EPISODE 659

[ASK FARNOOSH]

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FT: You're listening to So Money, everyone. Happy Friday, December 1st, 2017. It is countdown until the end of the year and I think a lot of us are — Well, if you listen to this podcast, I'm going to make an assumption here that you care about your finances. The end of the year usually means checking off your to-do list when it comes to maybe tax planning or Christmas shopping, holiday shopping, getting your balance sheets in order, all that good stuff and hopefully this podcast has been helpful to you along that path.

And today, we have a special co-host. You may remember him, he was on So Money earlier in October. I want to welcome back John Bahnken, who is the President of Citizen's Bank Wealth Management and as you may or may not know, Citizen's and I are in partnership right now. We're working on helping to spread the good word about retirement planning and investing and Citizen's has ruled out recently a new online banking platform called SpeciFi, which we're going to learn more about in the next 30 minutes and there's actually a special offer. So wait until the end to hear how you can engage with SpeciFi with a special discount.

John was here earlier in the quarter talking about his own personal financial life. So check out, that was back in October 26th and I've invited him back to help me sift through some of your investment and retirement planning questions. I know here in the Torabi-Dussinger household, my husband and I had to pick health benefits. He just switched jobs and it's not open enrollment period but, man, we have like, 12 different medical plans to go through and I know that wherever you are, whether that's health benefits or your investment options, it can be overwhelming. So to help us kind of, get some strategy together, at least for the investment quotient of that, is John Bahnken.

John, welcome to So Money.

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JB: Hi, Farnoosh, how are you? Great to be here.

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FT: Great to hear your voice. Hey, how was your Thanksgiving?

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JB: It was terrific, it was terrific. I visited my family in New York and everybody had a great time. We had a special treat; my niece got engaged and so we had a little engagement party for her, so it was a lot of fun.

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FT: That is fun, you had a little Thanksgiving, a little engagement party. That's a nice way to celebrate the Day of Thanks, to share an engagement. That's super cool, and in fact I was a — I was in Pennsylvania and we stopped at a kind of a plaza area to get some pizza on Sunday coming back from Lancaster, where my husband's family lives, and wouldn't you know it? There was a Citizen's Bank in the plaza. So, I — it reminded me that we were going to have a conversation on this Friday. So Citizen's is there when you least expect it sometimes. I didn't think it was going to be in that shopping plaza, but there it was.

And so, SpeciFi, let's talk about SpeciFi. When you were on earlier, you had mentioned that you know, this automated platform, investment platform had just ruled out, and by the way, I want to tell people that there are a lot of different robo-advisers out there. We talk about them on the show, but SpeciFi is unique in that it's both and an automated investment platform and it gives you access to real licensed professionals to help you guide your investment planning. So, it's a little bit of a hybrid in that sense. How's the roll out been going?

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JB: The roll out has been going really great. Frankly, the response that we've gotten to it from online and sort of, calls into the investment center that we have, have been really pretty amazing. A lot of enthusiasm for some of the features that we offer there, I think, are things that are really resonating with clients. The one thing that you point out, which I think is spot-on being able to have a digital experience but be able to also talk to a, you know, an adviser who you can build a little bit of rapport with to work your way through is very, very popular with clients.

So, I think that's great and people really like the aggregation feature to it. So, even if you don't want to use Citizen's SpeciFi to manage your portfolio for you, your ability to track it against your existing portfolio against what SpeciFi would recommend it for you is very, very popular with people. So, we're actually seeing the number of people that are linking their portfolios to the SpeciFi portfolios to sort of monitor their progress going forward is really getting to be a big number. So it's good. We're very, very pleased with the response that we're getting.

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FT: Are people taking advantage of the live help of the actual, you know, flesh and blood human being that can actually give you some financial planning advice, as opposed to just the automated portion?

[00:05:31]

JB: Yeah, no, they definitely are, and we're seeing clients actually use the live advice multiple times. So, people would first call typically to learn a little bit more about SpeciFi, what it really is and what it does for you, how it helps you simplify your financial life. And, then they'll often go back and do some more research online and then they'll often call back again and want to talk about as they're going through the enrollment process to create your portfolio that's uniquely tailored to your needs. They'll often call again and talk a little bit more to make sure that they understand some of the terms. Some of it is technical, like you were saying before, like your health benefits and you just have to be familiar with some of the language around it. But, all good.

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FT: All good. Well, John, let's help people further simplify their finances. We've got some retirement and investment questions here from a number of listeners and the first one is from Alana. She just got married — congrats, Alana, and her question is, how to best combine she and her husband's retirement planning?

So, I think this is typical. A lot of people get married and they have their own financial lives, right? Independent, and then they get married and they're wondering, "What do we combine? Do we have to really merge accounts?" And so, each contribute to their workplace 401(k)'s separately, and her question is, should they also have a joint account for long-term investing? What do you think?

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JB: Well, I think you've asked a lot of, a whole lot of questions here and a relatively short question. But I would say, the first thing is, no, you don't have to merge accounts. Everybody can have their own 401(k) plans themselves and we strongly recommend that they do that. I'd say the first steps though, in preparing to make sure that you're maximizing the value is looking to see that Alana and her husband are contributing enough to receive the full match that they should be receiving if they're in a employer-sponsored plan that is providing a match to them.

So, what do I mean by that? That basically means that if you're — they're usually step functions that are built in to 401(k) plans and the more you contribute the lot more that your employer will actually match your savings. So, the best thing to do is to make sure that you're both not contributing at the lowest level, but you're trying to max out sort of, the one plan to get the maximum match is an important first thing to take a look at. The second is, to the extent that you are contributing, contribute as much as you possibly can and we talked about this previously getting on a plan earlier to put money away. The power of compounding is really, really great and the younger you start that the better off that you are.

A couple of tips though there, Farnoosh, for Alana is first, if you're just starting out your career or if you think that you're going to be in a higher tax bracket in the future, than you're in today, you should be considering directing your contribution to a Roth account within the 401(k). So, a Roth

account allows you to contribute post tax dollars and then the accounts investments then grows tax-free as you move through time. And, when you use those proceeds in retirement, you're able to take those distributions out and they're not taxed. So, that's always a good thing. So, something to consider there.

Another thing that a lot of people don't think about because it's slightly different, but it's really all part of your retirement plan is, if you've maxed out all the benefits that you can get from a 401(k), from an employer 401(k), it's also good to take a look at health savings accounts. So, you might say, "Gee, how does health savings account fit in on something like that?" Well, health savings accounts are really powerful savings tool that are offered by many employers and unlike 401(k), the health savings account has a triple tax advantage associated with it.

So, it allows you to save money on a pre-tax basis, it allows the funds to grow in a tax-deferred way and then if the proceeds are used for medical expenses, the proceeds come out on a tax-free basis. So, that's a really, a really, really powerful tool. And then, the final piece is, many plans sponsored, many employers like Citizen's will contribute to the HSA on your behalf. So, not only do you get all those tax advantages but you can get a match from your employer oftentimes by doing that and then obviously, you can use those health benefits in retirement. So, you know, pretty powerful tax planning tool.

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FT: I will just add and thank you, John, for all those solutions. I think that, if I were to add one other thing is that, you know, in my own household, Tim and I, we go about our retirement similar to how you described it. You know, investing in our own separate accounts. He, at his company's 401(k) and I work through, because I work for myself I have a SEP IRA. But, you know, we've maxed out those contributions and want to do more. So, now what's next, right?

So, he's got a Roth IRA, I also opened up a brokerage account where there isn't — the tax benefits aren't as fantastic as say a 401(k) or Roth IRA. But I think at that point once you feel like you have maxed out the workplace benefits, the Roth that you want to do more. I think in that case, then a diversified portfolio through a brokerage or an automated platform could be a next best way to go about it. What do you think?

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JB: No, I totally agree with that. I think that's a very wise and prudent of you and your husband to do that. I'd say two caveats in doing that though is, be careful not to become too overzealous and get too much money tied up in the market because we do know that over time the market does trend in an upward direction, which is always — which is a good thing but it's not a straight line and the market will go up and down. And so, maintaining cash reserves for life's, let's call them little surprises, I think is generally a really good thing to do and most people would say six to 12 months of your after tax income is good reserve for people to have put aside for the little surprises.

And then, the second is, make sure you have a plan that you, as you are savings whatever you're using that money for, whatever you're planning your market for if it's retirements, it's relatively easy. But try to match how much risk that you're prepared to take with what the goal of that additional savings is. And generally speaking, the longer that you have in your plan you'll be able to sort of wait out some of those ups and downs that do take place in the market, but that's a very, very good thing.

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FT: Yeah, we're approaching this brokerage account as if it was another retirement account. So we're not looking — we're not getting nervous about the fluctuations. There've been many and there will be more in the future but hopefully by the time we go to withdraw it decades down the line, it'll be a benefit.

All right, let's go to Millie, she is not interested in retirement investing, although I think she probably has that covered. Her question is more about, you know, shorter term goals. So if you're thinking about buying a home in the next three to five years, and that's going to require a down payment, should you invest that money, that down payment savings in the stock market? In other words, you know, how much risk can we really assume for shorter term goals that are, say, only a three to five-year horizon?

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JB: Yeah, so, I would say again, you know, I personally would not put money into the equity markets into an investment portfolio unless I had a good reserve, cash reserve behind me. But once you accomplish that, I think it can be good to invest for the future in different ways. I'm really conservative, Farnoosh, and so I'm not sure I would recommend somebody saving for a home in a three to five-year timeframe to put their money into the equity markets. I just don't think it's a, you know, a wise thing to do.

I do think there are other opportunities, though. A great example of that would be saving for children's education, whether you're planning to pay to fund the entire amount or simply augment scholarships or other loans that you might take or something like that, just given the length of time that that can be. I think that's another really good alternative for, sort of building for the future in using balance portfolios in the way that you actually do that. But, I wouldn't, I really wouldn't do a house.

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FT: But maybe, Millie, you could look into a certificate of deposit or yeah, something that's much less risk and, you know, I think that if we go all the way back to my very first book, The Investing Chapter, is all about, you know, how to properly diversify and approach the market, given your risk tolerance and the realities of, you know, all the returns that the markets provide.

I think that if you have a goal that is something that you want to achieve in five years or less, that money should be as liquid and as — in as much of a safe haven as possible. Anything longer than that, you could look at more riskier asset classes. But yeah, cash is king when it comes to a short-term goal like building up a down payment reserve or you know, money that you want to shore up for a wedding or the baby that you want to have in a couple of years. So, all that keep that cash safe.

Tamara wants to know, John, how often should she check on her retirement savings? You know, we often hear the approach of just buy and hold. We talked about already, you know, not to get

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too caught up in fluctuations if your goal is to retire in, you know, 30 years. But at the same time, you know, you do want to stay in the know. So what's a good balance?

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JB: Yeah, no that's a great question. I actually don't think you need to check in on your retirement savings all that frequently to be successful. As a matter of fact, there are studies that show that people who do check in more frequently are likely to hurt themselves more than help themselves in doing that because they often get tempted into making changes in their portfolios based on short-term market conditions rather that sticking to sort of the long-term plans that they put in place for themselves. I think the key is developing a savings and investment strategy that will satisfy the lifestyle that you're looking for in retirement and then just stick with it.

Now, that doesn't mean you shouldn't look at your portfolio periodically. I'd say once or twice a year is probably a good measure. The things that you want to be looking for there are the fees that you're paying or the asset allocation that you're actually using. Is it still in sync or do you not need to do any rebalancing? And then of course, you always want to look at, you know, in a diversified portfolio, if you're using mutual funds or ETF's, you want to make sure that you're getting the right investment performance from them and if not, over a sustained period of time you might want to think about making some adjustments. So, I think it's all good.

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FT: I'm so glad you brought up fees. That was — you took the words right out of my mouth, John. You know, because I think that that's an area we often overlook, we just focus on maybe, the portfolio management fee and then we forget that there are these assets within the portfolio and each of them carries typically another fee, a management fee, and I get a letter sometimes from my, you know, investment house. Like, "Hey, this particular fund is no longer — is getting retired or no longer existing, so we've replaced it with something new," and at that point, it's a good idea to check and say - and see, you know, what is this like fund and how much more or less is it or is it comparable in fees?

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I actually, one time, a few years ago when I was working with a financial planner, I asked her if she could just give me a list of all the assets that were in the portfolio and all of their related fees and I went through one by one and I ended up swapping out a few of them that I just thought were too expensive. You know, that I could probably find something comparable through either an exchange-traded fund or an index fund for less. And, you know, .32 percentage, you know, ratio or fee, it doesn't sound like a lot and some of these fees have less than a 1% attached to them and in those cases, I think you're in a safe place.

But if it's more than 1%, I would look at alternatives because that, like we talked about earlier, compounds. Compounding is the name of the game here, which can benefit us sometimes, but can also cost us sometimes. So, do the math. I did the math once, John, and it was, you know, hundreds of thousands of dollars going to management fees that, you know, I could otherwise eliminate. Not entirely, but I could definitely trim down by just making a few different decisions and choices.

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JB: Yeah, I know. Yeah, I know. Totally, totally agree. I mean, as an industry, the financial industry fees on managed money products have come down. If you went back and you looked at, say an S&P 500 fund from 10 or 15 years ago, people might be paying 125 basis points as a management fee on something like that and, you know, today, Farnoosh, an ETF could be three or four basis points. So there's a very, very big difference. So, what you do, I think on those things and it sounds like a process that you went through is you look at the fees that you're actually paying for the mutual fund that you're using or the ETF that you're using, sometimes, it'll make sense for you to sell out that position and then move to a less expensive vehicle.

In other instances rather than pay the taxes, you might just leave that money in there but all new additions, there are other much cheaper ways of capturing sort of S&P exposure, S&P 500 exposure in your portfolio and all the new money that you put in, you can put in that. So, you know, thinking about fees and watching that stuff closely is important which is, and you mentioned SpeciFi. One of the other things that we're hearing from clients around SpeciFi is they really like sort of the low-cost associated with SpeciFi, sort of the underlyings are all ETF's that we use in the portfolio which I think is the maximum management fee on the ETF's in the

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portfolio or two or three basis points, and then the management fee is 50 basis points, which is about half of what you're typically paying with other outside managers. So cost is really important in all of this.

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FT: Indeed, yeah. 50 basis points is definitely an average. It's half what you'd pay, you know, professional boutique advisory firm.

Rich is considering changing careers, John, and working for a non-profit in his retirement years. How would that impact his retirement planning today?

[00:21:37]

JB: Yeah, well first of all, I want to commend Rich for thinking about doing that. I think, that sort of not for profit service can be one of the most fulfilling things that you do in life. Whether you, you know, serve on boards or you volunteer or you work for them. I think it's good all the way around. So, you know, when you do change careers and move into a not for profits, it doesn't necessarily have to change it all, your retirement strategy. In a general sense, not for profits or 501(c)(3) organizations typically have retirement plans called 403(b) plans that are very similar to 401(k)'s and you can contribute on a pre-tax or post-tax basis just like you would with any 401(k).

So, going to work for a not for profit shouldn't really have any impact on it. The one good impact can be if you do it later in life, is it allows you to you know, to extend or prolong the amount of time before you start taking money out of retirement. So a lot of people, as they get to later phases of their career, start to look for some sort of service that they can do, like in a not for profit organization and they'll go do that for the last five or seven or 10 years of their career, which can extend out the time as you're still earning, working for the non for profit before you start taking money out of retirements. But, it's great.

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FT: I'm always for finding something to retire to, you know? In retirement, they always say, "You're not retiring from work, you're retiring to a new life." So, think about it that way; what are some ways you can still stay active, ideally generate income so that you can continually kind of, be financially self-sufficient and not have to worry about tapping your retirement accounts, because you know, we're living longer, right? So —

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JB: And everybody's healthier, too, and they want to work longer and they want to be vital, and sort of, it's a great way to do it, great way to do it.

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FT: Awesome. All right, rounding us out is Leila, John, and she is 33 years old. She feels as though retirement is really far off. Especially now, you know, I just feel like the retirement age is getting pushed back further and further, whereas for my parents' generation it might be something like, 63 or 65 and now we're saying 70, 75. As we just talked about, we're living longer and we're healthier. So, you know, what should she be doing now to plan for her future? Does she really have all that much time? She has a 401(k) but she's wondering if that's enough?

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JB: Yeah, well, it's, let's say - I don't know if it's enough, but it's a really good place to start.

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FT: That's the golden question, right? What's enough? Do we have all day, I guess, to answer that?

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JB: Well, I think, you know I think there a couple of things. The first is, making sure that you're thinking about what, as you said a few minutes ago, what retirement looks like for you, right? And so, understanding sort of what you need from retirement, you know, what are you trying to do most people are trying to maintain the lifestyle that they have before they retire, they'd like to maintain in retirement. And then, I would say, the key thing to do is to get a retirement check up. And there's all different variations on retirement check ups.

We offer one here at Citizen's which is, you know, a five or seven-minute exercise where you just talk about what you're trying to accomplish. We have all check up tool that we use with our clients. Clients love it and they can see sort of, are they on track to get to where they want to be when they want to retire and there's always things, particularly when you're young, there's always things that you can do to adjust to make sure that you are prepared when you would like to retire.

Some of the things that we would typically look at in helping our client do this, and this is a free service that we provide to our clients but, “Are you saving enough?” is the key question, right? So, and as we know, adding a little bit more money now, ca n make a very, very big difference through the power of compounding later in life. So, making sure that you're putting away as much as you can now is really important.

[00:26:03]

FT: It is. I mean, I was just writing an article about how your investment strategy is not just about how much you invest, but when you start investing. So, you know, you start when you're young, and you save as much as you can, even though it may not seem like a lot, but getting a head start can make a complete difference, and something fun, Leila, for you to do — I don't know if this is fun, but I mean, I think it's pretty neat. You go to the Social Security website, and you can figure out what your payment estimate may be in retirement.

Now, there's a whole debate about whether it'll be there when you're ready to retire, but let's hope for the best. It might put things in a little bit of a perspective for you, like, "Okay, so this is what I'm entitled to get in retirement.” You may realize it's very little, but it's something and from

there you can build from there and a lot of retirement calculators will ask you for that number anyway, so it's just good to have that and check it out.

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JB: A couple of other things there. Just, you know, one, and you mentioned you and your husband are doing this, you're maxing out your 401(k)'s but you're also saving money in some other accounts. Other things to look for there is cash drags, so a lot of times you'll have trapped dollars in those accounts that are not working hard enough for you. So thinking about how you can get those in those investment accounts invested in the right kind of way is important. And then also, making sure that you've got good diversification in your portfolio also. Because the more you can diversify your portfolio, sort of, the less risk and the risk that you're going to take in the portfolio. So those might be some other helpful ideas.

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FT: Yes, oh and one last thing, she's 33 and if she hasn't started investing yet, you know, the general rule of thumb is 10% of your salary towards retirement. But if you haven't started and you're in your 30's, I think you might want to jumpstart that and maybe think about doing 15% or 20% just because you did miss out on that decade and same goes for anybody who's even closer to retirement, you know, in your 40's and 50's, 60's if you really feel behind, then this is the time to really pair down those expenses, downsize and put as much as you can towards retirement.

I mean, it's just for your own benefit and it may seem like a really hard way to go about your financial life, but, you know, I know people who come arrive in their 40's and 50's feeling very unprepared and so, part of it is saving more but part of it trying to earn more as well. So, it's just some things to think about for those of us on the podcast, you may feel behind, and that's a lot of people. I just read a survey that most people arriving near retirement fell ill-prepared financially. So, not to end in a bad note —

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JB: No, they underestimate — well on an optimistic note, they underestimate how long they'll live. You know sort of, I think the statistic is now, that if you live to be 60 years old, you're 50/50 probability to live to be 90. That's a long time in retirement. You've got to make sure that you're really prepared for that.

[00:29:07]

FT: Well, thanks for turning things around for us there, John. I want to just mention for those who joined us until the end, I promised a special offer from SpeciFi and this is — here it is. If you open a SpeciFi account by December 31st, 2017, the monthly management fee will be waived for your first three months. The promotional period begins on the date that you have funded the account with a minimum balance of $5,000 and it ends after 90 calendar days. Now, to qualify for this offer, your account must meet the minimum balance within the 90 calendar days of enrollment and to learn more you can go to citizensbank.com/SpeciFi.

All right, John, thank you so much. Wishing you a great rest of 2017, a relaxing holiday, and really appreciate all the advice you've given us. Looking forward to working more with you later this season.

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JB: That sounds great, Farnoosh. Thanks for having me and you do a great service for all your listeners, so it's terrific.

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