EPISODE 1536

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FT: So Money episode 1536, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. July 7th, 2023. Happy birthday to my Persian mom, Shayda Torabi, the woman who taught me how to be constructively afraid and also not constructively afraid. But as she says, "It all worked out, didn't it?" Yes, it did, Mom. It's going to be a book coming October 3rd, 2023 called *A Healthy State of Panic*, all of the fundamentals that you taught me growing up and how they manifested as an adult woman. I had to re-parent myself a little bit, but that's okay. Don't we all?

What's new this week? Are you on Threads, anybody, anybody? It's a Twitter rival. I think it's about 48 hours old at this point. It is Mark Zuckerberg's response to Twitter. It is a Twitter rival, yes, powered by Meta, a counter solution to Twitter and probably a way for Mark to hold up the middle finger to Elon. I am on Threads. Not really sure what I'm going to do there yet, but it is rapidly growing. I mean, people who already have 300,000 followers on this social media platform, I'm not sure we can be friends. I don't know what you're doing, but I'm not even going to bother to figure it out.

Now that we are in the month of July, I have a chance to really properly reflect on my wedding anniversary. Our wedding anniversary is June 16th. But with so much going on in the month of June between end-of-year school events, Father's Day, my son's birthday, the first day of summer, and all the festivities, my husband and I have decided that our anniversary is now officially going to be in July or August. So I wanted to share a little bit about what I've learned over the past 11 years of being married.

I am not a marital expert. But after all these years, I have learned at least one important thing, and it is this. The person you choose to marry, probably the most life-shaping and therefore important decision you will ever make. Some vital signs, three vital signs that you're with the right person, this is my humble opinion, includes, one, they respect your roots. What does this mean? They get that you have a quirky family, that you have maybe some unconventional ways that you are raised, that there are some inevitable cultural influences that have impacted your life.

Regardless of how these things continue to impact your life, how they show up, it is crucial that you both understand and respect where you come from. Context, it's not everything. But I think it can explain a tremendous lot. Ultimately, I think it encourages patience, understanding, and sometimes some comedic relief in your relationship, which I have to say, there's no such thing as too much laughter, particularly when you're married.

Second thing that I think is really fetch if you find this in a partner is that they accept your boundaries. That's everything and anything, including whether it's – you like don't want to watch Sci-Fi movies like me. You're not a beach person. Also me. You're not going to want to do everything that your partner does and vice versa. Sometimes, you will engage outside of your comfort zone for them. Other times, you just won't. You just can't, and that should be okay. The earlier you each discuss your boundaries, though, the better.

There will be new boundaries as life evolves, but the key is to communicate well and often about what triggers you, what makes you uncomfortable, and just what doesn't spark joy. Being clear about what you don't want out of life is just as important as knowing what you do want out of life. A partner who gets this and doesn't judge you or use this against you, I think, is a keeper.

Then third, they understand and appreciate your fears. This is something else that I find is really, really critical in the right partner. Obviously, I am biased maybe because I'm a fan of fear. But I think discussing fear is the gateway many times to deeply understanding your partner and their needs, what they want to protect, what they value. I talk about this in *A Healthy State of Panic.* Tell me what you're afraid of, and I'll tell you what you care about.

For me, one of the fears I shared to Tim before getting married was that I worry and I'm afraid of losing my financial autonomy in marriage because I had seen it happen over and over again in my mom's generation and even amongst my peer group. I was clear about this with Tim before we got married, and I also was clear about how this fear was helping me. It was encouraging me to be financially and professionally ambitious. I hoped that in sharing this with him, he would recognize this in me, value this in me, and see the benefits. You know what? It has paid off because we are both on the same page about this. He understands my fears and my trepidations and the values in them. It's completely paid off for us, for me, for our family.

Speaking of marriage, I just shared a story about fear and my engagement on Instagram. I don't know if I'm doing something right. I'm just lucky. But similar to the reel that I shared earlier this summer about my brilliant parenting failure at the time when I dropped my kids off at the wrong birthday party for hours and why I should do this again, it is spreading like wildfire. People are loving my fear stories. So this could be a good sign that *A Healthy State of Panic* will resonate. But it also could mean that I have finally cracked the Instagram algorithm.

But I'm pretty sure that media hack is not going to last because, like I said in the beginning, Threads is here. Threads has arrived. Everyone, including me, is on there right now. I was up until one in the morning the day that it debuted. I learned about it, I will admit, only at like 11pm when it had already launched like that morning. My husband was already on it which says a lot because he's not on social media, and he had already had made in his account. I was like, “Wait, what's this Threads thing?” Yes. So I'm a bit of a late bloomer on social, but I'm catching up. I think it's going to take off. I think people are really – they really want an alternative to Twitter. We are tired of Twitter.

Checking in with our podcast this week and also the latest amazing shows we've had so far. We had Hannah Cole on this week. If you want to learn how to hook up with a tax expert who's not going to make you feel like a complete idiot because you don't know all the things about taxes, or you're not the most prepared come tax season, I'm just like you. But Hannah is the creator of Sunlight Tax, and she talks on the show about how to find the right person. She speaks largely to entrepreneurs, solopreneurs, creative. She herself is an artist. So she knows sometimes the challenges, the unique and patterned challenges of being someone who's in the creative space and finding someone who understands what you do, understands where you're coming from, your point of view about money and taxes.

Mariam Naficy was also on the show recently, entrepreneur and Founder of Minted and Tonic.xyz. She talks about how her parents fled Iran in the late 1970s, settling in Northern California, and the adversities that they experienced. Mariam is the daughter of Iranian and Chinese parents.

Then we also had Molly Wood on the show, one of the country's top business tech and climate journalists who offered insights into some of the new innovations that she's seeing on the climate front that could benefit our environment. We talked about capitalism, why it plays a crucial role in creating these climate solutions. So just a recap of some of the hot episodes we've had on So Money recently.

All right, let's go to the Apple review section and pick our reviewer of the week before we head to the mailbag. This week, we're going to say thank you to Upward & Onward who left a review calling the show, "Wonderful reassurance. I've been a listener of your podcast for several years now, and I love the different people you interview. Also, you inspire me with your tenacity. You're setting a great example for women in this world."

Thank you so much. I'd love to connect with you, give you some time for us to chat about whatever's on your money mind. You can email me, farnoosh@somoneypodcast.com. You can direct message me on Instagram, and let me know you left this review, and I'll be in touch with a link where you can then choose a time for us to chat.

All right, let's head over to the mailbag. A lot of questions this week about investing. Let's kick it off with Jill who said, "Hey, Farnoosh. I saw you on Kelly and Ryan, and I loved that they opted to have a female advisor." Yes, we are making waves. She says, "I loved the topics you spoke about on the show and wanted to get your opinion on the stock market. I'm 59. I invested about $30,000 last year in the stock market, and I lost half of it. I don't have a huge savings, and I'm very upset about my loss. Should I leave the balance of my investment in the stock market? Or should I sell and try to reinvest in other stocks? I'm curious to know your thoughts on the situation."

All right, Jill. Thanks so much for your question. This is a very unique situation because the general rule of thumb is just let the money ride. This is the way the market works. It goes down. It goes up. It goes down again. But if you give yourself time, and by that I mean at least 5, 6, 10 years, you should see more money in the bank than when you started. I mean, in the beginning, it could be very volatile. The advice is to not give up.

But I tend to give this advice for those who are in the earlier stage of their lives, just starting to invest maybe because they want to keep it in the bank, keep it in the brokerage fund for 30 years. But it doesn't sound like you have that kind of time. You're almost at retirement here. You're approaching 60. I would like to see you retire. Maybe that's not something you're envisioning, but I want you to retire. I want you to be able to slow it down and relax during this season of your life.

So you mentioned that you don't have a ton in savings and while I don't want to say that you have to have perfect savings before you start investing. For where you are in your life stage and that you're not going to be investing this money to then take it out when you're 80 or 90 to start enjoying it, you want to start enjoying it maybe in the next 10 years. You want to get sturdier when it comes to your liquid emergency savings today. Do you have about five to six months' worth of expenses tucked away in an FDIC-insured high-yield savings account? Is the amount of savings that you have enough to cover your bare-bones expenses in case you lose your job or have a unexpected medical expense?

If the answer is yes, then with this $30,000 that you have in the stock market, I want to make sure that it is allocated appropriately to match your risk tolerance. For someone who is approaching 60, you shouldn't be 100% in the stock market with that investment. You may want to be more like 40-60, 40% stocks, 60% bonds which are fixed, which are more of a guarantee than stocks in the stock market.

So going back to that $30,000 which is now maybe more like 15, check the allocation. There are automated platforms that can create a balanced portfolio for you based on, pegged to your retirement age. So if you want to retire in 10 years, you shouldn't be taking on a ton of risk right now with this investment. It's not to say that it has to all go in cash. You can still keep some in stocks. But you want to make sure that it's balanced, that it's adjusted for risk.

Did you have someone help you when you invested this money? If not, maybe it's about getting a little bit of help. The help doesn't have to be in the form of an expensive professional advisor. It can be one of these automated platforms. Wherever you're investing that money right now, maybe there is an 800 number or a email that you can write to and say, “Hey, I just want to make sure that this money is invested appropriately, given what my needs are. I'm not somebody who can afford to lose 50% of this because I want to be able to tap this in the next 5 to 10 years. So what's the best allocation?” It can still partially be in stocks, but the rest may want to be in something that's a little bit more of a guarantee like bonds and fixed income investments.

Long answer short, keep adding to your savings if you don't have at least a six-month cushion that can cover your bare-bone necessities in case you are out of work, not making money for the next six months. As far as your investments go, make sure you're allocated properly. It’s not about ditching investing, but it's about making sure that it matches where you are in your life stage and the kind of risk that you're really willing to afford.

The robo-advisors can help with this. I like the ones that offer that additional free number that you can call and talk to someone. A lot of the platforms have this. But talking to someone and making sure that when you revisit your portfolio, you're not pulling everything out. But you're maybe making some adjustments to put some of this money that's in stocks in something that's a little bit safer. They're still investments. Bonds are still investments. But they're not going to zigzag and be as volatile and crash like stocks may. All right, Jill. Thanks so much for listening. Let me know how things go. If you've got more questions as you continue this investment journey, I'm here for you.

Another question about investing from Leanne, what are the best types of investment accounts for retirement that don't have a minimum age for withdrawals? Leanne is 35. She's married with two kids. She makes about $265,000 a year, and she saves about 40% of that. Her only debt is the mortgage. She says, “We're maxing out our 401(k)s, our IRA contributions and putting the rest of our savings in a mutual fund account. We've passed our Coast FI number, Coast

Financial Independence number. The kids have 529 plans that are comfortably funded. We have our six-month emergency fund.

I love my career, but my priorities have changed. In the next five years, I want to leave the workforce to focus on spending time with my kids. My husband would continue to work and could likely cover all of our expenses with his salary. But I want to make sure that we have investments in accounts that I could withdraw from if needed before hitting the minimum ages required for the 401(k) and the IRA. Appreciate your advice."

All right, Leanne. Honestly, it sounds like you're ready for that brokerage account. That's what I okay. First step, you take care of all the tax-incentivized investment accounts like the 401(k) and the IRAs. Then you move on to the accounts that maybe don't have tax benefits. But the pro is that you can take your money out penalty-free at any time, including the growth. That would be a brokerage account. You already have a mutual fund account that's probably sitting within a brokerage account, and you can add to that. Or start a new one with a different kind of mix of stocks and funds that are more allocated to this 5-year to 10-year goal that you have for basically retiring.

Like I told Jill, use a robo-advisor to construct this portfolio for you. Brokerage accounts, again, anyone can open this. But I don't recommend starting until you have exhausted other investment accounts available to you that do offer tax incentives, whether that's the traditional 401(k) or traditional IRA where your contributions are tax-deductible today or a Roth IRA where your withdrawals are tax-free at retirement. You've probably earned out, so you can't contribute to a Roth anymore.

But I – so then I would say a brokerage account where you can take the money in and out as you please. There are no tax incentives. Whatever you take out, if you take out earnings, you'll have to pay taxes on those earnings but not income tax. You pay capital gains tax, which is less than typical federal income tax. So wherever maybe you're investing that mutual fund, if you like the services, inquire about expanding that into maybe a more robust portfolio that is adjusted for your risk and your needs, given that you want to kind of retire, you at least in the next five years, and be able to draw down on this.

All right, another question about investing from Danielle. I didn't plan this. You all are just thinking about investing. It's on your mind. Here's the question. “Farnoosh, I love your podcast and the diversity of guests you bring on the show. I am starting a new job, making around $80,000 a year. The company is going to match my 401(k) contributions up to three percent. How do I prioritize contributions to the 401(k), my Roth, and my high-yield savings account? I live in an expensive neighborhood, and I save 15% of my salary but will be more limited once those student loan payments kick back in.”

All right, this is a smart question, how to prioritize the investments and savings, making the most of this period when her student loans have yet to kick in. Here's my advice. I want you to, Danielle, contribute at least enough to earn that match. Why not get that “free money,” right? So in your case, you want to contribute at least three percent to your 401(k). Then your company adds another three percent. So already you're at six percent, contributing to a 401(k). I like to recommend that you put away 10% or a little bit more of your income towards some sort of retirement savings vehicle or a combination of vehicles. So you've got this 401(k) at work which has this match, which is great. Everybody, take advantage of this. This is money on the table, and it can fast-track your way to getting to this 10% benchmark.

Now, at this point because you can still qualify for Roth IRA, because your income still allows you to qualify for a Roth IRA, I would participate in this simultaneously. If you were to max out a Roth IRA this year, the contribution limit in 2023 is even more. It's 6,500, up from 6,000 last year. That gets you to 10%, even more because I did a little bit of the math. Six percent of $80,000 going into your 401(k), plus another $6,500 in the Roth IRA, that’s over $10,000 a year that you're putting, you and your company, towards your retirement.

When I say 10%, that includes the match, if available to you. So this is why the match is great because it gets you there faster. I like that you already have savings, and you're already on a savings regimen of 15%. Continue this if you can. All while your student loans are on pause. I agree this is the time to accelerate the savings. Once your student loans kick in and you're reassessing what's possible in terms of investing or saving, I would look at your savings bucket. Do you have at least four to six months of your expenses shored up in that savings account? If you don't, then maybe cut back a little bit on that Roth IRA contribution a little bit because you're investing more than 10% altogether by maxing out the Roth and doing the three percent in your 401(k).

But maybe your student loans kick in, and you've already got four to six months in savings. You're already investing 10% to 12%, and you don't have to keep putting 15% towards savings. You can put that now towards your student loans. Does that make sense? So it's about, first, optimizing that 401(k), supplementing it with the Roth because you can, continuing to save 15%. All while your student loans are on pause.

When the student loans come due, you take a beat. You reassess. Can I keep things going as I have and pay my student loans? Or if I have to really make a concession, I think that you look at your savings. Do you feel like you have enough there? If you don't, then you take a little bit of what you were contributing to investing, and you put it into savings, and then pay your student loans. It's a little bit of a dance. But who knows? By the time your student loans arrive, you might be making more money. Great question.

Okay, next up, Jenny wants to know whether or not she should have her daughter, who is a senior in college, take on some student loans because maybe that will have her have some skin in the game. So here's the fuller question. “Farnoosh, I'm a long-time listener of the show. I'm so grateful for all the advice you've given over the years. Here's my scenario. My daughter is approaching her senior year of college, and we just ran out of 529 money. I have a second daughter in her junior year of high school who has approximately $42,000 in her 529 plan.

Additionally, I started a HR consulting business this year. To prepare, our family saved about $100,000 in cash. However, I hate to touch it while I'm ramping up my business. My question is should I have my daughter take out a loan for her senior year of school? I do like the idea of her having a bit of skin in the game, but I don't like the idea of her being in debt. I'm 54. My husband's 49. We would like to partially retire in about five years.”

All right. So my friend, Jenny, I would say, in this case, I would feel comfortable having your daughter take out a student loan for her senior year. My parents did not believe in student loans, at least for undergraduate education. This was years and years ago when college wasn't, of course, as expensive as it was today. But even back then, it was impossible for my parents to send me to a private school and pay the full tuition. So they steered me towards a public school where I also was able to get a scholarship, and they were able to cash – they were they were able to pay for that out of their paychecks.

Fast forward to today, the college affordability quotient has completely changed. It's gotten worse, and I think that student loans sometimes do make sense. For your daughter, to take out a student loan just for her senior year is much better than for all four of the years, right? Hearing that your second daughter, who's about to go to college, has $42,000 in her 529 plan, I'm thinking that's not going to cover her four-year tuition, depending on where she goes, of course. But on average, that might cover one to two years of tuition, again, depending on where she goes.

So to the extent that you can continue to save for the second child to give her a little bit of a similar financial experience as your eldest daughter wouldn't be fair to fully pay for your daughter who's the older daughter. Then the second daughter is saddled with debt going into college. I am a parent of two kids, so it's always about like making sure that we're being “fair” and equitable to the both of them. So that's an aside.

But mostly why I think it's important to take out a little bit of debt for this final year is because I don't want you to sacrifice your liquid savings. You're starting a business. The first year is always unpredictable, although you're projecting to make, you said in your notes here, $250,000, and your husband makes $100,000. You just don't know, right? So to ensure the stability of your household, keep that cash liquid.

It’s just a year's worth of student loans. I said this already. What's that going to be; $50,000, maybe $60,000, maybe less? I'm not really sure what her costs are, but the good rule of thumb is to keep your student loan debt. I know this is an eye roll because a lot of us have more than this. Try to keep it to no more than your anticipated first-year salary out of college or 10% of your take-home pay, that monthly payment. In that way, she can afford so many other things. You may decide that once she graduates, and maybe your business is doing really well, that you help her pay off that student loan. Again, that's your choice. I don't shame parents for helping their adult children financially, especially when it comes to things like student loan debt. If it's credit card debt, maybe not.

But your daughter having skin in the game, to your point, is not a bad thing because, guess what, if you tell her now before senior year that, “Look, this is the financial picture for us. We didn't want this to happen, but here we are. We think we need you to take out a student loan.” Well, she may get creative here. She may try to graduate early. She might apply for a scholarship. She might get a job to pay the tuition, while she's in school or at least some of it.

Knowing now what her situation is going to be next year is very important. So the earlier you can talk to your daughter about this, the better because then she can brainstorm, and she can start to make some money moves. But keep your cash liquid, take out a small loan, and make it federal if you can, to the extent that you can just take out federal student loans. Fill out that FAFSA for next year. Do it as soon as you can. Your daughter's going to be okay, and you're going to be okay with this plan. Thanks for your question. Good luck and thanks for your question.

Okay, lastly, not a question about investing but pet insurance. Yes, this is a little bit of a pivot here. “Hello, Farnoosh. I am one town over from you in West Orange, and I'm a long-time fan of the show. My family got a puppy last year, and we understand that if we want pet insurance, we need to get it as early as possible before any pre-existing conditions emerge. Is pet insurance worth it?”

All right. Well, I'm going to give you a studied answer. I researched this. I am not a pet owner, and I've never been a pet owner. So I don't have personal experience with this. I have friends who have had pets go through extensive surgeries and stay in hospitals for extended periods of time. It can be very expensive to keep a dog on life support. Let me just say that. If we're talking from a purely financial standpoint, I think, and this is my recommendation based on no personal experience but just looking at like the cost of pet insurance and the likelihood that you're going to use it, you may be better off just having more money in your savings account, putting away a little bit extra every month for this probability.

The average pet insurance is about $30 a month. So in a 10-year period, that's $3,600 in premiums. If your dog has a history of cancer in their line, or that breed is prone to getting sick, you may come out ahead with this. You may want to get pet insurance. So this also depends on your dog and the breed and all that. Otherwise, the pet insurance company comes out ahead.

But I know that this is also an emotional question. If this gives you peace of mind to know that you have this, if you can just swing $30 a month and know that this way, if something happens to your pet, at least you're covered. Not entirely because I don't think pet insurance is a silver bullet, but that there is something there to supplement the cost of taking care of your dog. If it gives you peace of mind, then it's money well spent.

A few pieces of advice on what to ask before buying a pet insurance plan, you want to ask if it also includes preventative care like physicals and immunizations. Is there coverage for accidental injuries? Are there any exclusions to the coverage? What about pre-existing conditions? As humans, they can't use that against us anymore. But pets, I'm not sure. How much are the deductibles, the co-payments, and other fees? What is the totality of the cost? Is there a limit to how much the plan will pay out each year? How are the claims handled? Does it have to be out of pocket first, and then it gets sent to insurance?

It's not to assume that this pet insurance will work in the same way as the human health insurance policy that you have. So really important to just compare, look around, ask other pet owners. If you are a member of a Facebook group in your community, this is a great question to throw to your neighbors. See what everybody else's experience is. When you're at the dog run, ask around.

All right, that is our show this Friday, July 7th. Thank you so much for tuning in. I will be busy next week, recording the audiobook for *A Healthy State of Panic*. Yes. So if you're more of an audio consumer probably because you listen to this podcast, you like podcasts, you will love the audiobook. It will actually include excerpts from So Money. I have a handful, a dozen or so excerpts from this podcast throughout the book. So I thought wouldn't it be cool to actually air that audio. So that's going to be something special to look forward to. I'll be reporting on it live next week. You can catch it all on Instagram and maybe even Threads. Got to figure out what I'm going to be doing there. So maybe that's part of what I'll do. Until then, I hope your weekend is So Money.

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