EPISODE 533

[ASK FARNOOSH]

[0:00:32.5]

FT: Friday, February 10th. Welcome to So Money. Thanks for joining me. I'm your host, Farnoosh Torabi. It's Friday, so it's Ask Farnoosh time, where we dedicate this show to your questions. I'm recording this in advance of February 10th. I kinda have to work ahead of schedule these days, because I have a visitor coming on March 7th, specifically a crying, hungry, irritable newborn, as I would assume. Probably, cute too.

Nonetheless, I'm trying to take the month of March off. I'm trying to get off the grid in March, and that's requiring me to work overtime now and to pile up on some interviews and some episodes. I have no idea what the month of February is really like right now as I'm recording. It's right now, still January, and so I just hope that everyone's doing well. Thank you for sticking with the show, and let's invite on our cohost. As usual, Sophia, welcome to Ask Farnoosh.

[0:01:37.0]

SY: Hey.

[0:01:37.7]

FT: How is it going?

[0:01:38.8]

SY: Good. Good.

[0:01:40.1]

FT: You've been very lonely in the office.

[0:01:42.0]

SY: Yeah, it's been lonely, but we got a new little space, and it's all set up. I can't wait to have you back once you take some time off and enjoy some time with the new family.

[0:01:52.0]

FT: Thank you. Thank you. I'm looking forward to my time off. I haven't really been getting out in the world as far as getting on the subway, or even just walking down the street. I am just really hibernating right now in my apartment.

[0:02:06.3]

SY: Honestly, though, that's a good thing, because February, it's been — We've had so much rain, at least, at this time now that we're recording in January. I can only imagine what February might be like. The weather has not been — I mean, it's winter, it's not supposed to be great.

[0:02:21.4]

FT: I know. Also, the world is a scary place right now.

[0:02:24.5]

SY: It is. It's very scary.

[0:02:26.4]

FT: I want to stay home at much as possible.

Let's get to our questions. I'm happy to say, last year we had a number of audio questions. People are using the SpeakPipe widget on somoneypodcast.com, and we have one that we have yet to get to from Jen.

[0:02:44.0]

SY: Yeah. Let's see what she has to say. Her question is about paying off credit card debt and a car loan and where she should park some of her extra cash. Let's hear what she has to say.

[0:02:55.4]

J: Hi Fanoosh. I will be done paying off my credit card debt and my car at the end of February, this will leave me with $1,400 a month to put towards savings. My primary saving goals are to save for a down payment on a house and a six-month emergency fund. To give you some background, I currently rent where I live and I have one paycheck saved as my emergency fund. I am a 39-year old single female and I live in a moderately priced housing market where I could reasonably get a 10% to 20% down payment for a decent house for between $20 to $40 grand.

My question is where is the best place to put this $1,400 a month? Since I'll need this money to be mostly liquid, I know I'm not going to find extremely high yield investments or saving accounts. My question is where is the best place to park this money for the next two to three years?

[0:03:52.7]

FT: Okay. I think the best place, Jen, is to put the money in savings. I think that you'll want to be financially secure before buying a house, not just for your own financial sanity. Realistically, when you're applying for a mortgage, the bank will want to see that you have financial stability. That includes savings. The more savings you have, the more likely you will not only get the loan, but that maybe you'll even qualify for a really strong and low interest rate.

Then, once you have saved enough that you feel comfortable having a six-month to nine-month savings cushion where, gosh, if something happens you can afford your lifestyle for at least six to nine months. Then, once that's accomplished, then I would say start saving for the down payment. That's number two. Wo your own personal savings, rainy day savings, priority. Then, you start saving for the down payment.

I think that $1,400 a month is a lot. You might get to that goal soon, and within this year, start doing both of those things. I hope you do. When you are ready to buy that house, come back and ask us more questions, because I love real estate questions. Love helping people who want to become homeowners. Not because I necessarily don't like renting, I just think — I've done it so many times now. I have too much information in my head. I need to get it out.

Good luck, Jen, and let us know how else we can help you down the road. That was a great question.

[0:05:23.5]

SY: It was. I know, it's really exciting to sign into SpeakPipe now and see all of these voicemails building up.

[0:05:30.4]

FT: Hopefully it's encouraging — Yeah, hopefully it's encouraging listeners. It's not that scary guys, okay? I know it's a little different than writing in a question, but it just brings the show to life. We hear people who listen to the show. It's so cool. Now, we're going to back to some written questions. Here, we have a question from Meagan who — I took a glimpse of this question. I'll let you read more of it, but she sounds like a super overachiever.

[0:05:54.8]

SY: I was going to say, when I saw this in the mailbag, I was like, "Wow! Meagan, I want to be more like you."

[0:06:02.1]

FT: Yeah. Tell us more about Meagan.

[0:06:03.6]

SY: Okay. Meagan saves and invests 52% of her paycheck. She keeps her living expenses at about 27%, and then the remainder is used to pay for her master's degree that she's currently getting. She'll be done with that this summer, and then it will free up about $2,000 every two months. She wants to use some of that money to do something fun. She wants to get her private pilot license, but her parents want her to save and invest it. What do you think?

[0:06:30.6]

FT: Okay. As a parent, I'm thinking maybe her parents just don't want her to be flying. It's just too dangerous. Doesn't have anything to do with the money, just do anything else. Do something else. Don't get up in the air and pretend that you're going to become a pilot. Although, more power to her. That's awesome.

Okay. Let's just break this down for you, for listeners. She is saving more than half of her paycheck. She's also paying her way through school. I assume, with her cash. She doesn't sound like she's going to come out with any debt. She's going to actually save money when she comes out of school. Then, she's keeping her living expenses to less than 30%. That's incredible. That alone, I'm like — If that's all I heard, I would say time to have fun with your money.

[0:07:17.2]

SY: I was going to say something that she also mentioned in her question that I mentioned yet was she says that she has enough savings to last her four years without a job. That's crazy.

[0:07:27.2]

FT: Okay. Let's talk about this. That's amazing, four years of savings. You just heard me talk about, "Have six to nine months and you'll be good." Four years is almost — You want to make sure that you're not leaving any money that could be invested in a plain vanilla savings account. That's a lot of cash to just have collecting, basically, zero interest.

What I would say is that if she wants to invest her money more — And I think Sallie Krawcheck would agree with me. She talks about the female investment gap, that it's like the best piece of advice we never get, which is that we should invest early. We should invest often. This idea of hoarding cash for 40 years, that's a huge accomplishment, but at the same time I think you're missing out still. You need to take at least half of that, maybe three years of that money and put it in the market and let that ride until you're ready to retire. You're going to have more, I would bet, by the end than you would if it was just sitting there.

You don't need savings for four years. What are you planning on doing? Maybe if you plan on buying a home, if you plan on having a family, if you plan on also quitting your job, then maybe you need like a one to two year cushion, but four years is certainly more than enough. Taking at least half of that and putting it in the market will, maybe, also please her parents, because her parents are saying invest more, and that's good advice that they're giving her.

I think there's a lot of room here for her to do everything. She can invest more with that four years of savings. She can use that $2,000 every two months or so that's she's going to be getting as a result of not having to pay for this degree. To do something that is an investment in her. Whether that's flying lessons, or cooking classes, or traveling, or whatever, buying a nice new wardrobe even. Hey, that's prerogative. That's why we work so hard, right?

I would say do it all, Megan. You can. You worked hard enough. You've saved probably enough to now be able to invest aggressively for your future, also, have some fun. Keep status quo with everything else. Good job, Meagan. A for the day. A for the century. That's amazing.

[0:09:42.8]

SY: That is amazing. Our next question comes from Elle, and we're going to take a little bit of a different turn. I feel like you can relate to this, Farnoosh. Because, recently, been talking a lot about fees working with a financial planner. El's question; she's in her late 20s and she's trying to take advantage of compound interest. Recently, she took a look at those fees associated with her retirement account and she's wondering if her employer 401 (k) and Roth 401 (k) have these incredibly high expense ratios. What are her non-employer pretax and tax retirement options outside of Roth IRAs. She's wondering should she lower the contributions just to meet the employer match and then move the difference to outside index target funds. She just wants to know what your thoughts are.

[0:10:30.0]

FT: She's good to be investigating this. I investigated this in my own life a couple of years ago after I read Tony Robbins book about mastering your money. I always knew that these were a part of investing, and funds come with fees. Not all of them though.

As much as it's important to diversify our portfolio, to invest early, to invest often, you also want to be careful about the investment picks that you have, and not all are created equal. You could have two funds that look identical in a sense that they're investing in similar index, similar sectors, similar indices, but one has a huge expense radio compared to the other. It would behoove everyone to do this, and thank you to Elle for remind us to do this homework, to look at your individual investments picks and to ask your adviser, ask your 401 (k) provider to state. This information should be readily available too, but ask them again to provide that for you. What are the fees associated with every single investment?

If you're paying more than 1% in fees for anything, I would say look for an alternative. The ideal investment has zero fees, and they're like index funds, target funds, ETFs that are fee free. They are not, unfortunately, the most available in things that — An employer sponsored 401 (k), or Roth 401 (k) from work. Your investment picks going that route are usually more limited than if you would go outside of that kind of structure.

Of course, like she brought up. She has this company match, which is more or less free money. What I would do Elle, is if you did discover that your fees are higher than average and you could probably get access to no fee ETFs target funds elsewhere, I would, like she says, take advantage of these employer sponsored accounts up to the match. Do as much to get that free money as much of it as possible.

Then, when the leftover money that she has, move it over to something like a Roth IRA outside of work, a traditional IRA outside of work, you have options. You can go to any financial institution, pretty much anywhere. You can pick and choose from any number of investments including the ones that you've talked about, and you'll have more control over those picks.

The tricky thing is when you have so many different accounts, you can deduct from your taxes all these money. There's a limit to how much you can actually deduct from your taxes. You can do that. You can open a Roth IRA outside of work. You can open up a traditional IRA out of work, and maybe that's where you put your supplemental income to then create your diversified strategy for retirement.

This is good maneuvering. This is smart. Thank you Elle for bringing this back to our attention, because we sometimes forget. It's not just good enough to put your money in an account. Sometimes, that type of account is going to cost you — Fees add up. I did the math. This is what really got me off the couch. I basically did the math and discovered that a .5% different in expense ratios. Really, how much is that? Really? It's hundreds of thousands of dollars over a 30-year period, because that compounds and you're not just talking about one fund, maybe you have 20 different funds that all have higher than average expense rations. That's going to eat up a lot of your gains.

Rather than ending up with $500,000 at retirement, maybe it's only $300, 000 or $400,000. It's not sad. You can know — When you can make the right move now to avoid that, and it's really a simple tweak. You can do it. I did it. It can be done.

All right, Holly. She's got a lot on her plate.

[0:14:12.8]

SY: Holly is on the fast track to life right now and she's got a lot going on. She and her boyfriend are planning on getting married somebody, but they're also just about to graduate from college and they have well-paying fulltime jobs lined up, which is great to hear. Right when they graduate, they'll each be living at home in different towns for about a year before she plans on moving to where he is. They want to buy a house, but they aren't sure if they should save up for a wedding and live in an apartment until they save up enough to buy a house, or if they should save up for the house, and then the wedding.

[0:14:50.4]

FT: Woo! All right. I feel like life is moving at a thousand miles per minute. I hope that she's taking time for herself and she's not moving too fast and she is just feeling good and right about all of these. If not, slow down. Take one step at a time.

When I was graduating school, I thought it was enough just to be focusing on getting a job, getting married, moving, buying a house was not in the picture yet. I just think, "You got to let your life breathe a little bit."

That said, her question is really about prioritizing how to save. I think that in the future, they've got the wedding, they want to a buy a house, that's great. What about your personal savings? I think for, really, the foundation of your marriage to be solid, your financial foundation, each one will come to the table with strong personal savings. That's not necessarily going to be depleted for a wedding, depleted for a house, but it's just there for your own financial security. If one of you loses a job, you can still be comfortably living and it won't impact your mood and your relationship, because I know that money can be a real stress on relationships when there's not enough of it.

Taking care of yourself first. It's like put on your oxygen mask before helping someone else, before putting on another person's oxygen mask. Just make sure that your financially equipped in terms of your rainy day savings, six to nine months, you've got that shored away.

Then, part two, is, I would say, stating out for the house. I know you're not married yet. You're probably not even engaged yet. Why are you putting — What is the expression? The horse before the cart?

[0:16:30.9]

SY: Something like that.

[0:16:32.0]

FT: Okay — Or the cart before the horse. Forgive me. You get the picture. I think that the reason I say this; house before wedding, is because I just feel like a house is more of a substantial purchase. A wedding is one day, and you're going to be happier. Just trust me in this. You're going to be happier knowing that you can buy the home of your dreams as supposed to having the wedding of your dreams. There are a lot of ways that you can save up for a wedding. You can have people pitch in, you can save in a number of ways.

A home, to some extent, is going to require a lot of money that you'll be happier that you started saving it for it sooner than later. You'll have more options to choose from. A home is something that if you're planning on to have this home for a while, you want to love this home. You don't want to feel like you were forced into this house, because it's all you could afford.

The other thing that it does is that it forces you, now, have a more realistic budget for the wedding. Here's the thing, when you're just planning for a wedding, you will end up spending more than you initially thought, because the industry pushes your buttons. I've been through it. They know exactly the buttons to press. It's your most special day. You will feel emotionally driven to make all these irrational choices that are going to cost money.

When you've saved up for that house, whatever money is left, that's your money for the wedding. That's it. It's kind of nice to know what your limits are as supposed to — Then, you just have an excuse, "I can't buy that. I can't get the swans, because I'm buying a house." That's a good excuse.

Actually, it was how we did it in our marriage. Tim and I, when we got engaged, we bought a house first, or rather, an apartment, and that we just knew, like, "Okay —" We felt better. We were, "Okay. We have that figured out. We are in the house that we want to be in for many years, and so now we could plan and pay for the wedding with more certainty.

That's what I would say to Holly. What do you think, Sophia? You've been to a lot of weddings. I know you're in that wedding decade of people, they're getting married a lot in their 20s. It's ideal if you can do it all at once, but if you are planning ahead and you need to save appropriately, it's got to start with you, then the house, then the wedding. That's how I see it.

[0:18:52.8]

SY: Definitely. Two things; one is I just recently watched — I hadn't seen it since I was a little girl; father of the bride. When you mentioned the swans, it made me think of that, because they really do. Wedding planners try to get you on everything. I think it's smart to go with the bigger purchase. I know I've talked about it with my dad before. Obviously, he said, "One day when you do get married, I'd love for you to have the wedding of your dreams, but at the same time, think of what you could do with all of the money that you would spend on that day." I completely agree.

I think, for me, obviously, I would love to have a wedding one day and have a nice wedding, but I think at the end of the day, to have a dream home where you can create even more memories over the course of many years, or even just a couple of years, if it's just a starter home. I think that's so much more — To me, that's more exciting. Obviously, everyone's different. I will say I wasn't the little girl who dreamed of her wedding day. There's definitely — I'm not traditional in that sense, but I think that if you're going to spend a large sum of money better beyond on a home where you can start your future with someone than the day of your wedding, in my opinion, but everyone's different.

[0:20:10.0]

FT: I agree. Yeah, I totally agree. I dreamt of walk-in closets. I did not dream of — I did not dream of wedding cakes and wedding gowns. Like you said, it's to each their own. Still, I think you can be smart about it. You can still have the wedding of your dreams, but just, I would say, prioritize your finances by putting more towards the house. A house probably will end up costing you more in the long run anyway. The earlier you get started on that, the better.

By the way, some people, rather than registering for gravy — What is it called? Rather than registering for vases and gravy dishes, and whatever they're called, for their weddings — salad bowls — they will register for a house, and you can do that. There are sites out there that can help you register for their honeymoon, or your home. Some people might think that tacky, I don't. I think it's fabulous.

[0:21:05.8]

SY: That's so cool.

[0:21:08.0]

FT: Look into that as well as option to help you afford the home of your dreams.

Okay, last but not least, Sarah has a question about auto insurance.

[0:21:17.6]

SY: Yes. Her auto insurance deductible is $500, and she has an emergency fund, no accident history, knock on wood. She's 27 and she commute a half hour to and from work every day. She's wondering if maybe she should increase her deductible to $1,000 a month. She's not sure if it's worth it.

[0:21:39.1]

FT: Yeah. I think if she can afford to pay up to a thousand dollars out of pocket in case she gets an offender, which hopefully she won't, I think maybe that way she'll — When you increase your deductible, you're basically saying to the insurance company, "I'm good until this amount of money." That's when the insurance company will step in and cover your costs.

As an exchange for that, you'll have to pay a monthly premium. The higher your deductible, the lower your premium. She's wondering if she raises her deductible, is that a good idea, because then she'll basically save more money every month. I think it could be if she's got the emergency fund. She's a good driver. P.S. Women tend to be safer drivers for what it's worth. Men speed more, they end up in more fatal car crashes. She could opt to raise her deductible. That could lower her premium, but then that means she's more on the hook if an accident does happen.

Another thing to explore, I think, no matter what, and everyone — If you're interested in saving on car insurance, shop around every six months. Whenever, usually, your term expires for another plan. There's actually an app that you and I talked about or researched many, many months ago, called the Go Car Insurance Savings App. It's this really quick app. It's free to download, and it helps you shop around for car insurance. The site, the app, estimates it. Saves users $342 a year on average, and most of the insurance companies that work with Go will offer new customers a 5% discount just for signing up.

You might, Sarah, be able to keep your setup in terms of the deductible, but pay less by going some place else. It's always a good idea to shop around. In fact, I once interviewed — Maybe we should get him on the podcast. I don't know if we — Did we have him in the show before? The Economides Family? They are America's most frugal family. I hope they're still around in terms of promoting their savings tips, and they have a book. Their last name is Economides, which I think in Greek means economy. You're our resident Greek expert.

It's just such a fun alignment, because their whole life and their whole teaching is about. They have five kids and they've just learned all these ways to make a dollar go very far. One of the things that they've shared with me in the past is that you should always try to renew your insurance policies with someone else, or look into it at least, because it could save you a lot of money. It doesn't mean changing the policy necessarily, or the details, but car insurance companies, home insurance companies are very competitive.

Also, depending on the car insurance's history of having to pay for their customers accidents and things of that nature, that impacts what they end up charging people. It's really has nothing to do with you sometimes. As far as what's the history of this car insurance company's claims, that could impact what they end up charging you. That's why, and sometimes it's very arbitrary how they do it. It's really good to always shop around, so the Go Car Insurance Savings App is what we'll end on.

We've covered a lot of ground. We did car insurance, taxes, weddings. I guess people are starting to think about weddings and getting married. It's February. It's almost Valentine's Day. When is Valentine's Day? I know when it is, but today is the 10th, so it's in four days.

[0:25:21.4]

SY: I hope Tim remembers.

[0:25:23.6]

FT: He — This is a crazy month for him, he always says, because it's Valentine's day on the 14th, it's my birthday on the 15th. I'm due on the 7th of March —

[0:25:33.3]

SY: It's a busy time in your household.

[0:25:34.9]

FT: He's like, "I'm going to have to take out a small loan for all the gifts I had to get you." At this point — It's almost at the point where I'm like, "Just don't even get me anything," because I don't even have the bandwidth, the brain bandwidth to think about what I actually want. It's nothing that I need, it's more just like a frivolous want at this point. I'm just such a giant pregnant woman right now. I don't fantasize about anything.

No. I just want to get this baby out of me and we can revisit in six months when I've done all my neurotic workouts and cleanses and I've starved myself for three weeks. No, I'm just kidding. Don't do that. I'm not advocating that. You know what I mean pregnant moms. We've all been there. We're going to hit a low point — I'm going to hit a low point in about three months, six months when I can't fit — I'm still wearing my pregnancy jeans. It's going to happen and you'll be there to witness it.

Thanks everyone for tuning in, and I wish you all a great weekend. See you back here on Monday. We have Erica Keswin, she's a career expert. She launched a company called The Spaghetti Project, which is really helping companies, and employers, and employees learn how to work smarter and work better together at work. Imagine that, because we're all working remotely, right? Like you and me, and Sophia — I haven't seen you in six years. Not really, but you know what I mean. Stay tuned. Have a good weekend, and I hope your weekend is So Money.

[END]