EPISODE 1632

FT: So Money episode 1632, Ask Farnoosh.

[INTRODUCTION]

ANNOUNCER: You're listening to So Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas, or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to So Money.

[EPISODE]

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FT: Welcome to So Money, everybody. Friday, February 16th, 2024. Happy Valentine's Week. It was also my birthday week. I turned 44 yesterday. Took the day off. I'm actually recording this on Wednesday, so I haven't had my birthday yet, but I recorded it early, because I didn't want to work on my birthday. I usually record this show, this Friday show on Thursday afternoons. Here I am predicting the future, and I think it's going to be a good birthday. I've got a nice dinner that I'm going to be having with my husband and some close friends, and we got a babysitter. I spent the day, if all goes well, again, predicting to my future. Working out, having a lazy lunch, and maybe hitting up the makeup store.

I didn't tell anybody this, but I had a bit of a quiet spending, or I should say, non-spending. I quiet budgeted in January, but I didn't tell anyone. It was like, I guess, the opposite of loud budgeting. I do this thing periodically, where I feel like, I have to take it down a notch with the spending. There was just a lot of spending in December, which I think a lot of us can relate to. I wanted to just level set with not buying dumb crap that I find on the Internet and mindless spending.

Even if I do need something, like concealer, do I really need it? Because I'm not going anywhere. I have perfectly good concealer that maybe is not exactly the right tint. On my birthday, I'm going to the makeup store, because I feel like, I've earned it at this point. On the topic of loud budgeting, opposite of quiet budgeting, loud budgeting is this new TikTok phenomenon. It started on TikTok where people are protesting in a kind way. They're being vocal about their financial goals. It's usually coming up in the context of social events, social peer pressure. “Hey, let's go to brunch. Let's go on that ski trip. Let's go out all weekend and blow all our money that we've earned during the week.”

Maybe in the past, you would have done it. Or in the past, you would have lied and said, “Oh, I can't make it. I don't feel well.” Now people are saying, “I'm sorry, that's not in my budget. I have to pay off my student loans, or I'm buying a new car, or I'm just trying to be more conservative this month. I'm going to pass.” Feeling not embarrassed or shy about it, which I think is a really good thing.

I actually dedicated an episode to this on Wednesday with Stephanie Vaught, who's the Founder of Social Money Finance. It's a financial empowerment company, consulting coaching company that works primarily with Gen X women. Shout out to my Gen X women friends. We talked about the merits of loud budgeting, and when is it maybe better or more to your advantage to keep some of your spending ambitions, your goals, your financial priorities to yourself? Is there ever a good time for that?

Sticking with the TikTok, we also touched on a viral video of a young, a 29-year-old single woman who was distraught, filmed herself talking about, she has three jobs. She can't make ends meet. She's sinking further into credit card debt. What do we think about that? Given no other context, obviously. I feel like, you're going to put something like that on TikTok, you're opening the door for some thoughts, some opinions. Largely people were empathetic, and so am I, and so was my guest.

We also, being the two Gen X women in the room, we also had some other ideas for this young woman. Not to say, hey, the world is perfect and the systems aren't broken. They certainly are. The cost of living is out of control. If you're 29, single, white woman, college educated, you have three jobs and you can't make ends meet, and you don't have dependence, I think we need to go to your budget, right? We need to look at what's coming in and what's coming out and not assume that just because you're working three jobs, that things will be fixed. That was our Wednesday episode.

On Monday, before Valentine's Day, I decided to talk about why a man is not a financial plan. I've been waiting to do this episode for a while. It was based on an article, an essay I read in the New York Times in, I think, it was December, about a woman who got divorced. in the process of getting divorced, was left scrambling financially. Also, has two kids. This essay was really just another sign, another piece of evidence as to why everyone should have their own money. In particular, women who are often the ones relinquishing their financial agency over to their partners, their male partners, and then paying the consequences.

My guest on that episode was Maggie Johndrow, who's a partner and financial expert at Johndrow Wealth. She sees this story that I read about in the New York Times play out all too often. She's too often helping women post-divorce, or in the midst of divorce, only then try to get their financial lives in order. It was a very popular episode. If you haven't checked it out, or shared it with all your friends, please do as a public service.

Let's go to the Apple review section and pick our reviewer of the week. This week, we're going to give a shout out to CA Gregory, who left a review a couple of weeks ago saying, "This podcast is just what I needed." This person gets a free 15-minute phone call with me. Here's the review. "I remember one of the first episodes I listened to of Farnoosh, around the time of the onset of the pandemic, and I felt a hole being filled and what I was missing in life. Her show has been a huge part of my financial awakening and journey. While I'm not 100% sure where I'd like to be, this show has 100% increased my financial literacy and especially appreciate Farnoosh's recent episode of how she manages money in her marriage. We need more transparency like this in the industry, especially since not all women make more than their husbands. I appreciate her shedding light on these dynamics, as they can be subtle and subconscious. Truly hope to someday be able to get on a 15-minute call with her. Thank you so much for the work you do and for holding the space that you do."

CA Gregory, thank you so much. Well, your dreams have come true. The someday is here. Get in touch with me. Email me, farnoosh@somoneypodcast.com. You can also direct message me on Instagram. Once you get in touch, I will send you a link to pick a time for us to have a call. I do this every week, everybody. If you're just listening to this show for the first time, or not familiar with what's going on here, I pick a reviewer every week from the Apple Podcast review section. then this person gets a free call with me, as long as they do get in touch.

Sometimes they don't, which really bums me out. Please, stay tuned. Listen for your name being called. There's a good chance it will. Maybe not right away, but in good time. All right, let's go to the money mail bag and pick our questions this week. First, a question from Jen, who emailed me from lovely Oklahoma. Jen and her husband, she says, have been married for 10 years. They live in Oklahoma and they've worked in the Midwest the entire time. This is important context, she says, because they do have a lower cost of living and a lower pay range. They've always made, combined, less than a $100,000.

Over the last six years, the couple has had two kids. They've moved into a small old home to fix up. Now, Jen says, "At this point with inflation, we live paycheck-to-paycheck. With two daycare costs, plus student loan debt, a car payment and credit card balances, we cannot figure out how to get ahead and gain any extra income to start building wealth. Is there anything we can do to invest a little, so that in a few years, we will have some extra money to pay off debt, so we can get ahead quicker?"

Jen and her husband both have a 401k through work, which they contribute very little to, because they're trying to pay down debt. They contribute a small amount to a 529 plan for their children. All right, Jen, thank you so much for your question. I know times are very overwhelming. You and your husband are in it. Two kids in daycare, two full-time working parents. I don't care where you live. That's a lot. The expenses do pile up.

My advice for you, there are multi steps here, Jen. I want to preface that there's not going to be a silver bullet to this, as you know. I actually don't think investing is the right move, because investing, as far as I like to invest is I like to invest for the long-term, because when you're investing for a short-term goal, you have to be very careful, because if you invest in the stock market, for example, that money could lose tremendous value and not regain value in the time that you need it and the time that you need to use it.

Let's put that aside for a second. I think the priority here is to get your credit card debt specifically, not the student loans, or the car payments, but the credit card debt out of the picture. If it helps, I would work with a credit counselor. The National Foundation for Credit Counseling is designed for this purpose. They have clinics all over the country. You can meet virtually with a certified credit counselor, who's going to be able to look at your budget, look at your credit card debts and probably, some of your other outstanding debts and help you come up with a plan and then work with you as an advocate to work with you as a middle person between you and your lenders and creditors to bring down the debts, or get rid of fees, get reduced interest rates, etc., to just make the monthly payments more manageable and then come up with an 18-month plan, a 24-month plan.

I think it's important to work backwards. Ideally, you'd want to be out of debt probably tomorrow, but realistically, this is going to take time. But giving yourself 18 months, 24 months, I think is doable, but along the way, you'll have to make some trade-offs. What are those trade-offs? I have some ideas, and some of these aren't even trade-offs. It's just maybe a little bit of problem-solving. One, I would go to the daycare, if you haven't already, and ask for a sibling discount, or some sort of payment plan, savings. You have two kids there. You're one of their highest-paying customers, and some daycare facilities and preschools do have a different rate for siblings, and maybe you're already benefiting from this, but I just wanted to put that out there.

I wouldn't be contributing to a 529 plan right now. I personally would not. If I had credit card debt and I was living paycheck-to-paycheck, I wouldn't be worrying about a 529 plan yet for my kids. It's a nice to have. It's not necessary, especially right now, as you are grappling, I think, bigger financial demands. Even if it's just $10 a week, or whatever you say, it's a little bit. Whatever you're doing in the 529 plan, reroute that to your credit card balances.

I agree with you that putting just a little bit towards the 401k right now is all you can do, and probably all you should do. Here's the thing, if the debt has more than 10%, 12%, 14% interest, which I'm sure it does, because it's a credit card right now with rates where they are, the rate is higher than what your 401k will probably return you ROI-wise over the next couple of years, just historically speaking. The smart money pays off the debt. That's where your money is going to get the most mileage.

Then here's the beautiful thing. Once that debt is out of the picture, you will have them have that money to be more aggressive with your investments, with the 401k, maybe even then start to invest for college. Finally, I want to talk about making more money. Side hustles right now may not be feasible, because you're too busy working parents. But thinking about down the road, is there a way to pivot, transition, or switch jobs to make more money? Where you're working right now, is there potential to make more money?

If you haven't considered this, consider it. Talk to your manager. Let them know that you want to be rising through the ranks. Because truthfully, I think you can do what you can do with your budget. But at a certain point, it still may not be enough. You want to be able to enjoy your life. Is there a way to bring in more money?

Tackling that credit card debt, priority. Working with a credit counselor might be a way to do it faster, more efficiently, and to feel supported along the way. Stop contributing to the 529 plan for now. Reroute that money towards the credit card payments. Talk to your daycare about savings. Finally, think about how you can make more money. I appreciate you listening to the show and sending your question along. I think this Q&A could help a lot of people out there.

Similarly, I think this next question is going to relate to a lot of listeners, who may be classified millennial. Maybe you're in your late 20s, early 30s. Our listener, Caroline, wants to know what to do with her financial life. She's 28, single and says, “I don't see myself having children until I'm in my mid-30s. What would you be doing if you were me?”

Well, I'll tell you what I was doing when I was 28. I write about this in *A Healthy State of Panic*. I became very afraid of my prospects in the future, my financial prospects, my career prospects, if I were to just climb the corporate ladder, try to work my way up through the news ranks. I had ambitions in my 20s to become a network anchor. Then I wrote a book called *You're So Money*, which took me out of that mindset of just becoming a network anchor, although that would have been a fine career. I realized I had a lot more to give. I had a lot more of an impact that I wanted to provide. That I could only really do that if I wasn't within the confines of working for a corporation.

Luckily, I got laid off and I was forced to really follow through on that hypothesis, which is later that summer, I started a company and I began freelancing and bringing in my own revenue streams as a thought leader and as an expert. My fear was really about what if I don't start to make more money? What if I don't really start to have more autonomy and agency in my career? Because when I do want to have kids and I really did, like you want to have kids sometime in my 30s, I want to be able to call the shots. I want to be able to go on field trips. I want to be able to stay home for a little bit, go back to work and not feel the financial consequences. I wanted to be able to map out my own maternity leave, because quite frankly, if I was to just leave it to the decision makers at work, I saw too many women come out of HR in tears, too many pregnant women, or about to get pregnant women realize, shockingly, how little time they had off from work after having a child and/or adopting a child, or growing their family.

I mean, you need time off, both parents. Anyway, I saw this over and over again. I was like, this blueprint is not going to work for me. I used that really healthy fear that I had about, what's going to happen in my life if I just don't take control already? That fear drove me to vow to make as much money as I could and save it and invest it and build a career for myself where by the time I was going to have a child, I would be able to have seniority and I would have money, which would provide me with options if I wasn't satisfied. Let's say, I was still working at a company and they weren't going to give me ample time off, I had savings to be able to afford my own leave of absence, or I would have money to hire the right help that I would need to support my life at home and my work.

Never into the equation that I factor that I was going to be dependent on anybody. I hoped that I would meet a partner and we could build a life together, but I never expected that to happen, and so I didn't plan for that. I really put all of the responsibility on my plate. I think that was the practical, realistic thing to do. I see, unfortunately, still so many young women thinking that their only way to financial freedom is to marry someone who can support them. That was the model in the 19th century, 18th century, and before, but times have evolved.

If I was 28 again, I would do it all over again. I would prioritize me, my financial empowerment, my career empowerment, so that I could arrive at motherhood with more control. Now, there's a lot that you can't control and I defer to that. But to the extent that I can save and invest and earn in my 20s and in my early 30s before I choose to start a family, and by the way, that's its own road. I had a miscarriage, luckily just one, but there are potential fertility issues that you may not foresee. It's hard to tell at 28 what's going to be your situation and your late 30s, or mid-30s when you might want to have kids.

Anyway, all this to say, prioritize you. Don't worry about the fact that you're single. I worried about that too when I was in my 20s. I'm like, “You know what? This might never happen for me, getting married.” It did. But I also accepted that it might not. It didn't mean that I couldn't have a family, and reminding myself of that. Thanks for your question. Again, I hope it helps anyone out there who's listening, whether you're 28, or 38, or a 108, the fact of the matter is sometimes life's blueprint, the plug and play of life, you're going to follow in someone else's footsteps. You're going to do what others are doing, because you think that's going to be your recipe for success. Chances are it won't be.

It's our responsibility to take a step back, have that foresight to think about, what it is that I actually want? What are my values and how can I map for that starting today? What do I absolutely need to start doing today that I can control, to increase my chances of that success happening for me in the future, because it's not going to be handed to me on a silver platter?

Okay. Franklin writes in, “Am I better off making an additional principal payment on a mortgage each month, or investing that money in an index fund, letting it grow until I have enough to pay off the mortgage?” All right, Franklin, I'm not a proponent of paying off your mortgage sooner than later. I feel like, especially if you got this mortgage during the pandemic, or you refinance during the pandemic, your rate is could be as low as 3%, maybe even less. I'll tell you what? You put my in an index fund and you let that ride during the 30 years that you have the mortgage in the stock market.

I mean, I'm not a soothsayer, but historical data does imply that that money will grow far more than 3% that the mortgage is charging you. I mean, you can just run the calculators. You can go to a site like, investor.gov. They have some cool calculators there. I always go there to see what I could make in the stock market and I would play with the interest rates. Average S&P 500 index return, it has been about 7% to 8% that's accounting for inflation over 30 years. You plug in 7% and see what that extra mortgage payment into an index fund every year could yield you.

then you put that towards the mortgage payoff calculator and see where that leaves you. I think the math is clear.

Now, I know that debt carries an emotional pain for a lot of us. If this was credit card debt, or a high-interest loan, I'd say, yeah, maybe you look at putting an extra payment towards that principle, because that's an expensive piece of debt. Your mortgage chances are is not an expensive “liability” at the moment. 3%, 4% even, you're good. I've never been one to be like, “Oh, I have a little bit of extra money. I should pay down my mortgage.” I've always been in the camp of, I'm going to put it in the stock market, especially if I'm still at a place where I have time to benefit from the growth, the potential growth in the stock market over time.

Okay. Lindsay here is 63-years-old. She has a full-time job earning 55,000 a year. She has about $25,000 in credit card debt, no savings or retirement. Again, 64-years-old, no savings or retirement. Her company does offer a 401k, but she's not eligible until next year to contribute. She wants to know, is there only option for doing better financially to pay off her credit cards, or are there other options that she should look into while paying off the credit cards?

All right, Rebecca, yes, paying off the credit card debt is the priority. After that, I would look to save just an emergency account for yourself. If you're healthy and you do want to continue working and can continue working, have that be a real part of your retirement plan, that you're going to be bringing in money to support yourself. Unfortunately, for those of us who have no savings, or investments and we find ourselves in our 60s, it's never too late to save or invest. But practically speaking, you need to bring in money somehow every year to support your living.

I would also recommend that you go back and listen to our episode on how to live on just your social security, which you may already be receiving. It's tough for me to say to someone in their 60s, “Hey, yeah. Open up that 401k,” because you need money today and in the future. If there is future money that you want to set aside for yourself, so when you're 85, you have some money, then that money I would invest. But you really want to save whatever you need for for today. Number one, pay off the debt, number two, build an emergency account, at least four months, five months, six months of savings, and then look to investing. By then, maybe you have access to the 401k. Go to the social security website. If you haven't yet started to draw down on your social security, see what your estimated payments are. It could be interesting to find out.

Last question, also related to retirement and investing, Sheila says that she and her husband are both 37. Both work for municipalities. “Assuming we stay in our jobs,” and she says, “We very likely will,” she says, “We're going to both retire with pensions equivalent to 80% of the average of our best three years at around age 64. We are already contributing 10% pre-tax to the pension plan. What other savings and investments do you recommend and how much should we be contributing? We both have access to 457, or 403b plans, though we're not contributing to either at the moment. Thanks for your input.”

All right, Sheila. Thanks for writing in. How nice that you're going to get this pension and 80% of your average best three years is really good. I would say, that if you have the capacity to continue to invest, first thing I want to do is look at those 457, or 403b plans and see if I can get a match by contributing to either one of those. If your employers will be offering a match, worth exploring. Because if there is a match, that's where I would start. I would start by contributing extra to those employer-sponsored retirement accounts that offer you a match for every dollar that you contribute, they'll put in a portion.

I think that's very unique to employer-sponsored retirement accounts. You're not going to get that probably anywhere else. Otherwise, if you qualify for the Roth IRA, meaning that you don't make too much, as we know there are income limitations to contributing to that Roth IRA, I would, because this is an opportunity for you to invest today and take that money out in retirement tax-free. I like the idea of supplementing your pension in general, if you can. It's good to have diverse sources of income in retirement.

That's our show, everybody. Thanks so much for tuning in. I'm looking forward to another year around the sun. As your host of this podcast and so much more in store for us this year, I have a good feeling. Thanks for tuning in, and I hope your weekend is so money.

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