EPISODE 168

[ASK FARNOOSH]

[00:00:30]

FT: Welcome back to So Money everyone. Sunday edition, this is "Ask Farnoosh" where I turn the tables, turn the show, flip the show, and make you the star. Answering your questions that have been streaming in all week. We had a lot of great questions yesterday, so if you missed the Saturday episode, make sure that once you're done with this you click on "Ask Farnoosh 167" and listen to the amazing questions people have asked. Everything from "Should I go to grad school? Should I actually go get my MBA?" I've got some answers for you. And another person was asking about resources that he could tap into to get a foundational understanding of a lot of the stuff that we talk about on the show. From just everything, how to invest, how to buy real estate, how to think about money. And so I gave some resources, great resources, shameless plugged resources in the Saturday episode.

Today though, we've got some other questions about oh you know, just getting financially up to speed after a divorce. Got questions here about getting married soon and needing some advice about how to manage money, and also a question about starting over after a bit of financial turmoil in someone's 20's and how to kinda get back up to speed and take baby steps to make for a better financial life.

So, without further ado, let's get right to it. I have a question here from Steve, my fan Steve. He says:

S: “Hey Farnoosh, I'm recently divorced after 30 years, so the "ex" is getting a huge chunk of my 401(k) rather than alimony dragged out over 10 or more years. I have about 12 years until retirement so I need to invest as much as I can to rebuild my retirement savings. Do you have any advice for how to set the investment risk bar or balance my risk for the next 12 years while I'm still working?"

[00:02:32]

FT: So, Steve, I assume that you're maybe in your 50's? You say you wanna retire in the next 12 years, so I would definitely take advantage, first and foremost, of the catchup contributions provided in your 401(k) or your IRA's. Those that are 50 or older can save $24,000 this year in their 401(k). That's an extra $6,000 than those under the age of 50. So definitely do that, that's step 1. As for the mix, there is this rule of thumb that you take the number 100, you subtract your age and that remaining number is the percentage of how much you should be safely invested in equities. So that included mutual funds, index funds, ETF's, and stocks - individual stocks - although I don't like individual stocks really.

So, and the rest you would wanna put - so let's say you're 55, I dunno? So then you have 45%, roughly, that you could comfortably be in equities in your portfolio. The rest, 55%, would be in things like bonds and money market and cash, safer investments. The idea being that you're getting a lot closer towards retirement, you don't wanna take on too much risk. But this is just a rule of thumb, and I would say that it sounds like maybe you might wanna work a little longer as well to bring in that income if you can so that you don't have to tap your retirement savings so quickly. So this is just my overview, kind of advice to you, but I would say what I would also do if I were you, is speak with, at the very least, the plan advisor that comes with your 401(k). Somebody at the plan provider who is informed, who can give you - who can look kind of at the historical trends. Look at your portfolio, give you some very catered advice, based on your performance to date, and then also what your goals are going forward, your risk tolerance, giving you some more accurate investment advice and strategy.

And so, but I would say you don't wanna be super aggressive at this point. I would also, again, rethink your target retirement date. Maybe push it back a couple of years, take advantage of added income. And finally, definitely withdraw from social security as late as possible. So the deadline to start withdrawing from social security for everyone is age 70. You can start as early as age 62, however the longer you wait to take that first withdrawal, the more money you will have at your disposal. And it's pretty significant! So go to SSA.gov, that's the social security website and first of all, just see what your potential social security payout would be.

I'm not sure if your wife would get any of that? I don't know what the settlement of your divorce was or how that works in the grand scheme of social security. Sorry, I'm not that educated on this, but at the very least for yourself, go check out what your anticipated social security payout will be in retirement and then what the comparison of waiting till you're 70 to take it out. I bet it would be pretty impressive, cause I just saw some numbers that other day. It's like, you could end up with almost double the monthly payment if you wait till 70, as opposed to taking out at 62. So if you can wait off, hold off on that, that could also be another way to maximize your retirement savings. Alright? Steve, good luck to you! Keep in touch, and let me know what you decide.

[00:06:12]

Elizabeth writes in and she says:

E: “Hey Farnoosh, I'm getting married in November."

[00:06:16]

FT: Awh, congratulations Elizabeth! She says:

E: "I would love some tips for how to combine our money. Should we keep separate accounts for personal spending and a joint account for bills? Or just combine everything? Are there some ground rules we should establish as we are starting off? Thanks."

[00:06:34]

FT: Well, Elizabeth, I think there are various schools of thought on this, and this is why I think you're coming to me with some questions because you've probably heard a variety of things. If you ask me, I think you should have 3 accounts: yours, mine, and ours. So if you've got joint expenses, then maybe you have a joint account from which you pay off these joint expenses. And how do you fund this joint account? You take an equal percentage of your income, and equal percentage of your partner's income, and you pool it, and that is your joint account. And so you have to first do some math and see what is the total monthly expenses that you have together that you wanna share in equally. So, just hypothetical, let's say it's $1000 - so you maybe have dispersed income though. So for you to put in $500 and for him to put in $500, that may be one way to go about it.

But if your incomes are really disparate, if you're making 3 times as much, or he's making 7 times as much as you - I dunno what the situation is - then in that case maybe you wanna decide on an equal percentage, so that you each pay an equal percentage that still gets you to the 1000, but isn't 500-500. So maybe it's, you know, he pays 10% of his income, you pay 10% of your income, but together that does equal $1,000 if that makes sense. Because his money is maybe a lot higher, or your income is a lot higher. But the bottom line is that you do have a shared account for you shared expenses. And then you have your own account, and he has his own account. And it doesn't have to be an offshore account. It doesn't have to be a private account with no passwords revealed. It jsut a siloed account for you that is your financial freedom. Your place to store money that is gonna be used for your intentions, and your thrills, and you don't have to ask for permission, and likely the same for him.

What I find a lot of times with couples who are in disagreement over money is that, more often than not there is a shared account. One account. Well that's just really tough sometimes because, especially if you're getting married at a point in your life where you're used to having your own financial autonomy, having your own financial life. And you've built your own financial life, you've been saving and spending as you like, as you wish. Now when you becomes 2, all of a sudden pooling everything together and having to have a joint committee decision about everything, and then feeling as though you can't spend your own money because it's taking from the family pot all the time... Well that can create a lot of tension, it can create a lot of resentment, I find, in many married couples that are unhappy, financially.

So do yourselves a favour, have your own separate accounts. And again, this is an equal percentage that you're putting in. Maybe you're putting in 15% or your income, or 5%, I dunno. What that percentage is, is completely up to you. It's not for me to say, but it's for you to enjoy. And I would just say, keep the lines of communication open at all times with your husband. Commit to that. Don't just talk about money when it becomes an issue. Have fluid conversations about money. Maybe you start listening to this podcast with him everyday, maybe you both read a book together, you send newspaper clippings - or links rather. You know like, "Newspaper clippings? Who does that??" But you send a link to an article that you thought was interesting, relative to what you might be going through in your life financially. So you just have this constant attention to your finances. And it has to be conscious, it's not gonna just happen without you paying any attention to it. It has to be a very active pro-active effort.

So that would be my wedding gift advice to you. Congratulations on walking down the isle soon! I hope that you have a great wedding. November, wherever you are, hopefully is a beautiful time of year. In New York it won't be! [Laughs] But maybe you're looking for a winter wedding, which is also very cool and romantic. So Elizabeth, thanks for your question and I look forward to hearing about updates from you.

[00:10:52]

Priya says:

P: “Hey Farnoosh, I need help! I am 33 and living in Boston. I made a lot of financial mistakes in my 20s. I opened a few credit cards, I did not make payments, and let them go into collections. I have a student loan from college and I missed payments on those too. I lived paycheck to paycheck and had virtually nothing in savings. When I turned 30, I decided to change my financial ways. I paid off the debt from my credit cards and stopped using credit entirely, so I would not get into further debt. I started making loan payments on time and built up my savings. I currently have $8,000 in savings. Despite this, my credit score is still under 600 because my student loan is currently at $37,000. I rent my apartment, I don't own a car, so my credit to debt ratio is pretty bad. I recently tried to get approved for a new credit card so I could boost my credit but I was declined. What is your advice for me?”

[00:11:53]

FT: Well Priya, it sounds like - I don't want you to get discouraged. It sounds like you're doing great. You're making a lot of strides. You've hit a wall a little bit with the credit score, but don't worry, time heals. With this good activity and making timely payments on your student loans, your credit score should improve. Having a credit card would be better though, and I know that's hard to get because your score's low. So I would say, try to open up a secured card. Have you ever heard of this? A secured card? So it's similar to a credit card, but rather than give you a hefty line of credit, the bank will give you a small line of credit that's equal to an amount that you deposit out of your own pocket. So it's kind of like a debit card. And usually it starts at around a few hundred dollars, and your activity on the card is reported to all the major credit reporting agencies. And so it's helping you establish better credit, just like a traditional credit card would.

A secured card is typically for those people who don't have access to credit because they may be new to the country, or they are suffering from bad behaviour in the past. They had a bankruptcy, a foreclosure, delinquencies, and they can't qualify for a traditional credit card, so they get a secured card, which is like a traditional credit card on training wheels. You put the collateral down, and then you basically are borrowing from yourself. But you have to pay back yourself on time every month for about 6 months, for about a year, and then after that you usually will graduate to a "real" credit card. But what's great about a secured card is that, unlike a debit card, your activity is reported to the credit reporting agencies. So you are effectively improving your credit score, assuming you're doing well with the secured card.

And so, that is what I recommend you do. Cause you can't get a regular credit card, try to get a secured card. You can shop for offers at Bankrate.com, you could just walk into your local bank or credit union, they probably have one. Watch out for some fees, however. So if you go to Bankrate, you could probably actually find out which cards offer the lowest fees. They're not a lot of money, but maybe it's a couple percentage points of the balance, rather of the limit, which is the money that you're putting down. So just be aware of that. And sometimes there are no fees, so that's why you wanna do your shopping around and do your homework. And as I said, after we're paying off this balance on the secured card every month for about year, you're likely gonna be eligible for a real credit card, and that's really gonna help with your credit too. So that's what I would do!

[00:14:41]

April writes in, she says:

A: “This is a request to please interview Paula Pant from AffordAnything.com. I love her saying, which is that "You can afford anything, you just can't afford everything." Would love to hear her answers to your So Money questions. Thanks!”

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FT: April, today's your lucky day, cause I'm friends with Paula. And I'm kicking myself for not having invited her to the show sooner. And so I saw your question and I emailed her, and she's on. She's booked! She's on the calendar and I'm happy to say she'll be on the show later this summer. So stay tuned, and thank you so much for that guest tip, that guest recommendation. As I say to all my listeners, if you ever wanna hear from someone that you're admiring, that you'd like to follow, that you wanna hear more from and maybe see and hear more about their financial perspectives on things - they don't have to financial experts. Maybe it's an athlete? Maybe it's a politician? Maybe it's a...

I can't guarantee I'll get all these people on the show cause they're busy and maybe they're “poo-pooing” podcasts right now. Cause you know, podcasts they're sort of - they're cool if you listen to them, but sometimes people who are used to being in the traditional media, don't really value the benefits of being on a podcast. But they'll get there. They'll come around! But so I'm happy to say that at the very least, Paul who's awesome, I agree. She's fabulous! Everyone, check out Affordanything.com, that's her website. She will be on the show later in July.

So that is a wrap everyone. Thanks so much for all your questions, April. Priya, Elizabeth, and Steve. Good luck Steve! And good luck to all of you. See you back here tomorrow for a fresh episode of So Money. Let me check the Calendar and see who's on... Hang on, hang on, hang on. Tomorrow we've got, oh this is great. Tamsen Fidel. For all you New Yorkers listening to this show, Tamsen is the co-anchor of WPIX's evening news. So she does the 5, 6, and 10 o'clock anchor shows, evening news shows. But also, she's come out with a new book called "The New Single". So if you're newly divorced, newly broken up, and you wanna get back on your feet emotionally, financially, career wise, Tamsen has got the goodies. And we break it all down with her tomorrow.

And also, the rest of the week we've got, I'm replaying Mr. Money Mustache this week [Chuckles] on Friday because it's right before July 4th. I wanted to have some good car-listening, driving-listening for you all as you are headed to the beach. So lots of good stuff coming your way this week. Hope to see you back here tomorrow. In the meantime, hope your day is So Money!

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