EPISODE 1638

[00:00:00]

FT: So Money episode 1638, Ask Farnoosh, with special co-host, Georgia Lee Hussey, Founder of Modernist Financial

[INTRO]

[00:00:36]

FT: Welcome to So Money, everybody. It's March 1st. We have made it to the end of Q1 or the last month of Q1. If you're business-minded like me, I look at the year in sort of four segments, and that's how I pace myself because it's very easy to get bogged down in the day-to-day. But if you think about your year as four chunks, I don't know, it works for me. Of course, March is Women's History Month. On this podcast, I have a lot of great episodes just waiting to be heard, women who inspire me; Giovanna Gonzalez, who has a new financial book for women, specifically Latinas. We're going to talk about career advice and how to negotiate with Eliana Goldstein.

We've got the founder of the 5 Minute Bookkeeper because we know, as we approach tax season and as we look ahead to just simplifying our financial lives in our careers, in our businesses. I have a guest who's going to talk about what she's invented to support overwhelmed entrepreneurs, the 5 Minute Bookkeeper. We have the founder of M.M.LaFleur, the clothing company, Sarah LaFleur. That was actually a live podcast that I've recorded in New York City at an M.M.LaFleur store on the Upper West Side. Super fun. We'll talk to Amy Sheonthal in March, who's the author of a new book called *The Setback Cycle: How Defining Moments Can Move Us Forward.*

If you're not subscribed yet to this podcast, please hit that subscribe button. That's the best way to ensure you never miss a fresh episode. This is a special episode, too. We have a co-host today, my friend, Georgia Lee Hussey, who is a financial expert and Founder of Modernist Financial. We're going to talk about custodial brokerage accounts. We're going to talk about index funds versus target date funds, health savings accounts, why she calls them better than Roth IRAs. I was today years old when I discovered that there is an investment vehicle potentially better than the Roth IRA.

Ahead of that, let's talk a little bit about what you might have missed on the podcast this week. On Monday, we sat down with Hannah Cole, who is a tax strategist and Founder of Sunlight Tax. She gave us the inside scoop of how the IRS operates. I've always wondered. What are the auditing red flags? How can we prevent an audit? Not because we're hiding anything important from the IRS. We just want to fly under the radar. We know audits take time. They're annoying. They're scary. She offered some really important things to consider as we're filing to do just that. Stay under the radar and potentially avoid an audit.

She also discussed how with April 15th being the tax filing deadline, that also means it's the deadline, good reminder, to invest in your IRA for the 2023 tax year. We'd get until the tax filing deadline to maximize our IRAs for that year. You get until April 15th. If you decide to skip this $6,500 investment or you're like, "I'll just do it later after the deadline," Hannah has some very compelling math. She calculates that this one skipped year is going to mean $130,000 worth of lost investments in the future. How she gets to that number, you'll have to listen to the episode. But let me tell you, I'm maxing out my IRA this year. You can be sure of that.

Then on Wednesday, we sat down with serial entrepreneur, Stephanie Cartin, who's the Co-Founder of Entreprenista. As you may already know, but since you listen to this podcast or you follow me in all the ways, I'm partnering with Stephanie later this May. I'm going to be heading to the Entreprenista Founders Weekend in Orlando, where I'll be talking about personal finance and networking, making friends, new friends, women founders, women business leaders. Want to join? You can go to entreprenista.com/foundersweekend. Use the code Farnoosh 150 for $150 off your ticket.

Let's head to the mailbag and pick our reviewer of the week. This person will get a free 15-minute money session with me. Varaxy left a review entitling the review, "Seeing myself in and my financial future. I've listened to Farnoosh for several years now and have appreciated her sharing her financial experience and wisdom rooted in realistic perspectives. As a child of refugees and immigrants, it's so important to hear from someone with similar stories and backgrounds. Now, as an adult and professional, I feel I'm able to leverage this knowledge to create wealth for myself and my family's future, which is a big deal coming from a low-income background. Grateful to So Money as a great resource to achieve my goals."

Varaxy, V-A-R-A-X-Y, if you're listening and you recognize that pen name, that pseudonym, get in touch. I'd love to offer you a free 15-minute phone call where we can talk about your financial goals, your career goals, whatever you want. It's your time to hang out with me. Just get in touch. You can email me, farnoosh@somoneypodcast.com. And/or you can direct message me on Instagram @farnooshtorabi. Let me know you left this review, and I'll follow up with a link where you can pick a time for us to have a call.

All right, let's head to the mailbag and bring on our special guest this week. It's Georgia Lee Hussey, Founder of Modernist Financial. Hey, Georgia. Always nice to have you here.

[00:06:09]

GLH: Oh, thank you. It's always such a pleasure. I love fielding the fabulous questions from your community.

[00:06:15]

FT: Yes. We've got questions today about opening up a custodial account for a nephew. Lots of lovely people in the audience. We want to also learn a little bit of the nuanced differences between and also when to open, let's say, a CD versus a high-yield savings account. I'm getting this question a lot. I don't know what's in the zeitgeist. I don't know what's happening. I think just rates are good, and people kind of want to know where's the best place to optimize their savings and then target date funds. It's going to be a little bit of a refresher Ask Farnoosh, as we need that sometimes.

You brought up the great idea of talking about our money in the context of the election. I know a lot of your clients and the conversations you're having with clients is around gifts and donations and contributing to causes, as we are in a very important year, politically. First, let's start with our friend in the audience who wants to open a custodial account for her nephew. The plan is to contribute to every birthday and the holidays, rather than buying random toys. Got to love that, yay.

There are other relatives that are interested in funding this account. Her question is can these other relatives make contributions to the custodial account that she has opened and how? How do they actually do that? I know with 529 plans, a lot of the plan providers will create external links. People can contribute. Is that also true with a custodial account? Which, by the way, a custodial account, let's explain, right? That's essentially a brokerage account that you're opening on behalf of a minor. That the parent or, in this case, the aunt is contributing. They designate the beneficiary as that minor.

When the minor reaches, depending on the state, I think it's like 16 ,18, then the custodial account becomes theirs, and they can manage it entirely. Great way to invest for your loved one's future, I suppose. But the caveat being that it is going to be all theirs when they're not even able to vote yet, in some cases.

[00:08:27]

GLH: Exactly. Yes. I think that's where wanted to start with this question because we basically never recommend custodial accounts for our clients because of the question of the asset becoming the child's at 18 or 21. We've seen people come into Modernist with custodial accounts that are pretty significant. Personally, I would not want to have been handed 50,000 or 60,000 dollars at 18 years old or $10,000.

I think if this beautiful intention of this reader is to care for this child's future self, I would highly recommend actually a 529. You can transfer custodial assets into a 529. Especially with the wonderful changes that the Biden administration put through for the 529 with being able to roll over unused 529 assets into a Roth, there's really no reason to have a custodial account, in my mind, anymore. You can take contributions out of a Roth IRA, and it grows tax-free forever.

[00:09:31]

FT: Yes. Ever, ever, ever.

[00:09:31]

GLH: Forever. There's nothing a financial planner loves more than that. To your point also about the links on a 529, I would just – if I were giving advice to this person, I would say move it to a 529. You own it. The child is the beneficiary of it. You can use it for college. You cannot use it for college and just pay the gains on the growth, fine.

[00:09:57]

FT: Which is what you would do with the custodial anyway. You're paying those capital gains. Is there any benefit to opening up a custodial account? I mean, there’s flexibility.

[00:10:06]

GLH: I don't like them.

[00:10:07]

FT: You just don't like them. Okay.

[00:10:08]

GLH: I just don't like them. I don't know why one would do this. If you really want to grow assets for a child, you could also have a separate account that is still in your name that you just earmark for that child. You still own it and have control over it. But I don't know why we would let go of the incredible tax benefits of a 529 in lieu of a custodial account. I think there's a lot of misinformation about 529s, and people are scared of them, like they have to be used for college or there's a huge penalty. I mean, there can be a small penalty if you pull it out early, et cetera. But there are so many fabulous rules around the 529 to make them flexible.

This Roth rollover, y'all, if you put 35k –

[00:10:51]

FT: Yes. Let’s talk about that. Yes. Yes.

[00:10:53]

GLH: Yes. You can roll over 35k of an unused 529 to a child. You have to do it over time. But we did the numbers on that. If you did that $35,000 at around age 21 and it grew, I think we had an eight percent number, and it grew until they were 65, it would be worth $700,000 at 65. That is a gift. That is a gift.

[00:11:21]

FT: You’re talking about $35,000 rolled over. That's the limit. That money invested –

[00:11:29]

GLH: Growing tax-free for the rest – for the next, till they're 65 years old. That is a ginormous amount of money. I would just never put that aside because compound growth on a tax-free account for 45 years, it’s just so much money.

[00:11:49]

FT: With that math, are you contributing every year the max to the Roth, in addition to that 35k **[inaudible 00:11:53]**?

[00:11:53]

GLH: That's just that 35 grand. Compound interest, my friends.

[00:11:56]

FT: Oh, my God.

[00:11:57]

GLH: What Einstein said, "He who understands it earns it. He who doesn't understand it pays it."

[00:12:02]

FT: Oh, my God.

[00:12:03]

GLH: He called it the eighth wonder of the world.

[00:12:03]

FT: The eighth wonder of the world. Yes. Oh, my God. Our friend in the audience, I guess, I love that we gave her something she wasn't expecting. We took a little bit of a U-turn with that question. All right, out of curiosity, moving on, when does it make sense to open a CD versus a high-yield savings account? I know that the biggest difference is probably the liquidity issue. The rates are pretty competitive. I've seen with CDs as high as five and a half percent right now. Even high-yield savings accounts in some cases, depending on maybe the minimum deposit requirements, it could get that high. When do you recommend CDs over high-yield savings?

[00:12:42]

GLH: Sure. I would like – again, backing up a little bit. I think this question is a wonderful question in relationship to the financial noise I'm hearing in the media right now. There are both ways in which we're being advertised to and the sort of excitement of actually having a healthy interest rate environment for the first time in basically 20 years. All great. I think people are remembering like, "Oh, interest rates are high, which is not great for my mortgage. But it's great for my savings account," right? We're remembering the complexity of the benefits and the costs of interest rates.

What I think I hear this question most often in relationship to is I got an ad from my credit union, and there's a CD paying X, or there's a teaser rate, or there's a yada yada. I think what we need to do as consumers is go back to your first point, liquidity. All investment decisions come from a liquidity question. When do I need the money? Time horizon. This is a basic core concept of investing. If you don't need the money – I'll put myself in your situation. If I don't need the money for three years, and I'm going to bet that this is the highest interest rates they're going to be, and I can lock in my CD at five and a quarter, and I know I don't need the money. I do not need the money. That is a hard thing for most people to say about cash.

If you can say that and let's say my – Modernist offers a high-yield savings account. We don't get paid on it, but we offer it out to clients and friends of the firm. That pays five percent. I'm saying I'm going to make 25 basis points, 25.25%, in order to lock my money away for three years. I personally would not do that. I'm not making enough money on that lock in order to reduce my liquidity. I would rather make five percent on an online savings account and be able to pull my money out and move it around as much as I need to.

Now, this is me thinking as a as a business owner, right? Liquidity, cash is queen. We like to say, and you got to take care of her. I want to get the best interest rate I can, but I want her to also be free to move around if she needs to. I generally – these CDs, maybe I expect high-yield savings accounts rates to go down as interest rates go down and the Fed adjusts them. Everybody stops saying the R word all the time. That is recession. I think that's going to shift.

If you really do – let's say you're putting money on a down payment in three years and you're like, "I really don't need this money," and you feel like you can lock in at five and a quarter, then I would probably do it. In that instance, that would make sense to me because I do think my high-yield savings account is going to be four percent by next year.

[00:15:31]

FT: Yes, yes. That's where it's trending. In summary, liquidity trumps the interest rate in many cases because the way that life works is such that it's unpredictable, and cash is queen, having access to that. Of course, what happens is you get this CD, and you only get that rate if you keep the money in there for the minimum, for the term, whether it's 12 months, three years, whatever it is.

In the Great Recession of 2008, 2009, I was seeing this creative product. I don't know if they're really out there anymore. They're called flex CDs. What they would say is, okay, we're offering this rate. It's a six-month term. If you have to pull out sooner, there's no penalty. But we have the ability to also reduce the rate. It was basically a high-yield savings account.

[00:16:22]

GLH: It is, yes. With some complexity to entice us.

[00:16:27]

FT: I was like, “What's going on here? Let's actually read the fine print.” But, yes, okay, I appreciate that answer. All right, let's talk about –

[00:16:35]

GLH: Can I say one more thing about this?

[00:16:36]

FT: Of course.

[00:16:37]

GLH: The other thing I want to point to is actually how the banking system works. What is happening right now is that banks small and large are offering competitive savings accounts and CD rates to entice people to move their money between banks. The second thing I would think about in this question is can I get a good return and keep my money at a midsize or local bank. There is a real risk of moving all of our money to larger banks in order to get a little bit of yield for us but actually undermining the banking ecosystem in our own area.

I would just be conscious of that as a trend right now. Again, if I were going to lose a quarter of a point but I can keep my money local, I would keep my money local because that actually allows that small bank to lend out for mortgages and car loans and business loans at nine times what you're keeping in your savings account. If you $100,000, they can loan out $900,000. That’s just a thing to think about as a citizen of the banking world.

[00:17:50]

FT: Yes. Yes. I've done episodes on the whole like don't go bananas over high-yield savings. It’s a marketing tactic. It's window dressing. You got to make sure that the bank has the whole package, right? That, yes, there's this interesting sexy high-yield, but maybe it's not a great place to do other sort of banking operations, which is fine. I mean, who cares? But it is important. You want to make sure you're banking with a good institution that is taking care of you.

I love – yes. I mean, credit unions, midsize banks, these are all so important to the ecosystem. That's what I like having you back here for. You bring the consciousness back to personal finance, and you put it in context of actually the bigger picture and how the –

[00:18:40]

GLH: Yes. That’s important.

[00:18:41]

FT: And the circle of life.

[00:18:42]

GLH: Yes, exactly.

[00:18:45]

FT: Target date funds, people are obsessed with target date funds because they're so easy. I know investing can be really complex, and we don't have time. We just want to feel like we're opting into something that is going to take care of me. Of course, relative to index funds, what's your take on target dates? I know these are popular within 401(k)s. But I still like an index fund over –

[00:19:10]

GLH: I do, too. I think that – I would like, again, to back up because, actually, these two things are often the same thing. Usually, a target date fund that has a decent expense ratio and, I would say, under .3% is composed of index funds. Really, I just want to say everything that we buy as investors is something we own or something we loan. Things that we own; real estate stock. It's growth-oriented. It's not really about the income. It's about the risk we're taking to far surpass inflation as our growth rate.

Then there's things we loan. Those are bonds or also known as fixed income. That's really just a loan to another entity like the federal government, and they pay us some interest, and then they give us our money back later. Index funds, target date funds, venture capital, mutual funds, et cetera; these are all just different marketing wrapping, product wrapping around the same concepts. What do we own, and what do we loan?

I just want to say that a target date fund is a fabulous thing because it sets your asset allocation for you. How much do I own in stock and bonds? How much things do I own and how much I loan? I love a target date fund. If it has an internal expense ratio of under. 3%, then it's almost entirely based on index funds. I will bet. I will take a gamble and say. The great thing is you don't have to think about it. You know what the worst thing is? An investor who is meddling with their investments.

If a target date fund can just set it and forget it, do that. We often recommend that for our pro bono clients or for folks who have an outside account like 401(k). It's the easiest thing and the cheapest thing and will keep you from making a mistake.

[00:20:56]

FT: The index fund, when does that – I mean, I feel like – I mean, to your point, a target date fund is essentially kind of like an index fund.

[00:21:04]

GLH: If you imagine the pie chart that we see all the time of like, “I own 80% stock and 20% bonds,” the target date fund is that. It’s usually 20% bonds and an index fund and 80% stock and a variety of index funds; US, international, emerging markets, and real estate, usually.

[00:21:21]

FT: Which one offers more diversity? I guess it depends, right? If you get this index fund that tracks the stock market, but that's all stocks.

[00:21:29]

GLH: Yes. That’s a – I think index funds, let's think about them, again, as a different way to package stock or bonds. An index fund can hold anything. It is just tracking an index that is external. The S&P 500 is only 500 stocks. The Russell 3000 is all 3,000 stocks on the US market, for example. I want to buy an index fund that's the Russell 3000, not the S&P 500 because I just want diversification. Own as much of the market as I possibly can own. Otherwise, I'm gambling. The S&P 500 is going to do better than the overall market, which I don't actually think there's much to support that concept.

The target date fund allows you to buy across the whole market as inexpensively as you can possibly find one. Now, I look at 401(k) sometimes. I'm like, “Oh, that target date fund has a .9% internal expense ratio. Oh, they have loaded that thing up with a bunch of expensive crap.” In that instance, I will look at the outside investment options and put together an allocation that is again 80% stock, 20% bonds, 40% **[inaudible 00:22:41]** in US, et cetera. I'll go down my model allocation and build it for them. But I tend to prefer, hope they have a good target date fund that's cheap that will do that.

Then I'm just looking for the target date that it has the same asset allocation I want. Again, if I want 80% stock, 20% bonds, it might be a 20/60 fund that matches that. That's just like buy it, forget it, buy into it over time. You'll be fine.

[00:23:07]

FT: All right. Thank you for that clarifying. The 80/20, everybody, is just a general breakdown of, I guess –

[00:23:16]

GLH: Ish.

[00:23:17]

FT: Ish. I guess if you're like 65, it wouldn't be an 80/20. You want to make sure it's a little bit more conservative there like 50/50.

[00:23:23]

GLH: A little more, yes. For those – I'm 100% in stock because I'm going to retire for 20 years. I'm like, “I'm taking no risk if I don't need the money for 20 years, in my mind.” So I just buy all stock because I'm like, “That's – just grow. Grow little team. Grow.”

[00:23:40]

FT: Go, go, go. Yes. All right, we have one more question from the audience, and then I want to talk about politics just a little bit. Just a little bit.

[00:23:47]

GLH: Yes, please. My favorite.

[00:23:49]

FT: Not to get too side-sy but just in terms of whatever you support this year, like how to put your money where your politics are. Diana has a question about health savings accounts, which I don't often talk about on this episode. So here we go.

[00:24:03]

GLH: I love them.

[00:24:04]

FT: I love an HSA. She says her company just added an HSA account as one of their medical benefits options. She's 31 years old, getting married soon. She calls herself pretty healthy, goes to the doctor maybe once a year for a cold. Knock on wood. Her job is going to contribute $1,000 annually to this HSA for just being enrolled in it. It's like a nice freebie. “I'm not very familiar with HSAs,” she says. “But that $1,000 sounds pretty enticing.” Her premium will be $25 semi-biweekly. What is that? Every other week? Semi-biweekly, I've never heard of that. Oh, maybe she just means like –

[00:24:46]

GLH: Me either. I think it's when her payroll runs.

[00:24:49]

FT: Okay. Basically 50 bucks a month, something like that. Then the deductible is up to $4,000 out of pocket. After meeting the deductible, I wouldn't have to pay a copay. Here’s the question. She's not familiar with HSAs, so she's not even sure if it's worth investing in it because of this relatively high deductible. Is that typical for HSAs, and what are our thoughts on this?

[00:25:14]

GLH: Yes. HSAs are the new shiny thing in financial planning. For those of us who are really nerdy, we love an HSA. HSAs have two styles, cash HSAs and HSAs you can invest. Cash HSAs are great for somebody who knows that they want to fund money for medical. They may not know when they need it. Generally, an HSA rolls over year to year. So the balance is an account, and it's a balance that grows. If you add $1,000 a month and you both put in $1,000, you put in $2,000 a year, it grows over years. You're going to have after a period of time 8, 10, 20, whatever your dollars are. Then you can pull it out when you need to pay for medical expenses.

That's an HSA, not an FSA. We're not talking about FSAs. We're talking about HSAs, health savings accounts. They're always connected. This is in large part related to the Obamacare, Affordable Care Act saying if you don't need a lot of care likely, have an HSA account, a HSA plan. Your deductible is higher, but you're unlikely to need it, and we're going to give you this little account to save some money, just in case you do need some care. They're wonderful.

As a financial planner and as a wealth manager, we love an HSA. We love to max them out. If you're a client who that kind of health plan is supportive for you, max it out and invest it because it is a triple winner. It goes in pre-tax, it grows tax-free, and you take it out tax-free. There is nothing – it is better than a Roth. Who thought I would ever say that?

[00:26:55]

FT: What is better than a Roth?

[00:26:57]

GLH: I know. The nerds unite around the HSA.

[00:26:59]

FT: Oh, my God. My brain is breaking.

[00:27:01]

GLH: I know. But you have to have an HSA that is you can invest it. Usually, there's like a cash HSA account and a brokerage account connected to it. It's nerdy and wonky. It's a little cumbersome. For the clients who, again, don't need a lot of – they don't need their health insurance to do a ton for them on the day-to-day, then it is a fabulous idea, and it is a big part of their financial plan. There's your answer.

[00:27:27]

FT: I love that. That's going to go – I'm going to put that on social, and we're going to go viral with – I'm going to title it This Investment is Actually Better than the Roth Ira.

[00:27:38]

GLH: There's going to be like sparkles and fireworks.

[00:27:39]

FT: It's going to break TikTok. Yes. My TikTok influencer career is going to start after that clip runs. All right. Okay. We have a little bit of time left. I really want to talk about the election year and how you're hosting conversations with your clients around this and specifically how they can maybe smartly invest their money, invest in air quotes. Put their money towards causes they care about.

[00:28:06]

GLH: Yes. As listeners may remember, Modernist is a B Corp firm, and we focus on helping people with significant wealth decide how to make decisions and structures that support their progressive values. We are always thinking about the politics but more importantly the social impact of the decisions we're making. That's investing. That's banking. That's all the things. It's also how we're generous.

A lot of our clients are in a position where, honestly, they're not that concerned about the tax benefits of their donations. Either they can't itemize, so they don't get a benefit, which is true for any of us. If you don't itemize, then the deductibility of your charitable contribution doesn't really matter. More importantly, they're really concerned about impact. We've been talking a lot about the difference between donating to 501(c)(3)s in which you get a tax deduction. Or it's potentially a tax-deductible contribution. Or a 501(c)(4), which is often a structure attached to a 501(c)(3). The difference is you don't get a deduction for the 501(c)(4).

Why would I do that? The answer is the 501(c)(4) can lobby. The most prevalent examples of 501(c)(4)s, I would say, are the NRA. One of the reasons they’re as powerful as they are is they have the capacity to use that money to lobby for their intended purpose. Now, I want to say that we can do the same thing with progressive politics. Let’s say you're really concerned about reproductive rights. You understand there's economic impacts of women or people not being able to control their bodies and decide when they want to have children or not. So you want to support and protect the economy in that question.

You can give to a planned parenthood, for example. Get a donation. You can also give to an organization that is lobbying specifically for reproductive rights that’s a 501(c)(4). This is really the question. Which do you want to impact, and do you need the deduction? Again, backing up, start with do you need the deduction. Secondly, how much can you give? Three, what is the impact that you want to have? I think it's just an interesting question that, especially in an election year, if you want to be able to lobby, if you want to support candidates, this is the space to consider your donations. Does that make sense?

[00:30:34]

FT: I learned today. I was today years old when I learned about 501(c)(4)s.

[00:30:39]

GLH: They're sexy, I think, and they're really – it's about supporting candidates and policy that will drive the – often the policy changes the 501(c)(3) is already working on on a direct basis.

[00:30:53]

FT: Yes. We know lobbying is so powerful in this country.

[00:30:57]

GLH: Candidates are helpful, right? The 501(c)(4) can also support candidates. For example, in this year, I usually – my own giving, personally. This is not the firm. If you want to check out the firm's generosity plan, we have a page on our website where we really lay out exactly how we give our money away. For me, personally, I give to lawyers and journalists. I want people to be able to sue out of the Proud Boys, and I want somebody to write about the Proud Boys. These are my fears, and this is what I want to support in a democracy.

In an election year, I also give a lot of money to local candidates who are – because local politics are very powerful –

[00:31:34]

FT: You know what I would add to that? Local journalism. Oh, my gosh. We got to get local news back, real local journalism.

[00:31:42]

GLH: Exactly.

[00:31:42]

FT: Oh, my gosh.

[00:31:43]

GLH: This is why I support ProPublica. This is – there are also 501(c)(4)s that lobby for journalism. Go out and do good, friends. Give your money.

[00:31:53]

FT: We can make an impact. Thank you so much, Georgia. This has been a really special Ask Farnoosh. Always come back anytime.

[00:32:00]

GLH: I love it. Thank you for having me.

[END]