EPISODE 360

[SPONSOR MESSAGE]

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[ASK FARNOOSH]

[00:00:43]

FT: Welcome to So Money everyone. I'm your host, Farnoosh Torabi. It's Friday, which means it's all about you. I'm gonna answer your questions, we've got a lot to tackle. How was your week? Wasn't this a fun week? Millennial week on So Money? Got to talk to some pretty incredible 20-something year olds. I don't think anybody was over the age of 30, maybe one person was about to turn 30, but blew my mind.

You know these youngsters, as I will proudly call them, are changing the world. And what was really endearing to learn is that they sound like they're having fun and they're doing what they wanna be doing. I think that when you're in your 20's sometimes you just sort of follow the heard or you do what you think you're supposed to do, what expectations your parents have of you or society has of you.

And I got the sense that all of these individuals from this week, whether it was Victoria or Arteen, Kevin, they are all doing their own thing and not wasting time and having big goals and reverse engineering their ability to achieve those goals. So really inspiring, so excited to share that with you. If you missed any of those episodes, makes sure to go back over the weekend and binge on them because completely worth it.

And it was a short week for a lot of us, it was President's Day on the 15th, also happened to be my birthday and I had a very lovely birthday. Had the day off, was able to relax and spend time with my family and just the perfect way to start my later 30's. Can you believe it? I'm entering my late 30's. Oh my gosh! I'm still a millennial though, I will not relinquish the title. I am still someone who was born in 1980 and so millennials are getting older is what's happening.

Anyway, I digress. Let's get to today's questions. We've got a question here from Charlie who says:

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C: "My husband and I are in our late 30's, early 40's. Our income varies a lot year by year. I had little in retirement savings and he had none until recently. We have an emergency fund but little else. No debt. No kids. A big goal is to buy an apartment within 5 years. My mother died, leaving me $300,000 in inherited IRA's. There's no early withdrawal penalty for inherited IRA distributions, but income tax applies.

We're going to be in a low tax bracket this year. Do I pull $40,000 from inherited IRA's to jumpstart down payment savings, since the tax hit will be lower? On the one hand, I believe "never touch retirement money". I'm grateful for the retirement funds my mother worked so hard for. On the other, homeownership is valued in my family, and my mother always wanted us to buy sooner than later."

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FT: So Charlie, wow, $300,000. Your mom did an amazing job saving in those IRA's. It's fine if you wanna pull out some money from this IRA, save it and do this now while your tax bracket is low, so obviously that's good. I will say though, when you apply for a mortgage, and as someone who has done this multiple times, banks wanna see that you have not just the downpayment for the home, but they wanna know that you have other savings as well — emergency savings.

And the fact that you have no debt is good, but you wanna do what you can in the next year to, in the run up to buying this home, to really increase your personal savings in addition to this inheritance. You may also have to show that you have more in savings than the average Joe, the average Jane because you tell me that your income varies a lot by year.

So maybe you're, one of you's entrepreneurial, small business owner, or have freelance jobs with unexpected revenue streams. I'm in that boat too, so when I apply for mortgages, banks usually want more from me. They want proof of income for over the last three years as opposed to just the last year. They want a letter from my accountant saying that my business is in healthy standing.

And so there's a little more scrutiny for those of us who don't have the traditional 9 to 5 with an expected paycheck every two weeks or whatever it may be. So just keep that in mind as you prepare for homeownership, so first things first, boost your own savings, take a little bit out of the inheritance, put it somewhere, tuck it away safely.

Maybe if you don't need it in the next two years, five years, rather than just letting it sit in a bank account, think about maybe a CD or a bond where you can collect a little bit more interest and be a little bit more aggressive with that. And then I would say start house shopping. I'm with you and your family, I think home ownership is a potential way to increase wealth, but you have to be smart about it.

And if this is a way for you to own a piece of property, boost your wealth without stretching your financial life, without stretching your financial resources, then I think this is something to really work for. But be strategic.

Casey says:

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C: "I have some basic questions about an emergency fund. I've worked hard to improve my financial life, but still massively in debt. $90,000 in student loans, $5,000 in open accounts, and $7,000 in closed accounts. While I've stopped adding to my debt, I have terrible problems with building savings. I cannot seem to save. I know I need an emergency fund, aiming for $1,000, but how accessible should that money be?

Can I use SmartyPig where it would take three to five business days to get the money? Or being such a beginner, is it okay to pay down my debt only and use that debt as my emergency fund until the cards are paid off? It does improve my credit score. Or do you suggest another solution?"

[00:06:24]

FT: Alright, so you have a few questions here Casey. The first question you ask is what to do with an emergency savings fund, where to put that money. And think about emergency savings fund as something that you're going to need in an emergency, it's very literal. Not something that you'll want in three to five days. Like if you have a leaky roof or your car breaks down or you lose your job, you don't wanna wait a week to get the money. You want the money quickly. So SmartPig is great for those of us who have goals that are a little bit short to mid to long term. You wanna buy that car, you wanna go on a vacation, you wanna buy a house.

So the savings accumulates, we don't need the money tomorrow and we can wait three to five days to access it because it's not an emergency. But for your rainy day/emergency fund keep that in a very liquid, traditional account where you can withdraw the money from an ATM or go to the bank physically and withdraw the money during the bank's hours, and ideally the bank has flexible hours. So that's the first question, don't put your emergency savings in something that is hard to attain.

Next, given the amount of debt that you have I would say while you're looking at ways to save, also look at earning more. This is something that we advocate for on the show a lot because the conversation cannot just end at "cut this out of your budget, save this, neglect that". It's gotta also be about "how can I boost my income?" For somebody who has $90,000 in student loans and $12,000 in other debt, I think — I assume that you're not making enough to pay off this debt and save and pay for your expenses.

So there is a bit of an income problem, right? Am I guessing right? When I was $30,000 in student loan debt, making very little, living in New York City, I had my day job but I also freelanced and I also babysat and I also pet-sat, and I also did whatever I could to bring in a little bit of extra money, whether it was $50 here, a $300 assignment there, and that became my debt strategy — my get out of debt strategy.

So I would put as much as I could for my income towards the minimums, and then all that extra revenue would go towards the additional payments on the loans with the highest interest rates first. So see if you can find some extra revenue streams, and they don't have to be active streams, they could be passive. You could rent something out of your home, you could rent tools, you could rent equipment, you could also maybe rent a room, you could rent your car, you could also do tasks on the weekend.

Taskrabbit.com, these are online jobs a lot of times or jobs within your neighborhood that you can perform, whether it's running errands, going to the grocery store, helping someone send stuff to the post office and helping someone move. Every little bit of money counts, and if you have this much in debt, you just gotta do what you gotta do. And as far as not being able to save as much as you would like, what one of my guests does, and I learned this from Ilyce Glink. Check out that episode.

She does this really cool thing with her budget every year, which is that she takes all of her expenses off the table and pretends that she is rebuilding her life and given the current stage of her life, what she needs, what she wants, what she can do without, she rebuilds her budget with just those things. Because it turns out that a lot of times we have things in our budget that we don't really need but we're so used to having them it feels like if we lose it it's like giving up a limb.

So I would suggest doing that, but simultaneously really looking at bringing in an extra few hundred dollars a month. I think that would go a very long way.

[SPONSOR BREAK]

[00:10:05]

FT: Time for a quick break to put the spotlight on one of our sponsors today, Wealthfront. Wealthfront is the most tax efficient, low cost, hassle free way to invest. Now, many of you I know are interested in simplifying your investment strategy. You want to reduce fees, you want to work with a service that you trust and Wealthfront delivers. It builds and manages your personalized globally diversified portfolio.

To open an account, the minimum is just $500 and that gets you a periodically rebalanced diversified portfolio of low cost index funds. There are zero trading fees, zero hidden fees and advisory fees that are just a fraction of traditional advisers. In fact, Wealthfront manages your first $10,000 for free. To learn more and sign up, visit Wealthfront.com/somoney.

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FT: Jason asks:

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J: "Let's say you get a call from your credit union, someone is using your account. Many others of this union have also been attacked. What do you do?"

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FT: So Jason, I hope this is not you, but it sounds like it might be. First things first, you'll wanna work with your credit union that called you with this information and work with them. I would assume they would wanna close the account immediately if they haven't already, so that it doesn't work anymore, no one can access it. And start tracing that money. If it was a debit account, if they can prove that the withdrawals and the transactions were made without your consent that they were fraudulent, the bank should replace those funds.

If it's a credit card account that the bank manages, the bank operates it, additionally you wanna place a fraud alert with one of the three major credit reporting agencies — Experian, Equifax, TransUnion — on that account. And once you placed an alert with just one of these companies, the law requires that that agency reports your loss to the other two. And a fraud alert will be placed on all of your credit reports for 90 days, for free.

And why the alert's important is so that lenders and creditors will always have to verify the person's identity who's trying to open up new credit in your name. So even if it's you, so that way there is another layer of security and will usually catch fraud. And in the future, I think you wanna keep a really close eye on that bank account, or that credit card account. Timing is everything when it comes to protecting your identity after suspicion of fraud, and in this case the credit union calling you telling you about it, that's great.

But sometimes that doesn't happen. Sometimes the credit union or the bank or the institution is slow to detect the fraud because it's so savvy and good, they thought it was you. But you're the only one that can usually identify when something is not right. So make sure that you're checking your account all the time, every day, at least once a day. And while you're at it, 'cause I've had this happen to me, pull your credit reports from all of the major credit reporting agencies.

You can do this once a year for free, go to Annualcreditreport.com. And check for things like unfamiliar inquiries or accounts. It should just be something that you do anyways, but of course we usually don't do it until something like this happens. But make this a habit as well. And sorry this happened, maybe not to you, but whoever it was you were asking on behalf of.

Melissa says:

[00:13:28]

M: "Farnoosh, love the show! This is my second time writing in because I was blown away by your segment on the Millionaires Next Door. I was hoping you could make this a regular segment on your show, maybe once a month? My favorite guests of the segment were Jeremy and Winnie, because I felt they gave more insight into their exact financial moves. If you continue the segment, could you ask your guests to provide more detail into how much is in their savings, when did they decide to invest and how much did they start off investing? More detail can certainly help listeners like me put some goals in place to achieving millionaire status!"

[00:14:03]

FT: Well Melissa, you are in luck my lady because I am doing another week of Millionaires Next Door. Now I can't promise that this is gonna be something that I do every month, but I think it certainly deserves another week of millionaire profiles. Like you, many others wrote in saying they loved the Millionaires Next Door week. It was very successful, very insightful, and I will take your questions into consideration. They're very good questions.

And I agree with you, the more details these millionaires can provide, the better. Although we know sometimes with money people get very protective, they don't wanna tell you exact numbers, but I'm gonna ask the hard questions. So Melissa, thank you for that and I'm so glad the show is helping you.

And by the way, if anyone's listening and feeling like, "Hey, you know what? I'm a millionaire next door. I have a million dollars in net worth or a million dollars in assets and I'm pretty awesome and I'm a rockstar, I wanna tell my story." Email me. I'm still looking for some people to fill that week, farnoosh@somoneypodcast.com. And if not for that week in March, another time cause I'm sure this is gonna become a recurring theme on this podcast.

Bryan writes in and says:

[00:15:05]

B: "Hi, Farnoosh. My wife and I carry very little debt, about $3,000, other than our home and one vehicle payment. But we keep a couple credit cards open in case of emergency or for special deals/offers. We want to open a gas card to take advantage of some savings at the pump. We each have a credit score near 800. Is it wise to close one credit card for the sake of opening a gas card, or will the additional card not make a big difference to our scores since we have such low debt?"

[00:15:35]

FT: Simple answer Bryan, keep all the cards open because your credit score, one of the big variables is your debt to credit ratio. If you close a credit card account and you have some outstanding debt, then your debt to credit ratio gets bigger. Your credit ratio is equal to the amount of debt that you're carrying divided by the amount of credit available to you. So if you close an account, the amount of credit available to you shrinks, right?

Because if you have, let's say you close an account with a $5,000 limit, your credit availability's now whatever it was minus $5,000 but you still have that debt of $3,000 so your debt to credit ratio increases, which is not good for your score. The people in this country with the best credit scores have a debt to credit ratio of 10% or less. So open up that gas card and save money on gas, keep the other cards open and I think you'll be happy with the results.

And last question here from Pete. He says:

[00:16:35]

P: "Hey Farnoosh, thanks for all of the help in my personal finance journey. My wife and I recently paid off $30,000 in student loans, and I received $50,000 from a trust fund this year. I'm on the fence about what to do with the money, so I signed on for an investment managed account. It is 60% stocks, 30% bonds and 10% cash, with a 1.25% annual fee. I'm worried that the fee is too high, but I also don't want the money to sit in a savings account. We won't need the money until we buy real estate, but we live in New York City so that won't be for a while. What would you do with the money? Thank you."

[00:17:12]

FT: Well Pete if I were you and you just want to be a bit aggressive with the investment given that this is going to be a long term account, you don't know when you're gonna buy this house. If you buy that house, you don't want the money tomorrow. If you don't need this money at least for the next five years, keep it in an investment account. But yes, 1.25% is too high. For what?

Why are you paying that when these days there are so many other, more affordable online options.

And of course, this episode is brought to you by Wealthfront, so just a coincidence that you asked this question and our sponsor happens today to be Wealthfront. But I think that you wanna look at platforms like Wealthfront, these automated investment platforms where you can invest your money in low cost, diversified, long term portfolios and the fee is just a fraction of what you just said. In some cases 0.3%, 0.25%, I've seen them as low as that.

So if you're interested in Wealthfront, obviously the sponsor today, you can go to Wealthfront.com/somoney and they're offering So Money listeners the first $15,000 managed for free. And I believe there you can also do the same mix of 60-30-10 if that's what you're comfortable with. So look into these platforms as well as an option.

Because if you're just looking for passive investment, you know the split, you know that you're not going to be tapping into this for a long time, I think 1.25% is too high given that there are other options now that are much more affordable. So good luck, and hope you get that house in New York City.

And that's a wrap everyone. Thanks so much for tuning in. Thank you to Pete, and Bryan, and Melissa, and Jason, and Casey. Oh and don't wanna forget Charlie. Great questions everyone. Thanks for tuning in. Happy weekend, check out those millennial episodes if you haven't already, they're great.

This is Farnoosh Torabi signing off, hope your weekend is So Money.

[END]