EPISODE 673

[INTRODUCTION]

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FT: We're learning from history today, everybody. Welcome to the show January, 3rd, 2018. I am your host, Farnoosh Torabi. Sheila Bair is our very special guest today, former FDIC Chair named Forbes 2nd most powerful woman in the world at one point. Her agency steerded us through the financial crisis of 2008, if you recall. If you read any headlines any stories during that time frame you probably came across Sheila Bair's name. She received numerous awards and recognition for her work. She's had a distinguished career in government, academia as well as financial roles. Her work has been published in the New York Times, The Wall Street Journal, The Washington Post and countless other places.

Sheila and I catch up. We were in touch during the crisis. I often would call her desk to learn about what was going on, get some updates, fact check, do some reporting, she was always available for my questions and so I jumped at the opportunity to interview her as we embark in a new year. What has history thought her as she looks to where the market are headed, how the economy is doing? Could we see a recurrence of the calamities of 2008 and 2009?

Sheila's newest obsession is retirement and she has partnered with Robo-Adviser Blooom with three O's, it's a Robo-Advisor for your 401(k). How does it work? How is it special? She gives us the details and also her financial stories. You know, how she was raised as a middle class child, the daughter of hard working parents, how she is raising her children from a financial standpoint, her money mindset, and so much more.

Here is the lovely Sheila Bair.

[INTERVIEW]

FT: Sheila Bair welcome to So Money! It's been awhile.

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SB: It has been Farnoosh, it's nice to hear your voice.

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FT: It's so nice to hear your voice and to be on the other side of things. The last time I think we connected was during the financial crisis 2008-2009, what a time and of course you were at the helm of the FDIC for five years during those crazy, crazy years. Are you glad to be on the other side of things?

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SB: Yeah, you know, it was a great experience, a challenging experience. I love the FDIC but it's nice to have a more control over my schedule, more time with my family, so yeah my life is good right now.

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FT: Well, that's good to hear and I know you have a lot of exciting projects under way. We want to get talking about Blooom, which is robo-adviser for 401(k)'s. Really interesting concept there. I know robo-adviseries are all the rage right now but to marry that with 401(k) management is a new concept. But, you know, Sheila I can't help it, go back down memory lane a little bit with you because it was such a tumultuous time the financial recession and to your credit you were really credited for being a straight shooter during that time and really holding banks accountable more than I think they wanted to be held accountable. You were quoted in the times as saying, "You know what? Bear Stearns should have been allowed to fail."

How did you feel your role was perceived and taken during that time? I mean, do you feel like you were able to make a difference? By the way, you called it. You really sense that there was this tsunami approaching. Do you feel like you, as a female too in a very big prominent role, felt like you were respected and that your opinions counted?

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SB: Right. Well, it's a good question especially now was everything this been going on now. We really having a cultural wakening about some of the attitudes towards women that have really made life uncomfortable for a lot of us and impeded our progress in many ways. So I think we made a difference. I think we made huge difference. I think some audiences are more receptive than others. Some of my fellow regulators were more willing o listen to my perspective and exchange views and try to find a path forward. Others just didn’t want to hear it. But overall I think we did we make a difference but we had to stay at it, I had to stay at it.

I had to resort some times a public ad because I know that didn't make be popular always with some of my fellow regulators, but there was a huge problem a public problem here with the foreclosure crisis, the impact it was having on the housing market, which was, had created this downward spiral on home prices, it was hurting everybody and so I did resort to public advocacy at times and public pressure but we got some results. We didn't get everything I wanted for sure but I do think there are several hundred thousand families who are still in their homes because of our efforts.

I wish it was more in the millions, but we did make an impact and I am proud or that and sometimes you suspect it’s gender, who knows? People just have biases sometimes and there's a whole lot of reasons people don't want to listen to you or want to marginalize you but we just kept pressing forward and always did our homework and always mastered our arguments. So, I think we did have a good impact on and as I said helped a lot of families.

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FT: You have really good instincts, as I've said, you had been credited for almost seeing the handwriting on the wall to some extent with regards to the mortgage crisis and the subprime loan debacle. Do you see some calamity of that scale, a financial calamity of that scale happening again in our lifetime and if so where should we be running away from right now?

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SB: Well, I certainly hope not. I think the large banks are more resilient, they have higher capital levels but now we're seeing a trend, the current administration I think and I strongly disagree with this, but I think the current administration feels that over regulation of banks has held back the economy. The data just don't back that up, so we're seeing a trend towards deregulation on a way that I think could be quite destabilizing. I think monetary policy has a rule and this as well. There is just too much investment money choosing few opportunities for meaningful investment and so you get to, you get an asset bubbles, you get inflated valuations and everything from stocks and bonds to currency to bitcoins.

So, I think that is something that Humphrey [inaudible] was a dynamic we saw part of the crisis we're certainly seeing it again. One thing that makes me a little less fearful about what the consequences could be when these bubbles start popping is that most of this is concentrated on financial assets that are owned by wealthier people. So, the bad news is the recovery has been tilted towards the wealthy because the main benefits have been in to increase valuations of stocks and bonds and those are mostly owned, not exclusively but predominantly run by wealthier people. But if those markets turn these wealthier families can better absorb the cycle and the temporary loss. Whereas with the housing crisis, this low and middle income families, their house is all they had and it really hit them and hit consumer spending hard.

So, the recessionary impact hopefully in the next downturn won't be as severe but all bets could be off if they deregulate the banks, we let them take a lot of leverage on it again, when the next downturn comes the losses. Everybody has losses in a downturn. You get increases in loan defaults and if they don't have enough capital to absorb those losses they're going to get in trouble again and they will hurt the economy not help it so, now is absolutely the wrong time to deregulating but I'm not sure that's the prevailing view in Washington right now.

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FT: So much pretentiously to change in the next year, in this current year 2018 with tax codes and I've read somewhere too that there was at one point a thought about reducing your 401(k) contribution limit. I'm like, "Come on we're already not retiring with enough money in the bank," which brings us to your newest obsession, Sheila, which is Blooom with three O's, blooom.com/ As I understand it, it's a website platform financial advisory automated that allows you to make your 401(k) more efficient, managed to your benefit so that you're actually maybe reducing fees, invested properly. I think a big problem is that we open up these 401(k)'s at work and then we don't know what to do with them.

Tell us a little bit about Blooom and why you're focusing a lot of your energy on the retirement questions?

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SB: I think technology generally has a huge potential to lower, to improve the cost in finance and services that are provided to middle income families and this is really partially helpful for young people to start with their 401(k)'s or middle income families that have started building their 401(k) balance but don't have a huge amount. I mean, the big firms for the most part in the past had been interested in the wealthier retirees and not so much with those mid level retirement savings accounts. So Blooom really is a great cost effective way to give them some professional advice.

I use it for both 403(b)'s and as well as 401(k)'s. It's $10 a month and basically what they'll do is make sure that your asset allocation, your distribution of large and small and mid cap stocks and bonds is appropriately balanced given what your horizon is in terms of when you want to, as I say smash your alarm clock and start pulling money in your retirement account. So they do that for you to make sure your asset allocation is correct given your time horizon but they also go in there make sure you're in the lowest fee fund, which mean itself can save you a lot of money. Because there's a big difference in the fees even with the passive funds, the index funds which tend to be lower cost.

There can be a big difference in the fees that are charged. So those are two very simple things that they do and they just do it automatically for you and overtime they don't try to pick big performing funds, they just try to pick the ones the efficient funds because I think performance is very, very — past performance is never a guarantee a future results. But what they'll do is a time honored way of improving your returns by just consistently rebalancing because what happens overtime the assets that you have, the investments that you have that are increasing in value, you sell a bit of those to rebalance, which is a good time to sell and then you buy the ones that have not been performing so well, which is a good time to buy.

And, overtime you can really improve your returns and it takes the emotion out of it too. So a lot of people are tempted to buy and sell exactly the wrong time, right? So, when the market goes down they want to sell, then they get scared and that's absolutely the wrong time. Or when the markets get lofty they want to buy and they want to, they think that's the right time to buy. It's not it's just the reverse. So this takes the emotion out of it just gives you a standardized automated way of making sure you're perfectly balanced and you're in the lowest cost funds.

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FT: So was I naive to think that your 401(k) manager, the plan provider, was a resource to be able to physically leverage their financial advisers?

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SB: Well, I would leave that to your listeners as how much help they get from their 401(k) manager. I think some employers are better than others in terms of arranging those kinds of services. There’s sometimes though that the manager may also have an interest in the fund choices that you're being offered. So that's another thing I like about Blooom they're completely independent they have no affiliation with anybody who offers a fund. They're completely neutral they don't have any financial interest in where you invest. They just want to get you in the lowest cost.

So, yeah, I mean I don't — absolutely, those other services can be good if people use them that they’re available. That involves picking up phone and talking and asking questions and maybe getting a call back or not getting a call back, getting into an automated system, it varies. So, I think this is just an extra tool that the people should be aware of. For some it maybe right for some it may not be right. For those who kind of want to set it and forget it but also make sure that the rest at allocations stays appropriate to where they are at their stage in life I think this is a very good tool.

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FT: Yeah, it's really interesting. I actually also love the video that they made. The founders, I don't know if those are actors or the real founders but they were — the video was quite entertaining I think just we go to Blooom, that's three O's.com.

So, Sheila it's the New Year what's your financial resolution do you make that for yourself and for your family every year? Do you have goals that you want to achieve?

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SB: Yes, we do and they're typically around health and doing charitable things. I think we have, in terms of money I'm proud to say that my whole family, we're good savers. We're all good savers. Both of my kids would kind of take out 10 rule in our house so we always give the kids extra amounts out of their allowance just that automatically goes into a savings account and so I think these kinds of skills are been learned well by our kids and I'm very proud of them. They're both, they've got good savings cushions built already at a very young stage in life. But we've got charitable interests too.

My daughter is from China but we've stayed involved with her orphanage and we adopted her when she was about one and have helped raise money since then to build a couple of playgrounds at that orphanage. Most of the children at that orphanage now are disabled and so we raised some funds to build some accessible playgrounds and we're actually starting a new project now on a different district in China because we were just so happy and pleased with this facility in Himian Hunan so that's going to be a big priority for us in 2018 and all of this being kind to others and each other and staying healthy not eating too much and exercising a lot. Those are kind of key things.

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FT: Yeah, health is wealth, right?

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SB: Exactly.

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FT: I believe that you are a family of savers as someone who has worked as the head of FDIC and as a regulator. What gives you your discipline, Sheila? I know that your background is in, you know, your parents are both very hard working, you've described your economic background as upper middle class.

What was it about your upbringing perhaps that gave you this very conservative and measured take on money, in you personal and I think that you, you know, you conduct business at that time when you're running the FDIC? You were very, very, some would say conservative, but in a good way because things were going out of control.

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SB: Well, I think my parents were both products of the depression and they were very frugal people. They actually never borrowed at all. They didn't even borrow to buy a house. They saved the cash and then bought. So, I grew with that kind of mentality and I think that's, you know, during the depression both of them weren't very poverty stricken families and literally there are some days they didn't know where the next meal is was going to come from. So, that has a big psychological impact which I think they passed on in a positive way to me and my sisters.

So, that said, I didn't have my profit period. I think when I, after I graduated from college and law school, I got my first job I was so giddy with the paycheck. I got my first credit card and quickly got myself in to trouble with that. Then another credit card I got myself in to trouble with that. So ever since then I tore them all up and I really had one credit card since then I've stuck with the policy and perhaps that's a good thing to have happened to me early on in my career when I didn't have a family or anybody relying on me financially to learn the hard way about not borrowing more on that — that credit card makes us so easy too, not borrowing more than I can pay off at the end of the month.

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FT: So you went on a bit of credit bendor.

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SB: Yeah and silly things too, clothes and what not. Wants, not needs we say in financial education courses. So I did learn early and it saddens me now because I think we have become such a debt driven economy and you're seeing it again mortgage debt is still below pre-crisis levels but pretty much any other area of consumer debt is above where it was pre-crisis. We had high death levels then and student debt has really exploded. It just breaks my heart that we are loading these kids up. It's a huge financial burden for them as they graduate form school and in their life and I really wish we could find a better way to finance college education because a student loan debacle, it's bad for tax payers and it's bad for students and it's bad for the economy because these kids are making big student loan every month instead of spending on other goods and services that might help the economy and they're not saving as much either. So they're not building a retirement nest egg early, which is also important.

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FT: With student loan debt we have just overall debt credit cards and what not and then you have people not saving enough not just for today but for their futures. Cost of living is going up, wages has been stagnant and I mean if you are back in the public sector Sheila what would be your priority in terms of whipping this economy back in shape and not just the economy at large but the household financial stability?

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SB: Well, I do think we need to become less reliant on debt and the way you do that is generate real wage growth. Real wage growth has been pretty morbid for the last couple of decades and when you get that dynamic then people borrow to improve their standard of living because their real wages aren't increasing. So, there has not been as good focus as there should be on working families and improving their economic financial situation and their ability to spend and save. I read, I thought this tax reform bill will be an opportunity to do that but that's not going to be the case. If anything we seem to want to penalize people who work, who have a wage income versus other types of income like investment income or business ownership.

So, I would focus on that. I think the tax code, we need to broaden the base. I think we do need to think about. we’re taxing the income workers the payroll taxes is about 30% of the budget now. People don't realize that when they talk about taxes, that really hits the middle or low income families the most. The corporate base is shrinking. We keep giving opening up new loop holes for the very wealthy, which means that you're really hitting the middle and upper middle income working cohort of our economy which is just stupid because they are the drivers of economic growth.

They are the ones who spend money and consume and drive our economy. So I think broadening the base having some type of maybe tax, a very broad-based tax on goods and services with our refundable credit for lower income people to make sure it doesn't hit to the low income folks would be a better way probably to capture some level of business profits but in a way that it can be broadly spread out and much easier to collect than trying to fax income, which as we've seen, is extremely easy to gain, especially with multinationals because they can easily move their business operations around.

So I'd focus on that. I would focus on infrastructures spending. I think that I would focus on education. We've got the worst and both worlds now in our education system; extremely high levels of student debt, student debt has doubled over ten past years, but the percentage of high school students actually going onto college has remained flat. So, I don't really know what we're getting from all this debt. We need to find a way to finance education and we need to find a new way to hold schools accountable for student outcomes. So the students learned something, they graduate, they find a job. That's why the government is supporting higher education.

Those are the areas I would be focusing on and then healthcare, not my level of expertise. Ot's a real quagmire but I will tell you I think it's a tremendous drive on the economy. You look at, it's 17 or 18% GDP now or the corp we talked about trying to make this a more friendly environment for business to do business here. The healthcare costs are huge drag and additional cost of hiring people in United States.

The corporate tax is about 3 or 4% of GDP. So why we aren't we focusing on getting healthcare costs down and having more rational system that way, it just doesn't seem to be part of the debate. We get into these power politics about Obama Care but no one really talks about getting the cost of healthcare down because we spend far more than any other country and our results are not as good as most other developed countries.

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FT: Right that to me seems about it should be number one focus if you don't have healthy individuals walking around, being able to work and contribute and then to be able to afford healthcare, have access to it. You've got nothing.

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SB: That's right and it erodes wages too. So as employers have to spend more and more health insurance premiums that puts pressure on the amount of wages they can pay and so you're right. It is a huge economic drag as well, medical problems, conditions and frequently they go hand and hand especially in recession financial distress will create health problems and then typically people will lose their jobs in recessions and they are more prone to get sick. It's a vicious cycle and so those are really I think issues that are according to the best of majority of Americans and it saddens me that we're not really tackling them perhaps as effectively as we could.

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FT: If we can take a piece of that, I want to talk maybe more on retirement since that is your area of focus right now. A lot of us are arriving at retirement with very little if anything and we know that we're living longer, which is good news but also bad news if you can't support yourself during those additional years. A lot of us want to take this New Year as an opportunity to maybe reassess our savings plan and what would be your recommendation for listeners? I mean you can get your 401(k) managed more efficiently, but how do you actually produce the money to save more?

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SB: Well, it takes discipline it really does. I mean always automatic savings is always better than kind of making ad hoc decisions about what you're going to save this month through not. So if you have certainly people, I have employers who offers 401(k), the 403(b)'s if it's an education institution and I have a match at least make contributions up to that much. It's crazy to leave that money on the table. So I say that would be number one.

Number two if you don't have an employer plan and set up your automatic savings program. You can use most banks for minimal cost, hopefully zero cost, will do automatic transfers into savings accounts and you let the money accumulate a bit and then put it in to an IRA or other investment tax protected investment vehicle. So I think the most important thing is to make it automatic just every month, whether its 10% out of your paycheck or whatever it is you can afford. Take it out and put some place where you're not going to get out of it. That really is the key to accumulating money over time and if you do it that way you will surprise yourself how quickly it grows.

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FT: What is something that you like to splurge on, Sheila? Is there something that you like to still treat yourself to and money may not be object.

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SB: A good question. Yes, tips, probably travel. I love traveling with my family. My kids are both big travelers. So we — and you know, travel can be expensive and we try to always run a frequent flyer programs and hotel programs as well. So we try to utilize all those cost saving measures but yeah, we do love to travel. It's a lot of fun it's great family time but it's a bit of an indulgence. It's definitely a want not a need, but it certainly is something we find very rewarding and brings us closer together as a family.

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FT: What is one thing that you spend your money on that allows you to make for an easier life, a better life?

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SB: Well, at Blooom does. Getting back to the Blooom, I think but that's an example of the kind of things the more you can find the low cost way, people with other expertise to kind of help you manage areas that need to be watched but you don't always have time to do. I think that's a good example. I realized that I didn't do as good as a job that I've should've in terms of checking my account and doing the research on fees and making sure I didn't, as the stock market goes up, I didn't go over expose so hiring an expert to that and I am not.

We recently have in all these, I am not an investment adviser. I certainly know a lot about finance and financial education but I don't advice people on your investments that I can just speak to what I do as a consumer but I think it's a good example of a lot of this just don't have time to deal with this and unfortunately the fees are such that it could be time consuming. You can find the fees are to dig into this prospectus and find the fees. So that's the kind of thing when there's Blooom or someone else. Finding a service and expert that can do that for you at a very low cost, I think is good.

In more mundane responses to your question, cleaning ladies. I had the most wonderful cleaning.

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FT: There we go.

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SB: Yes I figured out a long time ago, it's not something that I enjoyed doing that it's something I'm very good at doing. So I have a wonderful woman who helps me keep the house and that is — boy is that money well spent. So, yeah, there are things like that. But for the most part we all things for ourselves for ourselves too. I think you can go a little too far in pampering yourself and whether it's weeding your own garden or doing your dishes or whatever, those are good things to stay in touch with those day to day activities that keeps you on even plane.

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FT: And, I also think it keeps you away from online shopping. When you're doing your own dishes.

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SB: Oh my goodness gracious and I say we're Amazon Prime users and I tell you Amazon just makes it far too easy to spend money, very smartly so. But yeah, the range of things that you can access now online is truly amazing. But we try to, especially books. We try to go to bookstores and a retailer's too because that's the most important part of our economy we like to support. So, we make sure we hit the streets and visit shops frequently as well.

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FT: I love it. Sheila Bair thank you so much. It's been really great spending some time with you and catching up and thank you for all the work that you have done for our country that you continue to do for us. We'll be sure to check out Blooom, with three O's, and wishing you a Happy New Year.

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SB: Thank you Farnoosh.

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