing of Silicon Valley Bank and Signature, I'm really curious about online banks in general. Are they considered regional, small? Are they vulnerable to bank runs? Is there anywhere else to get the current high interest rates? I want to know how online banks fit into the bigger picture.”

Okay, Lucy. I'm going to get into assessing a bank in just a minute. But the first thing to address is why you might be interested in banking with a high-yield savings account, with an institution offering a high-yield savings account. When does it make sense to put your savings in a high-yield savings account? I mean, isn't the answer just always? Not always, I would say. I mean, look, high-yield savings is great. If you can get that with some other attributes that I think are just as important, then we're talking. But to just pick a bank because you see a high yield, it's not where the research needs to stop.

So firstly, when are you ready? When is it right to put this money in a high-yield savings account? This is not money that you are transacting with on a daily basis. This is not money in your checking account, right? This isn't even probably the money that you want to put away in the event of like an unexpected big cost that’s going to come from savings like a flat tire, a plumbing bill, an unexpected root canal. Things that you may not have money for in your checking account, but you have them in the immediate savings account, and you want to be able to pull that money out very fast that day.

Not all online banks that offer these high yields allow for quick transacting. Some do. So that's just one thing to consider before you transfer a huge chunk of money to a high-yield savings account. You have to be sure that your relationship with this money is such that you don't need it immediately. Because also, the whole point is to benefit from this high yield. If you anticipate needing to take out this money in the next month or two or, honestly, before the end of the year, you're not going to get the full yield. This is an annual yield. So, first, just kind of understand your need for this savings, the relationship that you have with this money. Is it a relationship that requires maintenance, active transacting? Then this is not money that goes into a high-yield savings account with the intention of parking it there for the full year, hopefully, to get this interest rate.

Now, in your case, Lucy, you're talking about an inheritance, which, to me, I'm thinking – my thought bubble is that this isn't money that you're going to go put in your checking account, necessarily. This was an unexpected lump sum that you would like to put somewhere safe, and maybe in the year or down the road sometime, tap it for a goal. Now, you're at the point where you're thinking, “Where do I put this money?” Your questions are all good. This is a great example of how the fear of putting money in a “unstable” or risky bank account could backfire.

So let's listen to that fear. This fear is telling you to do some research, which is good. This is the healthy way to let this fear guide you to making the right moves. So move number one, do your research. I will tell you that I have looked at a lot of these digital-only banks. Ally has been around for a long time. So while it's digital, it's not new. But the ones that are very new, like I would say in the last 24 months have come to the market, they're called neobanks. Sometimes, they'll say like, “We're not actually a chartered bank.” So what they have to do in order to be able to take your money and give you that FDIC insurance, which everybody needs to have, they partner with a bigger bank, or like whether it's regional or a national bank, behind the scenes.

So look for that. You can usually go to the bottom of the website of that bank and see a few things that it's FDIC-insured. Check for that. And that it has a partner that is an actual bank behind it. Some banks are banks, and they're chartered, and they will say that upfront. But others, the newer ones, especially, that are just digital, and there's the very bare bones, like they don't offer loans or credit cards. They just do savings, and they just do maybe a debit card. These are not necessarily banks. They're technology-driven financial services companies. But in order to then take your deposit and then do stuff with it and promise that they're not going to run away with it, they need that FDIC insurance, right? In that case, they must partner with a bigger bank.

Whether you’re Marcus or Ally or Bank of America or Citibank, they all have vulnerabilities, okay? It’s not your job to go and like look through their quarterly statements and try to find the clues that maybe this bank is going to go under or start following their CEOs and read between the lines. That's not what we have the time for. Frankly, that's what FDIC insurance is there to protect us against is in the event that this bank does go under.

With events like Silicon Valley Bank and Signature Bank, those are recent bank failures. We have this tendency as human beings, it's called recency bias, to believe that the events that happened recently are the events that happen all of the time, and that it's an event that will necessarily happen again soon in the future. That's a bias, and that often is not proven true. So don't let this fear not let you bank and put this money in a high-yield savings account. Let this fear drive you to making an educated, research- driven decision, doing the things that we just outlined, looking for FDIC insurance, making sure, if it's not a chartered bank, that there is a big bank, or there is a legitimate bank behind it, powering it. That you don't necessarily need this cash immediately or in the future soon that you can take advantage of this high yield.

The high interest rates are everywhere, by the way. I was walking on the Upper West Side in Manhattan last week, and Apple Bank, in their window, I believe it's a like a regional bank, was promoting four percent CDs. On the poster, it said one year CD, four percent. I'm thinking that's pretty great because a lot of these high-yield savings accounts, remember, they don't guarantee the rate. The rate could drop tomorrow. Just keep that in mind. But a CD, a certificate of deposit, that has a term with like one year, that is guaranteed, that rate, as long as you keep the money in the account for that year.

There's also flex CDs. Have you heard of this category? Where there's no penalty if you take your money out before the term ends. You may not get the full year's worth of interest, but there won't be a penalty if you take the money out at month six. So do some research. There are sites like NerdWallet and Bankrate that will look up all of this for you and show you what's available. But sometimes, just asking friends. I sent my dad, and I sent my parents and my brother that Apple Bank sweet deal. That's something like my father would do because he loves to just get the most. Every penny counts.

Lucy, I appreciate the question. I appreciate the sensitivities that you have around this. We always want to sort of play on the defense. If an offer sounds too good to be true, look under the hood. By the way, that Apple Bank deal, it's not like I could just go online and open this up. I think I have to go into the bank, make a trip into the city. It's a bit of a chore. I don't know if there's fine print because the website didn't have much to read. I have to probably ask for more information, and that's going to be a whole afternoon. So I probably won't do it. But these deals are out there, such as the times when interest rates go up. This is one of the pros, but you got to do your due diligence. But don't let events like SVB and Signature cloud your judgment of like, "Oh, this is the normal thing that happens." But the lesson there for all of us is check for that FDIC insurance.

All right, next up, Cara or Cara. "I just started listening to your podcast at work." All right. She says, "I'm about to turn 50. I really started to be able to save in my early 40s after getting the executive level in my career. I have a simple IRA, and I just opened a Vanguard account. I defer the maximum amount to the simple IRA, and I would like to start using my Vanguard account to have another vehicle for when I'm older. I'm hoping that I'll be able to work at least till 65. But I'm okay if it takes longer. Ideally, I could retire before 72. What should I do to maximize and utilize my Vanguard account? I'm a total beginner in stocks and other financial vehicles."

All right, Cara. It's never too late, right? It's great to hear that you did start to invest in your 40s. Now, you're about to turn 50. Fantastic that you're maxing out the simple IRA. You can contribute up to $15,500 in 2023, and there are catch-up contributions for those who are aged 50 or over. At the end of the calendar year, you can make a catch-up contribution, which is another $3,500 this year, so a total of $19,000. If there is a match with that, then I'd say you're doing really well with that simple IRA. That's helping you to accelerate your retirement plan at a time when you really need to because, as you mentioned, you've only been investing for under 10 years. If you want to retire in the next 15, then I'd say your investment rate is probably going to be higher than somebody who has been investing for 25 years with this at the same age. You want to be investing about 20% minimum of your paycheck towards retirement.

To supplement, having that Vanguard account is great. Don't worry that you're a beginner. You don't need to have a certification in financial investing to invest well. We all know that these days, with technology and data-driven algorithm, we can lean on the software, the technology, the automated platforms to create the portfolio for us. I know Vanguard does this. So you can either call Vanguard. Or if you have an account, within that account, do an automatic – automatically create the portfolio. They probably have a survey that you need to take, a series of questions that asks about when you want to retire, your risk tolerance, your goals. Let the algorithm do all the figuring out of how much to allocate towards stocks and bonds and other investment vehicles.

This is not something that you have to feel guilty or ashamed about that you don't know how to do this. I would say for – just generally speaking for someone in their 50s who plans to retire, you could probably be like 50% invested in stocks, equities, and 50% in bonds. That’s using the 100 rule where you take 100 and you subtract your age. That number is the percentage of what you can probably be investing in the stock market. That is the risk that you could probably take, given where you are in your life stage, how much time you have left until you retire.

But, again, these algorithms will ask you questions. They'll do the figuring out. Then all you have to do is commit to contributing. As far as what to contribute, I would say minimum, 20% of your pay towards investing, towards your retirement goals. There are also calculators, and I'm sure Vanguard has them so that you can get clearer on what you'll want to have in retirement and how to reverse-engineer that based on where you are today. All right, thanks so much for your question.

All right, and lastly, Paige just switched jobs. She says she's torn on whether to leave her money in her old employer’s 401(k) plan or roll it over to her new employer’s plan. She noticed that she's getting a record-keeping fee in her old plan. She's just trying to weigh the pros and cons.

All right, Paige. I mean, I'd say the big con here is that you're now getting charged for a dormant retirement plan. Because remember, as you've left the money in your previous employer’s plan, you can no longer contribute to this plan. You are just letting it sit there, and so it's not growing. It's just getting smaller at this point.

My recommendation is that you do roll this over into either a traditional IRA so that you can continue to contribute to it. Or you roll it into your new employer’s plan, whichever you feel has maybe the lowest fees and more options. Typically, that's an IRA. 401(k)s can be more costly, but people love them because it allows you to automatically contribute from your paycheck. It makes it super-duper simple. There's a match, all the things. But with rollovers, you don't get the match, right? With rollovers, you're not contributing directly from your paycheck. You're either dumping it into an existing portfolio or you're creating a new one with it via a traditional IRA.

That choice is yours. I think it's time to move on from your previous employer’s plan. This is what happens when we leave old 401(k)s kind of sitting there for too long. After a while, there's usually a three or six-month timeframe. After which, the plan provider starts to charge you a maintenance fee or, in this case, a record-keeping fee. What they ultimately want you to do is move that money not completely out of their domain because they also probably offer traditional IRAs and other sorts of retirement vehicles.

So if you like this company, maybe it is one of the bigger ones, and they have a lot of options, you could just move it to a traditional IRA or some other sort of retirement vehicle at that brokerage house. Or move it into your new existing 401(k), which I would say the pro there, there is one, is that everything is consolidated. Everything's under one roof. It's just easier to keep tabs on it, right?

All right, Paige, Cara, Lucy, thank you for your questions. I look forward to seeing you here on Monday because we've got quite the lineup. Starting on Monday, we have Ramit Sethi, friend and friend of the show, with the behind the scenes of his new Netflix series, How to Get Rich. My homework for you this weekend is go to Netflix and binge How to Get Rich, so you can show up on Monday. Listen to Ramit and make more of the connections when he talks about the behind the scenes of the show and the characters on the show.

Also next week, Erin Lowry, friends. She's the creator of the Broke Millennial series. Many of you have read her books. She's back with some news. Thanks for tuning in, everybody, and I hope your weekend is So Money. Happy watching.

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