EPISODE 641

[ASK FARNOOSH]

[00:00:34]

FT: Welcome to So Money everyone. It is Friday October 20th, 2017. Welcome to the show! What's going on? It's a very crazy week for me. I've been doing some speaking this week, I had a retreat, I'm in a Mastermind, you know what that is? Is anyone here on Mastermind? Raise your hand. It's a pretty cool way to network and get stuff done. This is something that I recommend all of us try to do in our professional lives, is to find people that are go-getters and really create a structure around meeting up.

Maybe that's once a month at someone's home or once a month at a restaurant or coffee shop. You set an agenda, you catch up, you share resources, you do hot seats, what's on your mind, what problems do you have, and you know groups anywhere from 3 to 5 people, I think this is a really smart way to expand your network and tap into resources and leverage your friends and your colleagues in a way that's not awkward. So, you're not like going to networking events or, you know, asking someone that you don't even know to help you connect you to someone that you don't even know this is a much better way for someone to get to know you and to really feel like they want to vouch for you.

So, Masterminds that's where I've been for the last 2 days. We had sort of an intensive this week. It's been really productive and really good. That's just my So Money moment of the week. Today, we got a special co-host and as always it's a listener who's been listening to the show initially she was commuting to her job, which was taking almost 2 hours each way. Happy to report she's no longer doing this commute. But, well, or more about this faithful listener of ours, her name is Alicia Schiller.

Alicia welcome to the show.

[00:02:27]

AS: Hi! Farnoosh Thank you so much I'm so excited to be here.

[00:02:29]

FT: Thank you for being here. All the way from Connecticut, not too far.

[00:02:33]

AS: Not so far, I guess the traffic can be a little bit too much to bare.

[00:02:39]

FA: It can be. Tell us a little bit about yourself and what brought you to a financial podcast.

[00:02:43]

AS: Sure! So I'm 33 and like you said, I live in Connecticut, in Norwalk, which is a town on the Long Island Sound. I work full time in Connecticut at a financial technology firm where I do eLearning development and I also run a side hustle as an independent career adviser. I guess what got me to a financial podcast, actually yours was one of the first ones that I started listening to all those years ago and it just sort of struck something in me in realizing how important it is to know what's going on with your money to really make the most of it and to really plan for your future and so I've been digging into it ever since then and trying to learn as much as I can.

So, it's a dream come true to be here with you guys.

[00:03:31]

FT: Oh! A dream come true. I hope you have a bigger dreams than this.

[00:03:32]

AS: A hmm! I have some, but this is a pretty big one.

[00:03:37]

FT: This is a pretty big one. Tell us how you have implemented some of the advice on the show into your life? Tell us, what are some of the goals you've been hitting or been trying to hit?

[00:03:47]

AS: Well, I know you always talk about how important it is for women to make more and, I think, I learned about several people on the podcast who have started side hustles and I don't know that my side hustle will turn into a full-time career for me but it is something that started because I love the work and I really enjoy doing what I do but it's nice to have this, sort of, additional income string and to be able to diversify where my money is coming in from, and really build a more secure in the future.

[00:04:20]

FT: In what ways are you diversifying? Did you have loans? Did you, are you putting it more towards retirement? A home?

[00:04:29]

AS: Trying to right now, our main goal is to really bolster our emergency savings. We bought a home about a year and a half ago and since then have paid off a car loan and bought a new car with cash. So we're at that point now where we really want to tuck away as much as we can in that emergency savings because buying a home comes with a lot of other expenses as well and unexpected repairs and so that's been our main goal at this point in addition to making sure that with my full-time work I do have enough that I'm setting aside for retirement.

[00:05:00]

FT: Yes. Well, I love that you are a home owner. I am too. Our first question is from Ashley, she's only 23 but she's interested in buying a house and she lives in Chicago, which I believe is a little bit more of a better first-time buyer market than maybe New York City but it's still expensive. You know, Chicago is a big city. But here is her situation: Okay, so she is 23, she makes $75,000 a year, she has $28,000 saved — way to go Ashley. So, now she wants to buy a condo in Chicago. Her budget is a $150,000, she has 20% to put down and so she wants to know, “Is this a good investment?”

Okay, I hate the word “investment” when it comes to real estate although I totally get it. I probably use it more than I should. It's, I just think that it is not a safe mindset to have when you're thinking about real estate. Unless, this is like a 2nd property or specifically, a rental property that you're looking at to make capital and be a cash flow positive renting it out. That is an investment. But if this is your first home, that you're going to live in, it's maybe a starter home, ideally yes you go around and you sell it in 5 years, in 10 years at a profit. But I think that most important is that you're approaching this purchase with the mindset that this is going to be affordable and that it's going to be a smart move.

Now what does smart mean? It means that compared to maybe paying rent, you will be a saving a little bit of money month-to-month based on how much the mortgages plus all the other costs that you might be getting more bang for your buck that you might be able to live in a neighborhood that's safer, better, that you maybe able to, yeah, in 5 or 10 years, run the numbers and do the projections see what historical gains has been. You know, if you do hold on for awhile is the neighborhood on the up and up, is it appreciating? you may be able to develop a little bit of a, an equity in the home or a little bit of a nest egg.

But it sounds like financially she's set to be able to budget for a $150,000. I think the bank may give you a bigger pre-approval. They may say you could buy as much as $200,000 or $300,000, as banks do. Sometimes they take your salary and they multiply about like 3 or 4. But, which I think is very aggressive. But I think in this case your budget is twice your annual income, you've got a lot of savings and I think that is a conservative approach.

What do you think, Alicia? Do you think she's like in a good zone?

[00:07:43]

AS: Oh, absolutely yes. I think it is really impressive. I don’t — I definitely didn't have this much money saved when I was 23.

[00:07:49]

FT: I know, I was in debt. I was in a lot of debt at 23.

[00:07:53]

AS: I was going to say I would also add, she mentioned that she has $28,000 saved but I would want to know does she have additional money on top of that for the downpayment or is she planning to drain her savings for the downpayment? I would just want to make sure that she does have additional funds set aside for unexpected expenses and emergencies and that sort of thing.

[00:08:12]

FT: Yeah! Exactly and also the closing costs. There are a lot of up-front costs to buying a home. One is your, obviously the downpayment and then there is the closing costs, which can be anywhere from 2% to 5% of the sale price. So, Ashley just make sure that you have more than enough and if $28,000 is all that you have saved that you either need to reduce your budget to something more like, I don't know, a $100,000 in order to still put down the 20% and then have some extra leftover for closing costs or continue to save. Use the rest of the year the next three months to save.

You know, the last 3 months of the year are not the hottest buying months of the year. So, I feel like property could sit on the market for a longer than average time if you're not ready to buy now and you seemed like you've found your ideal place, it’s okay to maybe wait a little bit longer if that, if that does mean that you'll be able to be more financially secure. So good luck Ashley and let us know how it goes. I always want to know the other side of the question, which is, did the advice help? What happened? Did you get the place? Send us pictures.

Alright, Alicia, the next question is from Jolene have you read it off and tell us what's on her money mind.

[00:09:30]

AS: Okay! So, Jolene wants to help her parents who have never invested for retirement. She is 31 and they are 67 and 74. They currently have about $80,000 in cash that they keep handy and while they're getting by for now, Jolene's concern is that they don't have enough should they need long term care. So, they don't have long term care insurance and neither of them has a will and she wants to know where should she start helping them?

[00:09:55]

FT: Alright! This is such an important question and I think there is probably many people on the phone who are either in the same situation or nearing this situation or they're in it and they don't know where to start. It's a reality that we have an aging population. I read the other day a statistic that was really sobering, which is that most people approaching retirement have very little, if anything, saved for retirement and I'm talking about people who are in their baby boomer, I guess the baby boomers who are like about to retire now, they don't have much.

That could've been a result of the financial crisis that, you know, really cut off a lot of people's savings and investments and the equity in the homes that they are hoping to bank on or they just didn't save. In this case Jolene's parents just never really, never made that priority and so it's great, I think, that they have this daughter, Jolene, who wants to help. I think the first step, Jolene, is to if you haven't yet to start this conversation with your parents and get informed.

So, that you really know what are the real numbers. What is the reality? What's the value of the home? If they had to basically retire today and using all the assets and the money they have available to them, what is that? What are their security system payments? What is, are they getting any pensions? She says here that there is some background that her mom works part time in food service and her dad does collect a small pension. They own a rental property that brings in some income and both the rental home and the one they live in is paid off.

So, that's really comforting. I think that, I think, is better than nothing, right? It's better than like if they have a mortgage. They're unemployed and they don't have any pensions coming in. That's actually, I think, a good sign that they can at least status quo for awhile. But as she smartly brings up one of the biggest wild cards in your retirement is your health. Am I going to have a quality life for many years? Will I get sick and what would that cost? Will I need assistance? Truthfully at 67 and 74, buying long term care now is either going to be ridiculously expensive or they won't even qualify because the insurance companies don't want to take on the risk of say, insuring a 74 year old who is at a much higher risk of getting sick and needing the assistance of long term care than someone who's in their 50's who's going to paying into it for many years, decades perhaps until they, if they need it.

So, I would say Jolene the most important thing that you can do and at this stage is to really just, bring yourself to your parents and say I want to help you. I know that this can be uncomfortable or you may not think that I as your daughter should have to worry about these things but I really want to be here for you and start with asking them, “What do you want in your retirement? What would, you know, if you had to retire tomorrow and let's say god forbid one of you did get sick, what's the plan?”

Create this scenarios for them so that they can start to really think about, you know, what would be their plan B? What would be their contingency plan? Would they sell the rental property? Would they sell their home and downsize at the very at least if there's stuff lying around the house, Alicia, what do you think? They should start selling it, right? Have big yard sales.

[00:13:33]

AS: Oh, absolutely. I think anything you could be doing at this point to bring in a little bit of extra income, like you said, selling things. I know her mom is working part time, if she can increase her hours just a little bit for now and I think the other thing that I would add is that, it's sort of like the oxygen mask falling from the airplane and you make sure you put your own first. I would really want to make sure that Jolene has herself in a financially stable position so that if she does need to support them a little bit more down the line, she's able to do that.

[00:14:06]

FT: That's so important. You brought out the most important point. Yes, that she should make sure that she has savings that she has reduced her debt or has erased it or is on a path to do that. Because, Yeah! I mean, you know, 67 and 74 is not old. We're living longer these days and hopefully her parents are in good health. But there maybe a day 10 years down the line, 15 years down the line that they'll really need their help financially or just her assistance wise, you know? Since they are not going to necessarily qualify for long term healthcare, I think, it's going to cost a lot of money to go into nursing care or bring in someone to the home full time or even part time.

So, it may fall on Jolene to hopefully if she can, you know, spend the time with her family to support them. Or maybe they move in with you or you move in with them temporarily? I mean, this is the stuff that people have to really weigh and, the most important is that you are financially checked that you have your ducks in a row. That if you do give them money that you don't feel like it's going to compromise your financial life and if it helps, start putting a side money now, just for this purpose I do that, believe it or not because I'm totally conservative and my parents are in good health right now but I they have helped me so much in my life that I would feel terrible if they needed me and I was not in the situation to be able to do so comfortably and readily.

So, at the very least, I'm putting aside a little bit of money, you know, just so that I know, that I can, you know, immediately help them if they need it. I don't think they will hopefully they won't but it's one of those things where it helps you sleep better at night.

Alright, Nichole has a question. Give it to us, Alicia. Something about saving and investing, and budgeting?

[00:15:59]

AS: Yes! And it's a personal question, and she wants to know how you personally save, invest and budget? If you could share percentages and any preferred platforms you recommend, and if there are ones that you discontinued using?

[00:16:11]

FT: Alright! So I actually did a really — I did this podcast of, I think this was a couple of months ago on Listen Money Matters where I talked all about how I spend and save. There's a lot about how I spend. So, I encourage you to go and listen to that. I also got interviewed on So Money by a friend, the host of Stacking Benjamins, who interviewed me way back in the day. So, if you go to somoneypodcast.com and you type in “Stacking Benjamins” cause he was the host, Joe from Stacking Benjamins, he interviewed me on So Money. So I give a lot of my own advice and tips. But just to recap, briefly, I do a lot of the boring stuff first. I save first, I invest first, I put money in the retirement accounts, the mortgage, the insurances, the kids college account.

I do all of this, sort of, you know, long term and or boring stuff. I call them boring stuff because its not like very thrilling to, you know, pay off your car insurance or pay your car insurance but you need it, right? It's all the necessities. So, it's the needs first, which we hear about all the time in Finance 101 and then with whatever is left in my checking account I know that I can spend that without guilt and without regret and assuredly. So, that's kind of how I do it. I keep it all kind of in my head. I have — I use Quickbooks for my business budgeting and my business cash flow. I have a great bookkeeper who helps me organize all of that. I have an accountant that tells me how much I have to pay quarterly in my taxes because I'm self employed, I do that.

And, I assume that from every paycheck that I make, which is inconsistent, I make money like some weeks I make a lot of money, some weeks I make no money, some months I make no money, some months I make all the money for the year. It's just I've gotten used to it because I've been doing this for so long and I have a cash reserve to help with some of the gaps in income. But it's really about having a good team, tapping into these resources like Quickbooks, I also use Mint for my personal finances and this way I check it all the time.

I also check my own bank account individually. My credit card account individually everyday because sometimes when you go on Mint, although it updates it like within a snap. I just like to also go in and just verify that everything is apples to apples and that's how I do it. I mean, I don’t know? What else did I leave out? Percentages, oh yeah. As I was saying, for every paycheck that I make I assume that 40% of it is not mine. Actually 50% because between paying my agent and paying the IRS it's about half that has to go to someone else, other people besides me.

So I have gotten to see money in a different way. The paychecks that I get I usually just take off you know, 30% and that's in my mind how much that I have to bank. Things that I've discontinued using honestly nothing. I've never really signed up for a lot of things. I've really much stuck with Mint and Quickbooks and I although I had a ton of cool technology founders, FinTech founders on the show and I recommend their products things like Digit and Acorns, for people who want to invest on the go. Digits lets you save on the go and it's nominal and easy and automatic and it's great for people who have a hard time saving, even just a little bit, Digit is a wonderful solution.

Alicia what do you use? If you mind sharing maybe some of your financial management with us? How does that look?

[00:20:05]

AS: Sure and I'd say it sounds pretty similar in terms of making sure that the savings and the retirement are the first priorities and obviously taxes, which just gets taken out so I don't have to worry about that. In terms of tracking and budgeting we're pretty strict about that. We keep a budget on EveryDollar.com, which is actually Dave Ramsey's website and the reason I like is because it's pretty bare bones. It's really, it's a manual process. I have to go through the exercise of typing in all of my expenses and I really like that because I like having the control and ownership of making sure that I sit down a couple of times a week and categorize things appropriately. That kind of helps me stay on top of things.

I know that Mint and other sites make the process a little bit more automatic for you and they help you to categorize things that I like to be able to have that control. So, that's been very helpful but I have just even used just a spreadsheet in the past to track all of our expenses and our spending and make sure that we're sticking to the budget.

[00:21:05]

FT: Spreadsheets don't lie. I love spreadsheets. I used to use them in early days when I was living in New York City as a young singleton. I would use budgets or Excel spreadsheets all the time and it was important, I felt, for me to type in the numbers as oppose to just have them automatically register. Because for some reason it just made me really understand and know what I was spending and I think when you're first starting to budget that's very helpful because it — you need that. You need that relationship with money to get strong and to really feel sometimes the pain of just how much you're spending on the stuff that you probably don't need spending on and that's how you make those realizations is when you really go pen to paper, or you know, keypad to Excel spreadsheet.

[00:21:57]

AS: Right! And, I will say that there's been more than one time that I haven't bought something because I didn't want to have to go type it in later.

[00:22:06]

FT: Yeah! Yeah, you become accountable to yourself and to that spreadsheet and when you see it that can be a little difficult to stomach.

Okay, so we have a question here from Michael. "How do I move out of my parents house if they are dependent on my $1,400 contribution to the $3,400 a month mortgage? I net around $3,500 a month?"

So, I've never gotten this kind of a question and we hear often where the adult children live with the parents. Sometimes, a lot of times, rent free. I encourage parents to charge some rent, because I really want the kids to appreciate the fact that they're able to have this relatively affordable housing and to also encourage them to move out one day. Because, you know, like living with your parents is one thing but they paying to live with your parents is like, seriously?

So, this sounds like though that his parents are really dependent on his contribution. So that's a hard thing to break up. Any advice?

[00:23:16]

AS: Well, I mean, I hate to say I don't know if all of their children are adult age at this point but it might be time for them to downsize it. It sounds like a it's a pretty significant mortgage and if they're really relying on his rent for that in order to be able to pay that when he doesn't need to be living at home, it might be time to downsize, in short.

[00:23:36]

FT: Yeah! It's not an easy answer but this could be the way that their parents get a wake up call. If this is really something they're really dependent on then either they need to downsize the house, which, it's a lot of effort to do that. It's not going to happen overnight. In the meantime they may need to just look at ways to cut costs in other ways and if there is a way for you to still help them out, if that's something that you feel comfortable doing and want to do, maybe, you know, even you're not living there you could still help them out. Because they’re our parents and I firmly believe that if my parents came to me and needing financial help, it's serious. They don't do this ever and so it's probably really serious. If I'm in the position to be able to help them then I would.

So, this is something that is really going to hurt your family in the short run, you moving out, them trying to scramble to figure out how to make this mortgage, maybe you helped them a little bit. Not to pay the $1,400 a month but a few $100 a month in exchange for, you know, going over there and eating out of their fridge from time to time. But if you have siblings then maybe this is time to have a family meeting, you know, and talk about the home, the family home and what we should be doing about it because it's not financially affordable at this point if it’s just mom and dad living there.

I don't know how they feel about Airbnb-ing it? That's a very, I feel like the old generation may not be as quick to Airbnb their spare rooms out, but hey! It's what people are doing and how they're supplementing their mortgages. So, its working for other people, it might work for your family. It may not, but something also to bring up. Have you ever done Airbnb, Alicia?

[00:25:26]

AS: I haven't. I understand the value of it. but we don't have a ton of space and it will just be a little bit of close quarter, I think, with a stranger.

[00:25:38]

FT: Yeah, I have been a — I have been a lodger at an Airbnb. I've checked in to Airbnb in Paris. Had great experiences. I think that if we had the kind of place where, you know, we could offer our, a bit of a spare bedroom to somebody who would have their own entrance or we would go away for the weekend and they could stay here. We will be open to it. I don't think our building allows it, actually. We're in New York so the laws here are a little tricky circumnavigating Airbnb but I fully support it when people can make a way to supplement their mortgages from it.

Last but not the least, we have a question from Melissa, she, I think has gotten some bad advice. I will just say it. She met with the financial planner, Alicia, and he strongly recommended that she get whole life insurance. That's the type of life insurance that has cash value and it's permanent and she wanted — this person encourage her to do so to save money, as a "a safe way to save money". P.S: She is 29, has no kids and is in good health. Oh! My gosh!

I don't want to say that your getting robbed here, you haven't gone robbed yet, but I do think this is a bad I idea. I think that what he forgot or she forgot to tell you was that, while yes the cash value is guaranteed and while that may be "safe" as a way to save, it's dang expensive. People who tap into whole life — people who apply for life insurance, you get qualified who then start making these very big premium payments every month when they lose a job or when cash gets tight, this is like the first thing that they forfeit and you don't get all of that money back. Like all the money that you put into, if you miss a payment your done, your out and that's a very expensive regret that a lot of people have is tapping into whole life insurance.

You're 29 and you don't have no dependents and your in good health. So, I mean, I don't even know if you should get term life insurance at this point, frankly. People who are best positioned to apply for life insurance, in general, I think people who have dependents, people who have children, who have maybe parents that they're supporting. Anyone that you're financially supporting who may be at risk because you die and you haven't had any savings, you have debt and now these people needs to still go to college or your family still needs to pay their mortgage and you've been supporting them, that's when life insurance is imperative.

But if you are 29 and you don't have any dependents and you're healthy and there's no sign of you getting sick or anything like that, I mean, I think you can still weigh on life insurance portion of your financial planning and certainly no need to get cash value life insurance because I'm pretty sure that's going to be very expensive and not really necessary. It may become something you consider later in life depending on how your life, where your life takes you but right now I don't see a need. I don't have enough information to really see this as being vital and you're in the financial sector, Alicia. I don't know if you have any run ins with this kind of stuff, but what do you — what's your take on this?

[00:29:05]

AS: Well, this was me about seven years ago or so. We met an insurance sales person who came to our house and told us about how amazing of an investment a whole life insurance was and we did go for it and a few years later after actually doing some research and learning more about it realized it was a terrible investment, and invest surrendering and losing all of that money we put into it.

So yeah! It has terrible returns and as far as I know your heirs don't even get the cash value after you passed away. It just go right back to the life insurance company so I think it's terrible and I'm wondering actually if this financial planner is actually an insurance sales person.

[00:29:45]

FA: Right! And, regardless of their title if they are giving you retirement advice, which is not really what life insurance is? A lot of people, in this case, the whole life insurance, you know, I think, he's positioning it like as a way to plan your retirement because this is like savings that you can tap into later on down the road. He absolutely needs to be disclosing or she I'm assuming it's a he. I'm so sexist.

[00:30:10]

AS: She said, “He strongly recommended.”

[00:30:12]

FA: Oh! She did say “he”. It wasn't just in my head. He should tell you how much money he is positioned to make off of this transaction. I'm pretty sure he's going to get a commission and, you know, that's not to say that it's not trustworthy advice but it's suspect. So I would talk to some other people. I would talk to a certified financial planner who is a fiduciary and get their opinion and there are many out there who will have a first consultation with you for free.

So do that and let me know if I was right. I'd love to know. But stay away from this for now. I don't think you need it. Alicia, thank you so much. Alicia Schiller, thank you for giving us so much great advice, for listening to the show, and for being a financial role model. We love you.

[00:31:03]

AS: Thank you, Farnoosh. I had a lot of fun. Do you want to do some more questions? We can keep going?

[00:31:07]

FA: Oh! I would love too. I'd have to have you come back. We definitely have enough questions, but now I've got to go of to another-

[00:31:14]

AS: I know, I was kidding.

[00:31:14]

FA: Off to another errand. But I would love to continue talking with you. You're fabulous. Stay around, stick around and until next time.

Everyone else I hope your weekend is So Money.

[END]

