EPISODE 467

[ASK FARNOOSH]

[00:00:32.9]

FT: Welcome back to So Money, 9/9, I love when dates like that happen, that's so cool. 9/9/2016, Ask Farnoosh episode 467. I'm Farnoosh Torabi and welcoming you back from I guess the summer? It's fall now, the leaves have actually fallen off the trees here in Brooklyn even though it's still 80 degrees outside, it looks like fall on the streets of Brooklyn, which is kind of nice. Fall is my favorite time of year.

Sophia is here with me as well. Sophia welcome back.

[00:01:05.7]

SY: Thank you.

[00:01:06.9]

FT: What's your favorite season?

[00:01:08.5]

SY: I like summer but I don't hate fall. I do enjoy fall.

[00:01:11.9]

FT: You don't hate fall, okay.

[00:01:13.8]

SY: I don't hate it. I'm not big into the pumpkin spice latte phenomenon, but I do like fall.

[00:01:19.0]

FT: Because it's not real pumpkin. I know, I was at Starbucks over the weekend and they were already promoting. It wasn't on the menu yet but they were teasing it and I was like, "Can we just take a moment?" It's labor day weekend okay? Calm down Starbucks.

[00:01:36.9]

SY: I know. They already have Halloween candy out at the supermarkets. This past weekend I was like, "Let's just make it through labor day people."

[00:01:47.1]

FT: I know, right? I still have some weight to loose from the summer. Don't need to be stuffing my face with Kit Kats yet, although it will happen. So this week, I went to LA and was there for a very short trip like 36 hours as you may have heard, last week I mentioned on Ask Farnoosh, I was heading to LA this week to film The Doctors. It's a very popular long running talk show featuring doctors obviously, it's the name of the show and I was surprised that they wanted to do a financial segment and they tapped me, they said, "Would you like to come out?" I said, "Sure."

The producers gave me carte blanche and they were like, "Well what are your ideas?" I was like, "I don't like that, when they do that to me sometimes." I'm like, "Can you just give me some direction?" It's like, "Do a financial segment, go." "Well, you tell me a little bit of your audience?" So we ended up doing a segment, it hasn't aired yet but I will give you the behind the scenes. We decided to film a segment on how to make money without really working, which I like because here on the show.

We talk a lot about all sorts of things, saving, budgeting, credit but my passion topic is of course how to earn more and we've got a chance to highlight some of the great resources out there for people who want to earn a little bit more on the side and it's a great timing because it's fall almost and this is really the season where we spend a lot of money. Summer is busy too but we've got back to school, we've got the holidays, travel, gifts so if there is ever a good time to learn how to make a little bit more money on the side, now is your chance.

So that episode, stay tune, it's going to be aired later this month I believe and it was nice. I was out in LA for like I said 36 hours. The first night I organized a small little dinner with some LA friends, a very eclectic group. I don't think anyone in the group knew each other but I knew everybody and that's always fun when you play matchmaker amongst friends and I had Lewis Howes there.

As we know, he's been a guest on the show. Also my friend from high school, a friend from college, my agent was there, it was again a very eclectic. It was really great to see all of the personalities at play and it was fun. I was excited for everybody to meet and it beats getting fast food or takeout your only night in LA. It was nice to get together and have a nice dinner. So anyway, that was my week. How was your week Sophia?

[00:04:30.8]

SY: It was good. It was quiet without you here but we have plenty to keep us moving along so it was a good week.

[00:04:37.2]

FT: I try to bring you on some trip, you went to Finnovate, right?

[00:04:40.8]

SY: I did and it was really cool to see some of the new Fintech coming out and connect with some of those people who are coming out with those apps and technologies so I learned a lot and hopefully we can put some of that information and some of your future articles and yeah, I think that would be a great way to get the message out to everyone on the show.

[00:05:06.0]

FT: Yes, everyone listening, if you have or know about a cool app or website that has to do saving or earning or budgeting or whatever in the money sphere, let us know because Sophia and I are always mining for that stuff. It's always good to be able to share with our audience here and our readers, "hey there is an app for that". You want to learn how to save more and invest better. I think these days, technology is where it's at.

So if there's something we can direct people to, it makes it all the more likely that they will follow the advice or follow through on their goals and speaking of following through, let's help some people achieve their goals, answer their questions right now, tell me who has been writing in.

[00:05:57.5]

SY: All right, so we're jumping in with Mary Beth's question. She's 39 and says healthcare cost seem to be skyrocketing and she's been thinking about buying some long term health care insurance and wants to know if you could go over the basics of what it should cover and maybe recommend a good source for some more information?

[00:06:19.4]

FT: Sure. So it doesn't seem like healthcare cost are skyrocketing. They are and I'm sorry if you are using me EpiPen these days, that story. Why is the CEO quote saying, "No one is hurting more than me on this news," like really? I think there are other people that are being negatively impacted by this price hike than you. I'm pretty sure she took home a nice pay package from this increase. I'm sure you've all heard about the increase in the EpiPen, which is terrible because the EpiPen is lifesaving, right?

It's a tool for people who are most vulnerable and it's the ultimate taking advantage I think and gosh, I don't know how their PR people are going to clean up that mess but back to your question Mary Beth and it's a good one about long term care insurance. You're 39, you're young still but this is the time to be thinking about your future and health care and what those cost are going to be like and long term health insurance.

Long term care insurance just as a primer, this is basically supplemental insurance that you would want to have in the event that you are in retirement, you're aging and you suddenly cannot take care of yourself in two of several ways. So that you have to qualify for at least two what they call activities of daily living that you can no longer independently perform; bathing, dressing eating, transporting yourself from place to place. There are seven of them.

You have to qualify for at least two that you can't do independently and then you would qualify for long term care, and that's when a physician or health professional comes to you or you go to them for long term care. This is important because typical insurance and sometimes other kinds of health coverage does not provide for this sort of care. It's not covered by health insurance, it may not be covered by Medicare, Medicaid.

So long term care insurance can be a financial life saver who are in their 60's and 70's or older who suddenly need to maybe go live in a nursing home or have someone come live with them and make sure that they're getting their medication, that they can move from place to place, from room to room. We don't like to think of ourselves ever in that type of situation but this really startling statistic, the US Department of Health and Human Services says 70% of people over the age of 65 will need some type of long term health care.

The key to this to saving money on this, because it's not inexpensive insurance, is to get it sooner than later and the advice is that around 50, maybe a little bit earlier believe it or not is when you might want to apply for long term health care. You lock in the price at the age that you're in and of course you're going to be paying for it a little bit longer but at least your monthly premium won't be as high.

And some resources for you, Mary Beth, where you can learn more about this, aarp.org is just a wealth of information for all things, retirement and health insurance and senior living. So go there, there's a lot of information about long term health care on their website but also the National Association of Insurance Commissioners, their website, naic.org and another website, grab your pen if you have it or just hit replay is the American Association of Long Term Care Insurance website, aaltci.org. That offers a list of companies.

So check out those websites, arpaaltci.org and naic.org but I think it's important to — look, 70% of people over the age of 65 will need some type of long term care. The alternative to long term care is to just make sure you save every pretty penny in retirement and those estimates are pretty staggering too as far as how much money you may need out of pocket for healthcare in retirement and it's anywhere from a few hundred dollars a month to $1,300 - $1,500 a month maybe more.

So it's the big wild card in retirement and a lot of people are seriously thinking about long term health care insurance because it at least gives you that added security, that buffer. If you plan on living a long life you might need some help along the way to do some of the basic stuff that we take for granted today as young people. Hopefully that didn't overwhelm you Mary Beth. I hope that was helpful. We'll have all of these websites in the transcript at somoneypodcast.com. If you miss anything, don't worry, we have it all for you. All right Sophia, what's next?

[00:11:30.0]

SY: All right so I think the next question is a great question that many of listeners struggle with in terms of just trying to prioritize personal finance goals as well as paying off loans and the question is from Alyssa. Her husband is headed back to school for his master's degree and will have about $80,000 in loans by the end of it. They're both 30, debt free, they both have 401(k)'s which have both invested and now, they want to save for their first house. Continue to invest in their retirement and pay off his loans. So they want to know how they should manage all of these. Should they pay off the loans before buying a house or vice-versa? They're not sure what to do.

[00:12:13.9]

FT: Yeah, so hierarchy of financial needs. I think that these student loans, assuming that their interest rates aren't super high, it's not credit card debt. If it was credit card debt Alyssa, I would say try to knock that down ASAP as much as possible before you start shopping for a home and there are two reasons there. One is you don't really want to have the burden because taking on a home and a mortgage, that has huge cost associated with it.

You want to make sure you have as much as possible a clean financial plate and that you don't have these burdens tugging at you outside of the mortgage because once you're a home owner, we all know, there's a lot of out of pocket cost. There's maintenance and of course taxes and everything else outside of the mortgage. It adds up, the less you have to worry about outside of that, the less stressful it will be and the more manageable it will be to be a home owner.

But with these student loans, I would assume that the interest rates are not terrible. $80,000 is high but maybe your husband will be graduating and he can get the job to be able to pay that off with his income and so it will be managed, right? And student loan debt versus credit card debt, when it comes to your credit score, it's not as much as a dinger. If it was $80,000 in credit card debt, I would say don't even bother applying for a mortgage because I don't think any bank is going to give you a mortgage.

Because what it will look at is their debt to income ratio. It will see $80,000 in loans, $93,000 in income, not very good. That's a little too close for comfort and so with that being said, this is student loan debt. It's looked upon a little bit more favorably and it's the type of loan that is not revolving debt. So underwriters will hopefully get that. My point in saying all of this is that you don't need to delay your house hunting by too much. You want to make sure you have all these other ducks in a row, right?

That you have income, you have savings, you have good credit, that's what's going to matter when you are applying for a mortgage. The loans can still be in the picture too but if you can show that you have income, you have savings, you have been paying your bills on time, that's going to all work in your favor, but you need to be the one that's going to be the judge of things. The bank could save you, "Yeah here's all these money for a mortgage. You guys seem to be having everything under control," but they don't really know.

They don't really know what's happening behind closed doors. They don't know that maybe you come home and you're stressed because you have debt and you're not happy with your job and so you have to be the number one judge of your financials. You have to do your own stress test because banks sometimes even to this day, I think they will over lend when actually you should be borrowing less.

So just keep that in mind. I think as far as hierarchy here, it's obviously important to make sure that you prepare for when these $80,000 in loans come due. So find out what's the monthly minimum that you have to pay and when will that kick in and make sure that you are prepared for that. That you're continuing to save in your retirement, that should never stop and that you commit to paying off these student loans.

And in the meantime while your husband's in school, maybe you start looking at homes first casually to just see what's out there, what's within your price range and then maybe at some point you decide to get more serious but know that when that point happens, you want to make sure you have everything in line so that you can hit the ground running. It's a very competitive housing market right now.

The houses are going within days, weeks, multiple bids, so you want to make sure that you have a good down payment that you've been pre-approved by a bank. That you are just ready to move on your thoughts and your desires. Otherwise things could go very quickly and you could miss out, but no reason to really not do something here but it's more about being aware of the implications of becoming home owners and having student loans.

You just have to be able to take everything on with responsibility and an understanding that you are going to be putting on your big girl pants here. Becoming a home owner and having $80,000 in loans, those are two big responsibilities but you make good money and when your husband, when he graduates, will hopefully make good money and the two of you together can budget this and work through this.

So that's what I would say to that. Thankfully, it's not credit card debt then my answer will be much different but it's student loans and this is all assuming that your husband will be able to find work because I think on your income paying off $80,000 in loans, that would be tough along with everything else.

[00:17:33.3]

SY: Our next question comes from Catherine and she's only spent about 50% of each paycheck and the rest is in her savings account for the last two years and for the year, she has already maxed out her Roth IRA and 403(b) and the only form of debt she has is her mortgage and student loan payments and she says, “While I could pay off my student loans and still have a safety net. I don’t want to because the loans will be forgiven in seven years under PSLF.” But she wants to know how she can get out of her extreme budgeting mindset and not feel guilty for spending money all the time.

[00:18:12.2]

FT: Guilty for spending money all the time? But she’s not spending money.

[00:18:17.2]

SY: I know.

[00:18:19.0]

FT: What’s this guilt? It’s based on nothing. I guess that’s a good problem to have but this actually raises a very interesting thought and revelation. There are people out there that are afraid to spend and just like there are people who are the opposite, they don’t save, they have a fear of scarcity they, as a result, maybe go to the deep end and spend and spend not knowing what tomorrow will bring. I think that frugal fatigue is a real thing but we have to think about spending not just on things sometimes Catherine.

But you know, enjoying your money can mean a lot of things and maybe you just need to open your mind to exploring that some more. So maybe you don’t want to have stuff and I get that because stuff doesn’t make you happy, but what about experiences? What about people? Can you go places with people and have memories and create memories? Studies show that that actually does improve happiness and that is money very well invested.

So thinking about investing your money not just spending it I think could be a good mindset shift for you and then there’s also donating. If you want to feel good about your spending and not have this guilt then maybe it’s about showering others with the money that you have saved and being generous and being charitable. So finding the charities that you love and want to support and doing that. I think there would hopefully not be any guilt associated with that.

So my advice to Catherine Sophia is really just to open up her mindset to the possibilities of what her money can do to make the world a better place and if she's happy and content in her life and doesn't see a need to spend in her life, then what are some ways that she can improve the lives of others? Saving money and becoming wealthy and growing your money, I think we all go through this phase, and I went through this phase too. It's like, "Well I make enough for myself, how much more do I really need to save? How much more do I really need to make?"

But when you suddenly start to realize that you're not the only one in the world, that there are others out there that could benefit from your success, that's exciting to me and that is one of the reasons why I work hard is so that I can give back. I don't feel guilty about it, I look forward to it. Maybe, Catherine, that's something that you would enjoy doing as well so that's what I would say to Catherine and don't feel guilty. You've work hard. You're obviously doing all the right things.

So if it helps too, you could create a separate account that's your personal slush fund and you just know that this is money that you've put aside after you've done all the right responsible things with your money that you can now spend on others, on yourself, charity, whatever you want. But you should enjoy life. There's no point in making money and saving it if you're not happy and enjoying your life and no, buying stuff is not going to make you happy but experiences do, vacations do, donating, all these stuff makes you not only happier but also I think more grateful for what you have.

[00:21:50.5]

SY: I think that's great advice and with all the holidays coming up, they'll be here before we know it. It's the perfect time to think about donating and giving back to charity and I'm sure if Catherine is like most people, at some point in the coming months most of us will be contacted by someone to donate money to some sort of fund or charity or non-profit and so I think that's great advice.

[00:22:16.6]

FT: Yeah. We just wrote a piece or we worked on a piece, Sophia and I on how to make the most of your charitable contribution and it's going to be out in the December issue of Oprah magazine. So stay tuned for that but the bottom line is, you want to be proactive about your giving. I know we're going to get a lot of solicitations for the coming months for donating our dollars, which helps sometimes to remind us to be charitable.

But you ultimately want to give to organizations that firstly you feel very passionate about and that you have done the research as well to know that those are the organizations that are going to do well with your money and put as much of your dollars directly towards the cause that they are promoting. This is a great question, we've never gotten a question like this before. How many of you out there are suffering from saving fatigue? "Frugal fatigue" as Catherine calls it. That's a good blog.

[00:23:11.8]

SY: That is.

[00:23:13.1]

FT: You should trademark that Catherine, and you're welcome.

[00:23:18.3]

SY: She has a new project on the side.

[00:23:19.8]

FT: Frugal fatigue. All right, we have a question here from Mark?

[00:23:24.1]

SY: Yes, our token male writing in a question. But he first wants to thank you for answering one of his questions a few weeks back on settling debt.

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FT: Oh sure.

[00:23:33.7]

SY: He wanted to update you and say that he was able to settle for 90 cents to the dollar and increase his credit score a little bit.

[00:23:41.7]

FT: Good.

[00:23:43.1]

SY: So now, he's back with another question and wants to know if you've done a So Money show on closing costs when purchasing a home? He'd love to hear your thoughts on that topic.

[00:23:52.6]

FT: A lot of housing questions, lately it seems. Well it's a great question. I don't know if it merits and entire episode but I think that it's true, closing costs often we forget the toll of closing costs and we always talk about the down payment and the interest rate on your mortgage and the mortgage but closing costs can be anywhere from I believe two to 5% of the purchase price and that usually is due at closing.

So that's another lump sum that you want to anticipate and try to save for. However in some cases, I mean it's been a while since I bought property and since I've investigated this but I think that on a case by case basis, sometimes you can roll your closing costs into the mortgage. So you amortize that, you end up paying obviously more than had you paid upfront but it does get amortized over like 30 years and it's one more affordable way for people who don't have the cash, the liquidity to pay for, say if you're buying a home for $300,000, your closing cost could be anywhere from six to $15,000.

Not to mention you just put $60k down for the down payment. So you might be a little empty in your bank account by the time closing comes around and in those cases, you might be able to negotiate to fold in those closing costs into the mortgage and then the bank pays the closing costs. So Mark are you buying a house anytime soon? Maybe there's another question in there that you haven't asked us. Let us know, because housing is one of my favorite topics.

[00:25:38.2]

SY: I know it's a really popular topic on this show.

[00:25:41.2]

FT: We thought that the interest rates are going to be higher by now. I thought so, I have to refinance and I've known about this since the beginning of the year but it's been taking me a while. I will spare you the details, but basically, I was concerned because I thought by this time, rates would be higher, I would be out with some money but knock on wood. Looks like rates are going to stay low for at least to the end of the year. I think nothing really crazy happens around election. The government is not going to, and the Feds, they're not going to make crazy decisions right now. We can't stomach that right now. We have a crazy election ahead.

[00:26:21.5]

SY: I know. So it's already time for our last question and it comes from Ellie. She and her husband are buying her sister's share of the condo and have been paying the mortgage ever since they moved in together and they want to know how they fairly calculate each other's equity shares. Originally they put 20% down, so 10% per sister but recently they refinanced and the place was appraised around $400,000 and when they purchased it, it was back in the low $400,000 and they want to know if there's maybe a formula they should use? Because ultimately, they just want to make it fair for everyone involved.

[00:27:05.8]

FT: Okay. So from what I understand Ellie and her husband and her sister bought this condo at one point in 2006?

[00:27:17.0]

SY: I think it was just Ellie and her sister and then when her husband moved in with her three years later and her sister moved out, he started contributing to the mortgage and the sister stopped contributing to the mortgage.

[00:27:32.0]

FT: Got it and now she's moved out.

[00:27:35.0]

SY: Yes.

[00:27:35.7]

FT: And Ellie put down 10% and then her sister put down 10% and now the question is, "My sister is no longer living here. The house was appraised, has risen in value and in the event that they sell it they want to know who gets how much?" I mean at the minimum, I think that her sister should get back what she put in plus whatever growth that the equity that has grown in the home. Let's say the bought the house for $350 now it's $400, she should get 10% of the equity.

She should be rewarded for any growth that the house has experienced. I know that maybe she hasn't been living in at the whole time and maybe housing have been putting in any sweat equity, this is something that's going to have to be put in writing as soon as possible. I'm not a lawyer but I think that her sister at least is entitled to her down payment back, assuming the house sells for the same price or more than what they paid for it. If they're under water then that's a whole other ball game.

But I would expect, it's an investment, I gave 10%, whether I lived in the house or not, I gave 10%, the house got purchased and maybe at the end, she gets her 10% back plus any extra froth from the growth in the value of the home. But now I would say, if Ellie and her husband are now the primary mortgage payers and they're the ones that are fixing the light bulbs and paving the driveway and painting the walls and up keeping the house, then they're entitled to everything else. That's my view.

This is sticky because we are talking about sisters. I would be curious, I think before you decide anything Ellie, you need to have a dinner table meeting with your sister and your husband there or maybe your husband is not there but just sister to sister like, "What would be fair to you given that now my husband and I are primary mortgage holders here? We've been managing the house and I know you had contributed to the down payment and some rent or mortgage in the beginning but if we do sell it down the road, what do you think would be your fair share?"

And maybe that's all you need to hear and you agree with that and you don't have to ask me. But I think that you have to have a conversation with her and see what her perspective is. The other thing that I would just say, a technical tip here is the deed, okay? So sometimes people forget the difference between a mortgage and a deed. So obviously we know what a mortgage does, right? It's a piece of paper that basically says this is what your loan is on the house. The house is collateral, here's your monthly payment, in 30 years the house will be yours.

The deed describes who owns the house and the deed, whatever the names are on the deed are not the names that have to be on the mortgage, did you know this? That just because you pay the mortgage doesn't necessarily mean you own the house. This is an important distinction. So if your husband is now paying towards the mortgage, that's great he's helping with the mortgage. But in the eyes of the law, when it comes time to sell the house, the owners of this home I assume are still you and your sister on that deed. Unless that deed changes, your husband is not owed anything when you go to sell the house.

So you need to make sure that if you're going to create an addendum to financial relationship that you and your sister and your husband have with this home that the deed reflects that as well. That's you're all protected in the event that you go to sell, that you can rightfully say, "My husband and I are going to get everything or 50% or whatever it is, because we're on the deed," and maybe your sister is too. This is where a real estate attorney really, really is going to be worth every penny.

Because you're going to be able to streamline everything for you and make sure that they have assumed every case scenario like if you sell the house, if you and your husband are still married, not married, you just need to be sure that you have all your basis covered. So the information I am giving you is just more of things to think about as opposed to "here's how it has to get done or should get done" but just some things to think about. These are awesome questions by the way.

[00:31:57.8]

SY: They really are.

[00:31:58.5]

FT: I feel like if you can Google it, don't ask Farnoosh. That's a good litmus test, right? "If I can Google this then I am not asking Farnoosh," and these are not Google-able. Google will not tell you how to figure out the ratio of my cut versus my sister's when I go to sell this house. Not that I gave you the exact answer either Ellie, but hopefully I gave you some things to think about. Talk to your sister, talk to an attorney, check the deed, see who's on there. Are you comfortable with that? And that might help to form your next steps.

And that's a wrap everyone. Thank you Sophia.

[00:32:38.2]

SY: Thank you.

[00:32:39.5]

FT: So just curious, and for listeners as well, how many questions behind are we? Because we're not ahead, we have definitely more questions than we can tackle every week.

[00:32:51.9]

SY: Yeah, we're getting a lot of questions lately. So I would say we're a couple of weeks behind, probably like two to three weeks.

[00:33:00.4]

FT: Okay, so that is just FYI for everybody. We will get to your question eventually but it may take two to three weeks. If something is very urgent or timely, put that in your subject or in the body of your question so we will try to address it sooner. It will be like, "I am getting married in two weeks and I know nothing about my husband's finances" let us know and let us know it's urgent because that could change the course of the wedding. No, I am just kidding. That's a joke.

Thank you to everyone for tuning. I hope you have a great Friday and hope your weekend is So Money.

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