EPISODE 325

[SPONSOR MESSAGE]

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[INTRODUCTION]

[0:00:44]

FT: Welcome back to So Money everyone. Happy New Year, 2016 is upon us. Hope you all had a fantastic holiday, a celebratory New Year's Eve and you are listening to this show, excited for the year ahead. I am and we rang in the New Year in style last night in our Brooklyn apartment on the second floor, it's actually a nice sized common area and all of the parents in the building got together with their little ones and there was an ice cream sundae bar and there was a lot of food and a lot of adult beveraging.

We started at 5 PM, we didn't go until midnight obviously because of the kiddos but you know what? When you're a parent, five is the new midnight. I do hope that this year I'll get more sleep, that's one of my resolutions this year is to try to get more quality sleep instead of just sleeping whenever I can, napping and I do admit that I go to bed late, I'm a parent so you don't sleep as much generally but I can control it better.

I can go to bed earlier if I wanted to and sometimes I just feel like I need to stay up and watch one more episode of Homeland or Downton Abbey and I really should just close the eyes and go to sleep. I also just downloaded the seven minute workout app. Have you heard of this? Has anyone else done this? My brother raves about it.

Apparently you get the equivalent of an hour's workout in seven minutes. It's like pushups and planks and squats and lots of calorie burning in seven minutes. I'm excited to try this and even if

I fail because I think that I can do anything for seven minutes you know? I feel like that's a pretty decent threshold. I have a pretty good pain threshold and I think seven minutes is probably my limit. I'm going to try that out and let you know how it goes.

January is going to be a really crazy, busy month. I'm not going to lie. I'm starting filming this month, some of you may know that I joined CNBC Prime Time to create a new show that's airing this spring. Tentatively in March, we're interviewing some of the world's most successful entrepreneurs and business people. This month, I'm flying to Los Angeles and then possibly Paris. It's really exciting, I'm saying this with a smile on my face but also my heart is breaking a little bit because I will need to be apart from my family for stretches at a time.

That is just something that I can't avoid because of the tightness of the schedule and trying to get all of these interviews in by the time that we air. I don't know, if any of you working parents have advice for me? I already work a lot but this is adding travel, more travel to my work and not just like a couple of nights. I'm going to LA and I'll be there for about a week and then possibly Paris right after that so without anytime to come back home to New York. It could be closer to two weeks and I have never been away from home for that much time except for my honeymoon and this is not going to be a honeymoon.

Anyway, let me know if you have any advice for me because I need some. Some of my other plans for this year, to continue bringing inspiration and elevating the conversation that we have around money and its meaning and its purpose in our lives with this podcast. It's been a phenomenal run, we are a year into this podcast can you believe it? We kicked it off with Tony Robins on January 14th 2015 and here we are almost a year later, we have sponsorship, we have amazing guests asking to come on the show.

My schedule is filling up, the calendar is filling up, we have so much of a bond too. I feel like you and I, we can relate, we talk. It's nice and there's a lot of easy ways to get in touch with me as you know you can email me, always, farnoosh@somoneypodcast.com. You can go to Somoneypodcast.com, subscribe to the newsletter, the email list, you can ask me a question when you're at Somoneypodcast.com, click on "Ask Farnoosh" and that's how we will get to the questions that I'm going to be responding to shortly. Let's keep our relationship going. That's one goal is just keep this podcast growing well and serving your needs.

I also want to finish this CNBC show successfully and the title is still in development so I'll let you know more about that as it develops but sign up to my email list at Somoneypodcast.com for all the behind the scenes and updates and photos. I'm really excited to see how things are going to come together. The network is being really supportive of this show, I've never done anything quite like this. I have been a journalist all my life but this is really taking it to a new level and an exciting level and in a very fun and engaging way to bring stories of really important lives to everyday people.

And I also have a plan to launch a course, I told you, it's going to be a busy year. I want to launch a course, a small course but something useful, important and relevant. I reached out to all of you a few weeks ago for feedback and discovered that get this, 40% of you want to learn how to make more money. That's your top goal in the New Year. Whether that's to make more money so that you can save more, pay off debt, travel, expand your family, expand your life or all of the above.

I think that you and I are of the same wavelength that we believe that it's more empowering, more exciting to make as much as we can and more than that than to save, save, save, save, save. I mean don't get us wrong, saving is critical. I save, you save but I feel as though we don't pay enough attention to our earning's potential. So stay tuned, my goal is to plant something very exciting and worthwhile around that in the new year and if you have suggestions for me, this is the time to send them over to me because I'm in the incubation phase and looking forward to making this really all about you and what you need.

Okay, that's what's going on with me, let's talk about Sarah's question, she writes in. She says:

[0:06:40]

S: "Hey Farnoosh, love the show, my partner will be inheriting something in the ballpark of about $150,000 and I want to support him managing it wisely. He is 43, no debt, no savings and no retirement. We want to keep some of our emergency fund and a down payment on a house with the rest should he focus on contributing the max to an IRA, reinvesting it in index funds. If so, what percent would be good? Also we're having a baby soon and if we do a 529, what is a good amount to contribute? Thank you."

[0:07:17]

FT: Alright. Sarah, that's really good news that you're getting this inheritance, that's a nice sum, $150,000, you can do a lot with that. Here's what I want to ask you. I ask this of all my guest on the show pretty much. I say, how does your money make your life easier or better? Easier or better or both? How is this money going to make your life together easier, better or both? Not just easier, better today, in the future.

You mentioned that there's no savings, there's no retirement. That's not easy or good. Definitely I would say take a chunk and put some of this money, whatever you need to get about a six month rainy day reserve in a liquid savings account. Six months worth of basic living expenses then I would say get on the schedule to pay into a retirement account, an IRA or a work 401(k) plan and max that baby out.

I did a little research to see just how much a 40 something year old should have in retirement. Now this is subjective to an extent but JP Morgan's 2015 guide to retirement says that age 40, you should have about twice your salary in a retirement plan. If you make $100,000, $200,000 in the retirement plan. If you make $50,000, $100,000 in the retirement plan.

From there, it suggest saving about 5% of your salary until age 65 which I actually found kind of low but if you have not gotten there yet then you want to maybe save more than 5% of your salary until age 65. You might want to double that or triple that. I think honestly I've always been of the thinking that if you're in your 40's and you have nothing then you want to take about 15, 20% of your income every year and put it in retirement in a long term investment account.

Then you also talked about having a baby soon and if you should do a 529, I definitely love the 529, I opened one for Evan before he was born because I'm crazy. You can do it at any time during your child's life. The sooner the better and a 529 just as a recap, okay so this is an account that's designed specifically for higher ed purposes, higher ed expenses, the earnings grow federally tax differed, qualify withdrawals are federally tax free and depending on your state, there might be a deduction.

In New York for example, ax payers can deduct up to five grand, $10,000 for a married couple filing jointly. Lots of benefits to having a 529 and we're saving enough so that if Evan decides to go to a moderately priced school, let's say a state school for four years, we will be able to pay for this through the college account, I just checked it and in two years, we've earned about $700 or a $1,000 but we've contributed about 15.

That's good, we save about $500 a month for Evan and we started this again a little bit before he was born and I think we're on track. I mean $16,000 today? Where does that get you? Half a semester at a private school or if you're out of state school, at a state school. We don't expect that we're going to have every dime to send him to college and we're not going to stress out about that. We're going to do the best that we can and from there, he can work, he can go to a different school, he can take on a little bit of student loans, I'm fine with that but nothing crazy.

Back to you Sarah, I think the priority here is rainy day savings, retirement, then I would say look into opening up the college account and then you also want to buy a house, you have a lot of money to work with here, not to mention your continuing incomes. Use this lump sum to get where you should be with retirement. Hopefully you can get there and play a lot of catch up. Thanks Sarah, good luck and congrats.

Nila says:

[0:11:11]

N: "This may not be the most serious question but I wasted $1,000 recently and I can't stop having nightmares. What is the best way to learn my lesson and move on?"

[0:11:21]

FT: Oh man, Nila, it happens. Our financial decisions trigger lots of emotions and I don't know what happened in your mind when you spent that $1,000, it might have been a combination of impulse plus a lack of tracking your money. Consciousness is important, you got to have consciousness around your money and if you don't have that then a quick way to establish that is to track your spending. Use an app, go online, write it down, whatever you have to do and maybe even before that, set a goal with your money so that you use that money more purposefully and more meaningfully.

Sometimes it helps to just pay with cash, maybe you racked up that $1,000 in spending swiping or dipping as it is now with credit cards. You need to keep your money in a bank account and you don't have any wiggle room to be spending $1,000 without having nightmares at night then you need to be using more cash. Because cash will be more painful which in this case can actually help you because it will help you save more. It just will. You won't be as inclined to spend when you feel that that money is hard to part with because it's cash.

Then I would say commit to reclaiming that $1,000 and doing something with it that you absolutely love to do in one year's time. It's the New Year, ask yourself, "What could I do with $1,000 grown over the next year, maybe I add to it a little bit here and there in a year's time?" Maybe you buy something really fun, maybe you go on a trip, maybe go take your friends to dinner, a whole bunch of friends. Take $1,000 from your next few paychecks and just put it in a savings account, a place where you can easily just withdraw it from an ATM.

The other thing that you can do is find out how, over the next two to three months, you can earn that $1,000 back. You know, you really want to feel the worth of that money and you want to reclaim that money. Go on the world and earn some money, $100 a week over the next two, three months is going to make you $1,000 richer. We talk about side gigs all the time on the show. Start a side gig in the New Year so that you can spend with more freedom at the least okay?

The first thing is just being able to adopt more consciousness around your spending and that includes just watching your dollar, spending with more cash, tracking your money and set a goal, commit to reclaiming that $1,000 somehow, somewhere, some way whether it's earning it back or just being more diligent about saving. And then once you get that money, do something you absolutely love with it. Sometimes we find that when we spend that money on experiences like a trip, a yoga retreat, spending money on others, donating that money can actually help increase happiness.

Heather says:

[0:14:03]

H: "Hey Farnoosh, I love your podcast, I'm 31, single and have no kids. My financial adviser recommended I get whole life insurance with cash value and I have had this for about a year. It's a $300,000 policy, which costs $300 a month. I also have a term life policy for $700,000 and the monthly fee is very affordable.

After reading all about finances and investing, I'm having second thoughts about this whole life policy. I make $100,000 a year and I currently max out my fourth rebate along with my Roth. I'm thinking about canceling the whole life policy and I've been reading online a lot about this, it says "buy term, invest the difference." What are your thoughts on this? Please help."

[0:14:49]

FT: Heather, I really don't understand why you have life insurance to begin with. Do you have dependents? You have no kids, does anyone else dependent on you? Really, life insurance should be something that you get once you are in a situation where you're paying for other people's wellbeing, where people are dependent on you financially.

This is not your life right now, I don't understand why you have any life insurance let alone whole life insurance, which is the most expensive kind and really reserved for unique circumstances, not for people like you or most people frankly. Most people just need a term life policy as you said, you have one and it's not expensive, it's very affordable. I know nothing else about your life but this sounds like really bad advice, I would really question the financial adviser that you have.

What was his or her motivation? I'm wondering if they made some money off of this deal. So I'm a little upset by this because I don't like when I hear that a young person and I know that you make a $100,000 a year which is great but you could be putting your money to better use. And another thing about whole life insurance is that there is a study done a few years ago, they found that 20% of whole life policies are terminated in the first three years and about 40% are ditched within the first 10 years. What does that tell you?

These policies are expensive, you don’t need this, again, I don’t know your whole life right now but I have a feeling that you do not need this. I think that you’ve done the right reading, you learned well, you don’t need this, cut your losses perhaps. If you want to learn more about life insurance, you can find a reasonably priced policy, you can hire a fee only life insurance adviser. There’s an evaluation service, it’s offered by the consumer federation of America, it’s at evaluatelifeinsurance.org. I think it’s under $100 for the first analysis.

Okay, going to take a quick break now to thank one of our sponsors.

[SPONSOR BREAK]

Today’s episode is brought to you by FreshBooks. Creating opportunities by starting your own business is one of the most empowering things you can do for yourself. However, it can also be overwhelming at times. The secret to getting more done isn't about finding more time, but rather finding the right tools. Our friends at FreshBooks couldn't agree more!

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[CONTINUED]

Okay, we are back and talking to Michelle now. Michelle says:

[0:17:57]

M: "My husband and I soon after marriage, we filed our taxes since we both make lots of income. I was a student and he just started his life after immigrating from France. My question is, since I make money now and so does my husband but I make significantly more, am I able to file separately this upcoming tax season?

Last year we filed jointly and had to pay a lot of taxes back since we have no investments, we don't own property. What should I do from here on out? Consult with a CPA to find out my investment options? Do you know if I could file separately? Can you recommend a CPA or how to find one? Thank you."

[0:18:32]

FT: Yeah Michelle, sure, you can definitely file separately, you solve the file married but you can file separately and it can make sense if one person in the relationship has a much higher income than the other. The IRS though has an income tax calculator on their website. It's helpful because you can go there, type in all of your income sources, your deductions, all of that then you click at the end that we're going to do married filing separately.

See what the bottom line number is and then do that again but click "married filing jointly", see what that bottom line number is and compare and that can usually lead you down the right path but I think it's definitely important to also consult with a CPA, very much worth it talking to someone about this. The American Institute of CPA's has a database of accountants in your state.

Go to AICPA.com, you can search by state again and a lot of people I find, once they have maybe narrowed down three, four, five certified public accountants in their town, they go to Yelp and they look them up. Sometimes they're illicit, sometimes they're not but sometimes if they are, you can get a really great sense of how others worked with them, liked them, didn't like them. Yelp is as we know the go to destination for all sorts of reviews in restaurants and businesses.

The other thing you might want to do is talk to people in your industry, colleagues and say, who do you use? Who is your tax guy? Tax gal? Interview them, you want to make sure that they are certified, ask them about their fees and do ask them, throw them on the hot seat and say, “What would you do if you were me as far as investments, deductions. I paid so much in taxes last year because I didn’t have many deductions but I would like to maximize my taxes and become more tax efficient. What are some steps we can take?”

And ask not just one person but a few and compare notes. That’s a good way to judge who is going to be ultimately the best person to work with. Obviously you want to like the person too, that’s important. We always talk about the technicalities but you have to also feel like you trust this person and you like them because you’re going to be paying them and working with them not all the time but closely at least once a year.

Okay now Linda. She says:

[0:20:41]

L: “I have not done a good job teaching my two college student daughters about money, I have $4,000 for each of them in savings bonds, what’s the best way to invest this and teach them about the market?”

[0:20:55]

FT: Alright Linda, so I think the best way to teach them is for you to not do much. Let them take accountability and responsibility for this money. With guidance from you, you don’t want them to blow off this money but I would say, have a family meeting, call a meeting. Say, “You know what girls, I’ve got some money for you that I’ve been saving over the years, you may or may not have known about this, it’s a nice chunk of change. $4,000 is a lot of money and when you’re in college it just feels like you could live off that for years because you’re poor. $4,000, I have saved for you but now it’s time to put this in your possession but I want to be involved and I want us to have another meeting where we come back and we talk about our options and I want you to research what you think you should do with this money, I'm going to come to the table with some possibilities but the goal is not to spend this but to let it grow for the next two, three, 10 years."

Those can be the different scenarios, let's say option one is, you come back to the family meeting and one of your daughters or you say, "Okay, let's save this money, I like to save my money in a savings account. I found this great bank, here it is, I got some information on it, it's offering this particular interest rate. I want to save it and I want to contribute an extra $50 a month for the next year or two so that I can have maybe $6,000 saved and I can do X with that money."

This is an important part of the conversation I think. In order for young people to really value and appreciate money, because it's kind of an abstract thing, you want to associate it with real, tangible things that they value. Maybe it's $6,000 is the equivalent of a half year's rent in their own apartment when they get out of school or it is a half a semester of course work. Correlating that money is a real tangible things will make them appreciate it and also appreciate delaying gratification.

If they don't have their own money right now to be able to contribute to this, to add to this money, perhaps it's that they should find a way to make money, to earn the money. Don't just hand them this money and don't just say, "Here's the money, go invest it or here's the money, go save more. Let it sit in a bank account." I think that maybe there should be some restrictions to getting this money. They need to contribute to it and be unable to take it out in a year or until maybe a year or two.

What you could also do and I've heard some parents do this to drive home the power and impact of compound interest is to offer them a match. Maybe you say, "I'll give you $50 for every $100 that you contribute or I'll give you $20 for every $50 that you contribute." So it's not interest but it is a parent match and it can show the power of if you save, here's what you get in return. And do the calculations, do the tallying now so that they can see in the future what this money could potentially grow in to.

Again, the family meeting, the conversations, the discussions, I think a lot of learning is going to come out of that. If you committed the three of you to sort of doing this and going on this journey together and having an open dialog about it, I think that's going to be really memorable for them and will inevitably teach them a lot about the power of saving, investing, delaying gratification, compound interest. And also, what money can do for you, how it can be a vehicle to get you things that you appreciate.

So I love that you're thinking about this and I think $4,000 is a great start and they're going to be able to grow this. Imagine if they just let that money sit in a bank account, maybe they add $100 to that every month until they reach age 30? Do that calculation? That could be pretty exciting.

Alright, last question here from Joe. Joe says:

[0:24:52]

J: "Thanks for creating such a great resource and podcast."

[0:24:54]

F: Well, my pleasure Joe, thank you for being such a loyal listener. She says:

[0:24:58]

J: "I'm a single mom and a physician though I live in a very high priced area and I work in academics where I'm not paid very highly, though, benefits are great."

[0:25:06]

FT: She says:

[0:25:08]

J: "I feel very divided between my financial buckets; retirement, 529, saving for a house, tuition and child care and low interest student loans. My loans total about $74,000. Everyone keeps telling me it's not worth taking a chunk of my savings to pay down one of those student loans, which would be about $13,000. But part of me wants to, mainly to eliminate one bucket.

How should I prioritize these challenges and goals? Should I pay off the smaller student loan even though the interest is just 3.6% for the mental benefit? Or should I focus more on retirement and my daughter's college fund?"

[0:25:49]

FT: Joe, I'm all for doing things for the mental benefit, I really am. I do believe that there is a value in doing things for the psychological benefit to be able to sleep better at night but — and you knew that was coming right? There's a "but", not at the expense of compromising long term needs. In this case, in your case, retirement. Retirement is the number one bucket in this scenario. You could make an extra principal payment on your student loans every year and that will help to accelerate the payoff and you will pay less interest over the time of that loan.

But I'd rather see your income go towards future savings and as long as those student loans are getting managed and they're paid on time, you're good. The interest is low, you're good. Remember, the interest payments can be deducted up to $2,500 bucks a year. There is that to look forward to every year. That said, if you come in to some big money and there is enough to go around then of course, pay off that small loan, do yourself a favor mentally. But given that you need to prioritize here, I would say it starts with retirement and maybe a little bit of college savings, saving for the house, then student loans.

By the way, with so many buckets and we've all got the buckets, I've got the buckets. The key to avoiding the mental overload and the worrying is to simplify by automating your contributions. Commit to a certain amount towards each bucket every month and then hit go. You shouldn't really be worrying. Just visit these buckets once a month, make sure that everything is getting taken care off as you enter more money, your income rises, you maybe inherit money or you make more money somehow.

Then increase the contributions as needed. Retirement for you is really important. I think we covered this in a previous question too. Retirement is something that I just often hear from people, my parent's age and older is a regret that they wish they had started to save earlier and had been saving more.

Alright, that's a wrap everyone, thanks so much Joe and Linda, Michelle, Heather, Nila, Sarah. Thanks so much for tuning in everyone, for all your great questions. New Year, new you, new podcast. Well, not so new but we're going to incorporate some new questions this year, we're going to have more excitement in the pipeline so let me know what you're feeling, what you'd like, what you don't like, email me, I'm always open to suggestions and I will read them on this show, as you know. Easiest way to get in touch with me is go to Somoneypodcast.com and click on "Ask Farnoosh".

Thanks so much everyone, happy New Year, hope your weekend is So Money.

[END]