EPISODE 839

[ASK FARNOOSH]

[0:00:36.5]

FT: You're listening to So Money everybody. Welcome back to the show. I'm your host Farnoosh Torabi. It's Friday, how is everybody doing? January 25th, 2019. We had Dan Pink on the show on Monday, which was also Martin Luther King Observance Day and it was a real honor for me to have Dan on the show. This is somebody who, if you don't know who he is, I really encourage you to go check him out. He is a multi-New York Times bestselling author. One of the OG's of thought leadership.

You know, these days are a lot of, these so called influencers and thought leaders and Dan has been working as a revolutionary mind since I think the 90's and as a result, has really amassed an incredible loyal following. He is not just a New York Times bestselling author, but he's a highly sought after speaker, he used to work in politics and then he left, still lives in DC and writes about things like leadership and his latest book is called *When*, which was fascinating. He did this scientific poll, he looked at all this research that's out there regarding, what is the best time of day/week to do things like manage your money, ask for a raise, workout and everything in between?

We focus a lot on the money stuff and the career stuff, but Dan is phenomenal. I've tried to get him on this show for years, literally. Because you know, now we're in year four and he was on the top of my wish list since day one and so, good things come to those who wait. So check out Dan Pink episode 837, Monday and you are almost at the end of January and I feel as though I need a vacation already. Anybody out there feeling the same?

I feel like January came and it was not kidding, you know? Lots to do and with two kids, it's been quite the juggle. Severe cold for those east coasters, I'm recording this, it's like seven degrees outside with the wind chill probably negative seven and so it's been a bit of a tough month for a lot of reasons, a grueling month, and for those of you who are on my newsletter, I just want to give you an update that I want to stay consistent with the newsletter.

It's been really hard, I've been trying to keep a lean operating business back here, don't have a lot of virtual assistance. Most of the stuff I handle, I like it that way. But the newsletter, I feel like has been hard to keep up with. So my promise to you this year is, if you are a subscriber and if you aren't, please subscribe. It's going to be a once a month, maybe twice a month consistency where I'm going to start sharing a lot of consistent stuff within the newsletter. Things like what am I reading right now, my best financial advice right now, podcasts you may have missed.

For me it will be easier to catch up with it, there will be a format. But I think also it will be fun for you guys because you'll be able to tap in and see what's on my money mind on a semi-frequent basis. So if you're not subscribing yet, do so please, you can go to Farnoosh.tv you can go to somoneypodcast.com and sign up.

All right, very excited to introduce our cohost today. If you are a loyal listener to this show, he is a familiar name and of course if you are familiar with the who's who in personal finance, you know Grant Sabatier. My friend who is on Episode 618. We were joking before we got on live that that was like over 200 episodes ago. Time flies!

I know a lot of you out there do listen every single episode. So you know Grant. He is the founder of Millennialmoney.com and soon to be published author of the book, *Financial Freedom* and I know this book is going to sell out before it even hits the first week. New York Times bestseller in your future Grant.

Welcome to the podcast. Welcome to so money again.

[0:04:37.4]

GS: Hey, thanks for having me back, that's such a kind introduction. I'm excited to come back on the show.

[0:04:43.4]

FT: We are so excited for you. I know when you first came on the show, you were in the middle of developing this book, you were very excited about it, lots of work ahead of you. Now you're kind of like in the home stretch. I mean, it's written obviously. How do you feel now that this body of work is out of you?

[0:05:00.9]

GS: It feels great. I mean, the book is really a reflection back on the five years that it took me to go from broke and living with my parents to, you know, a millionaire and financially independent at the age of 30. So there was a lot of reflection. It ended up being a very emotional book to write but also a really fun book to write.

It took me, and I counted, 2,871 hours to write the book. So that was about 77 hours over a nine month period. A lot of time invested in it and yeah, really super excited. It comes out next week, it's available for preorder, worldwide and a bunch of different languages and just really excited to share the book with everyone.

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FT: You've certainly come a long way. I recall on our interview back, I think it was 2017, you were talking about the days, like you said, living with your parents, not even being able to afford a chipotle burrito. That being kind of your wakeup call. Have you feel as though your financial philosophies have evolved, or you've just become more of an advocate for the same things that you were five, six, seven years ago?

[0:06:07.6]

GS: Yeah, my viewpoints have absolutely changed. The five years and three months that it took me to go from $2.26 and living with my parents to financially independent, I was working all the time. That's all I was doing. I had a one track mind on getting to that goal and really the past year and a half has been a slowing down, a reflection. I left the corporate world, I sold my company, parted ways with some business partners and decided to shift completely to writing full-time and teaching and speaking about money.

Money itself, obviously it's a human invention. We embed it with so much meaning and purpose and you know, I've dedicated my life to studying money from a philosophical standpoint and obviously a practical standpoint. So my views have I think definitely evolved and changed. The biggest thing that I realized in talking to thousands of people and writing the book was that you don't need millions of dollars or to become financially independent to get like 90% of the benefits.

You know, you can have more time and space and freedom in your life, which I think at the end of the day, money is infinite. You can always go out and make more money, but you can never get back your time. This moment is really all there is and so I made a lot of tradeoffs and sacrifices, reflecting back that I probably wouldn't have made and that I didn't have to make and that freedom, that financial freedom that I was really seeking, I had that at six months of expenses saved. I didn't even need to get to a million dollars. But I was moving so fast, I never stopped to smell the roses.

So, I've really been able to reflect back on, you know, how I made money. Ultimately, you know, the fact that most people, the one thing holding them back in their life with money is that they think that time is money and money is time. I think that's one of the biggest barriers that most people face. So I've thought a lot about that, I've talked a lot about that. If you always think that money is time, you're going to trade your precious time for money when you don't have to. So my thoughts have definitely evolved and really I think in a positive manner because A, just being able to talk with so many people.

Financial freedom, that's why I wrote this book. It means something different to so many people. It might mean something different to you than it means to me and financial freedom is really whatever helps you sleep at night. For someone that's getting out of debt, for someone else that's having millions of dollars, for me, it was having you know, $1.25 million dollars. I needed that amount to feel free. But, you know, it's really up to you to decide what it means to you and then the book is designed to help you get there as quickly as possible. I break it down into seven different levels. So I reflected back and I was like, here's seven levels that I got to and at each level, I should have felt more free, I had more control over my time. It helps you figure out what level you're at.

Even if you want millions of dollars or to be financially independent, that's a great goal, great aim, but the most important thing is just getting to that next level. So it doesn't matter thinking about saving millions of dollars if you're $20,000 in debt. The first part is getting out of debt and then the next part is six months of expenses and taking it a step at a time, the freedom is going to open up to you. Ultimately, money only matters if it helps you live a life that you love and so I've reflected a lot on my own life and my friend's lives and, you know, I've lost a couple of friends over the past years while writing the book and realized that instead of figuring out like asking yourself, "How much money do I need?" The first question needs to be, "What kind of life do I want to live?" Then the second question is, "How much money do I need to live that life?"

I think my ideas have definitely changed and it's just been a really amazing process to reflect and get so much feedback and I've just heard one of the early readers was at middle school class in Syracuse, New York. They gave me all this feedback. It was amazing to see how they reacted and I'm starting to get the early feedback from really all over the world and it's just been an incredible feeling and I can't wait to get into everyone's hands and ultimately help them figure out money and get more time and do those things that are more important.

[0:10:20.9]

FT: All right, February 5th everybody. That's when financial freedom hits all the bookstores. Everywhere books are available, in multiple languages and we have a number of questions Grant, from our listeners that I'm hoping, given all the body of work that you've conducted and your own experiences and the advice in financial freedom you'll have a lot of support for them as they struggle here. I'm looking at the questions with things like credit card debt and retirement questions.

The first question, I'm going to jump around here a little bit and go out of order, but we have H on Instagram. I'm going to keep H anonymous because it's a pretty sensitive question and she or he, I believe it's a she, says, "Luckily, I did not have to have student loans to pay for college. My dad was able to pay my entire way through. However," and this I can relate to, H says she got a few credit cards over the last few years with ever intention to use them like debit cards. But, spending got way out of control and now she's trying to get her finances together. The damage, $11,000 between three credit cards. She has setup automatic monthly payments and has stopped using all of the cards, which is good. But she's still getting charged so much in interest that she feels like she's never going to be able to pay it off.

She's, by the way, working two jobs, trying to save as much as she can. She hasn't told her parents or anyone because it's super embarrassing for her, which is also why again I'm keeping this anonymous. So, any advice for her where she can feel a little bit more like she's making progress with this debt? I think this is a lot of people, right? Because that interest rate, even though you've scheduled monthly payments, can make you feel like you're never making a dent.

Advice for H, Grant?

[0:12:14.4]

GS: Yeah. So $11,000 is a lot of money but it's not, you know, $50,000 and so I encourage H to you know, take a deep breath. The fact that you're asking this question means that you're on the right path. The fact that you want to pay this off, it means you're on the right path. So you have less debt than most people do that I talk to with credit cards. The most important thing, you know, you said you had three cards, always paid down the one that has the highest interest rate first. So don't pay the credit card with the biggest balance, if say the interest rate is lowest.

You know, a lot of personal finance, it's a numbers game and you want to make sure you're paying as little interest as possible. So pay down the one with the highest interest rate first. With that being said, it sounds like you're automating your monthly payments and you know, you're just keeping up with the interest. That's okay. While you want to try to pay off as much as you can, as quickly as possible, don't let the debt itself stop you from what I believe is more important and that is making sure with the two jobs that you do have, you're making as much money as possible.

One of the things a lot of people don't know is, most Americans, even people around the world, they believe they deserve a raise but then they just don't ask for it. They have benefits that they're not taking full advantage of. So make sure that you're making as much money as you can in your two jobs as well as diversifying your skills so you could perhaps get a new higher paying jobs.

There's a number of ways that you can do this that I even talk about in *Financial Freedom*, my book. You know, talk to recruiters in your industry, focus on trying to make more money and not using that debt as an anchor. Because debt's bad, yes you're going to pay it off, you're going to get there, don't let that distract you from the more important thing, which I believe is figuring out how to make more money so then you can pay off that debt.

I mean, imagine getting a job where, you know, imagine in your job you get a $5,000 raise for the next year. That's what's going to move the needle, that's going to help you pay down that debt faster. Then over the next 10 years, you'll be making $50,000 or more in additional income and so not only you'll have paid down your debt but you'll be making money. So don't let that debt distract you. Focus on paying the highest interest rate first and then invest your time and your energy and your worry on trying to make more money instead of just paying off that debt.

[0:14:45.5]

FT: Couldn't agree with you more, and I think if I were to add a couple of more tips to Grant H, I would say, I think it sounds like she needs a little bit of psyche support, you know? I wrote the book, *Psyche Yourself Rich*, for this purpose. Because I feel like – we know what we're supposed to do, she's doing what she's supposed to do. She's putting her payments on auto payment. She's bringing in more money, she stopped using the cards, she gets it.

But I hear — I sense in her questions, some frustration. More like emotional frustration, right? She wants to sort of feel like she is making progress, she sees the light at the end of the tunnel. So to help you with feeling a little bit more empowered and optimistic about this plan H, is as you're bringing in this extra income, you've got multiple jobs, compartmentalize those jobs. Think of that one other – one of those extra jobs as my debt payoff job. Every single dollar that comes from that job goes directly to the debt.

I know you're all about paying the highest interest rate card or loan off first, Grant. There's something to be said, even if it's just for like temporary in the beginning, to attack a balance, get it off your books, that can also help you feel like you're really getting a jump start. Getting that kind of emotional adrenaline boost when you're like, "Oh my god, I've just completely wiped off one of the three cards. Even though it wasn't the highest interest rate but it was a full balance, you know, debt be gone." I think there's something to be said about that and then going back to doing what's mathematically the most sense, which is to pay off the highest interest rate card first.

But I think she's looking for a few kind of emotional boosters and I think, for me, again, I was – I feel you H. When I was in my 20's, I got out of college, multiple credit cards, thousands of dollars on them and I got some extra gigs and I would just look at those gigs as my debt payoff gig. It was just funneled all to the debt and, you know, as a result, it allowed me to really see the clear path. As opposed to coming from kind of all these different buckets, just make that extra gig that you've got, the bucket that fills the debt bucket if that makes any sense.

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GS: That's great advice. Absolutely.

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FT: Yeah? I mean, H is completely reflective of a lot of people in my audience who are doing the good work. People who come to this podcast, I sense, because I hear from you every day, every week is that they have a lot of wherewithal. They understand for the most part what they're supposed to do, logically.

But so much of money and I think what's also in your book, *Financial Freedom*, addresses the psychological aspects to managing your money successfully. Building wealth, it's not just about numbers on a spreadsheet but it's like – feeling like you are in it to win it, getting to that feeling, it can be a journey in and of itself. So good luck to you, H. Thank you for your question. Keep us posted.

This transitions us well to this next question from Priya, Grant, you know, who has student loans and she has a car note as well and you know, the issue here again is about paying off the debt, whether to pay off the debt with the higher interest rate or the debt with the higher balance? I think I know what you're going to say, but let's hear Priya out first, okay? She says, she has $12,000 in federal student loans with an okay interest rate. She has a car note of $15,000 with a very similar interest rate. $6,000 of that $12,000 student loan balance, so half of it, has a high interest rate of 6.8%. It is the highest interest rate that she's dealing with at the time.

The other $6,000 of that federal student loan is like around 4% interest rate. She is tempted to pay off the car note first to free up that payment every month, because it's a bigger payment. Also, there was a tax break on the student loan interest that you pay, correct? That is true, you do get a tax – you get an interest rate, so whatever interest you paid on that student loan, that can be deducted from your taxable income so that is correct. Another reason why she's thinking like, "I should keep that a little bit more open as opposed to playing that down more aggressively."

So what should she do? Her student loan payment is $167 a month. The car note is almost triple that, $408 a month, what would we do? Again, I think going back to what we told H, perhaps it's that, you know, for a while, she takes a more of an aggressive take with the car note if that is what's going to help you get over this emotional hump. But I also think that, you know, it's a better idea in the long run to pay off the debt with the higher interest rate, in the long run. You know, the car notes probably just a few years versus a student loan, which could be 10 years as well. So the car note's going to get paid off on schedule.

I'll just give you one anecdote, okay, I have a car loan and it's got about a 3%, 4% interest rate, I'm coming off, I'm going to finish it this year. Rather than pay it off in full or more aggressively, I just decided to keep status quo. I just decided to make the payments because I did the math and I found out that if I paid off the car note in full ahead of schedule, I was going to save a few hundred dollars. But for me, I'd rather have the liquidity, I'd rather have the flexibility to know that I don't have to – you know, saving $500 or $400 versus having the option to have the money in my bank and pay in little increments, I thought for me, given what was happening in the economy and all that, that was just a smarter move for us.

So you also have to do the numbers. Calculate, if you actually paid off this car note early, what are you going to save in interest? It's saying you know, it's just some things to think about and if it's that worth it to you to pay it off earlier than later.

Grant, what do you think?

[0:21:12.2]

GS: Yeah, I probably am a little more intense than you. $408 a month, if you're like six months away from paying off your car then yes, push hard and get that paid off. If you just got this loan and it's five years from now and you just bout a car, that's a really large car payment that, in my opinion, maybe if your car makes you really happy and it's that thing in your life that you really love and you love getting in it and using it and it's totally worth that to you each month, that's up to you. I'm not here to tell you what to buy or not to buy. But that, if you just got that car, that's a lot of money over the next five or six years.

So I'd encourage you to think, even if you just bought the car while it can be hard, maybe buying a used car for three or $4,000 or less than $5,000 than a newer car, you're going to save a lot more money and then that student loan debt, just putting that $408 a month instead of to the car payment, to your student loans, you're going to wipe out those super fast and then you're going to be debt free and yes, you might have to drive a used car and it might not be as nice as the new car that you had but you'll be completely out of debt and then down the road, once you've paid off your student loans and you have six months of expenses saved or maybe a year of expenses saved, then you can revisit. I personally believe getting a new car but that $408 a month is a very high car payment, in my opinion, unless you're close to already paying it off.

[0:22:50.7]

FT: Yeah, it's a lot. It's a lot. Good, good advice and you know, let us know how things work out and this is so — she's sort of – Priya is very much like a lot of millennials these days, right? Student loans, car loans and I know that in your book, you really do spend a lot of time talking about attacking debt. There's a lot of advice out there. Is there anything new that you think that we should be aware of when it comes to paying down debt? Something that is less discussed in this space of personal finance advice? I have a lot of people who come on the show who have written books for millennials specifically. What's your take on debt pay down that might be a little more nuanced or a counter to what we hear often?

[0:23:39.4]

GS: So in the 340 pages of my book, actually, only one and a half pages is about debt. The reason why is I think that debt itself is bad. When I was living with my parents I had over $20,000 in credit card debt. I was like super negative net worth and so I struggled with it but the more I worried about it, I felt like the more it held me back.

That's one of those things, when you think about mindsets, you know, we've heard about a scarcity versus an abundance mindset. Sitting and worrying about your debt every day, just reinforces the scarcity mindset. It's like, "Ugh." You know, one of the biggest reasons people don't invest? Is they A, think they can't start investing until they've paid down their debt or B, their debt worries them so much, it's all they can think about. It's what's keeping them up at night, it's what's holding them back.

So I agree with you 100% that money, you know, when we were chatting about H. Money is very emotional. We embed it with a lot of meaning and it can be very stressful. But it's one of those things that the more time that you spend with your money in a positive way. The more comfortable you're going to get with it. I just do this, I spend five minutes every morning opening up Mint, my tracking pap, spending some time with my money. It helps me spend less money during the day. So I really think debt, while it is a numbers game, it can be emotional. But the more power that you let it have over you, the more it's going to hold you back.

So that's why I encourage you, pick the strategy that best works for you and then put it aside, know that you're doing everything that you can, and then focus on investing and trying to make more money as opposed to letting that debt hold you back in a lot of ways. We all have debt, it's very, I mean, it's something that if you focus too much on it, I think it's one of the biggest barriers to moving ahead financially.

So once you get it under control, once you have clarity about how much you owe, once you're paying as much as you can, check that box, don't worry about it, try to invest and save more money. Because at the end of the day, you want to be investing while you're paying down your debt because over the long term, your investments are what's going to have the greatest opportunity to grow and that's you paying yourself first. That's not paying your debt, that's not paying someone else's interest. That's paying you and so I think we focus too much on it.

Every story about millennials is about how much debt they have. It makes people feel bad and so let's put that in its place, set up a good strategy and then focus our time more on the abundance mindset of trying to make more money and make sure we invest in ourselves instead of just paying for what we already bought and then try to minimize the debt that we do take out.

So that goes back to Priya's example of the car. $408 a month, that is a lot of money that you can invest in something else. Your student loans would be gone in a couple of years if you put that to your student loans as opposed to a new car and then down the road you could get a new car, maybe in three to four years once you are in a better place financially. So I think we focus on it too much, personally.

[0:26:48.7]

FT: That is really counter intuitive. I mean, you're absolutely right, we spend a lot of time focusing on debt. It is, I think for obvious reasons, but I think what you just said is definitely different than what I have heard as other authors have come on the show, dedicating whole chapters to debt, multiple chapters. You did one and a half pages, that definitely makes for a better read I think sometimes.

[0:27:14.5]

GS: Yeah, I think that most of like a lot of the personal finance world that I've immersed myself in, I found focuses on budgeting and cutting back. But there is a limit to how much you can cut back. You know, you can only cut back so much. There is not a limit to how much money you can make and all we talk about is budgeting, cutting those small purchases.

Those small purchases are often the things that give us the most joy, and so the world tells us, “Cut back on the glass of wine or cut back on the latte or cut back on going out to concerts,” and those small purchases tend to be what make us the happiest but the world tells us to cut those out so we can save and in the book I have a chapter called *The Only Budget You’ll Ever Need* and it’s simple. The average American spend 72% of their income on housing, transportation and food.

And notice I said transportation, so that goes back to the Priya’s question and so you want to keep your cost in those three areas down as much as you can and then spend the rest of your money. You don’t get to 20% savings by cutting back on those small purchases. You get there by moving to a smaller apartment for a little while, getting a roommate for a little while, living with your parents a little bit longer than you wanted to, and none of this is forever, I am talking about doing it just for a couple of years until you get your financial foundation built and then you can go out and get the apartment that you want.

But too many people, they adjust their lifestyle to the amount of money that they are making and then above that, they end up spending even more money as opposed to trying to spend as little as they can and buying themselves some freedom and so that’s – keep spending the money on those small things that make you happy. Save the money on the big things that make a difference, where you live, what kind of car you drive or if you even need a car at all and then your food. Just be mindful that whenever you are going out, you are paying a huge percentage markup and that is fine. I am not telling you what to spend or what not to spend. Just realize that’s where you make the biggest impact.

I’ve never had a budget in the past eight years, never. I mean, I track my money but I never had a budget because I always focused on keeping my housing costs — I spend less in rent in New York City than I paid on my mortgage in Chicago. I am going to spend less money in New York City where the cost of living is 2.5 times higher than Chicago simply because I am keeping my housing expense, I am keeping my transportation expense and my food expenses as low as possible.

[0:29:42.6]

FT: Well speaking of real estate, and that is pretty incredible. I want to know more about that situation, Grant. By the way Grant I am not going to say where you live but it is a nice part of Manhattan. You are not living in a 10-storey walkup with 8 roommates. You have a nice set up.

Siobhan is interested in real estate and so we want to help her out. She says that she's Canadian so she is not sure if this will make a difference. I don't think it will, but she's 32 years old and she and her husband have been together for 12 years. They have two kids, four and three, and they're currently living at their parents' house and they have been there for five years. They want to buy a house, they are finding it difficult to save. So you just said, "Go live with your parents," and they're doing it but I guess with the two kids it makes it a little bit more complicated.

She has a great credit score and no debt, but her husband's credit is mid-range and he has quite a bit in debt, about $20,000 that they have been paying down. "Together, we make about $100,000 before taxes but I feel like we won't ever be able to afford a house. What is the best avenue to save for a house? What is the best way for us to organize our income?"

So a couple of questions here, right? First of all, "Why do you want to buy a house?" is my question, right? Do you talk about this in your book? There's a lot of – we are hearing more and more Grant about how buying a home is not everything that it was once added up to be.

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GS: I mean, yeah, I have an entire chapter in the book on this about whether you should rent or buy. I purposefully believe in most markets, the rent by calculation is pro-buy. In many cities in Canada, for example, it's about two to three years where if you are going to stay in the place for at least two to three years and it sounds like she is interested in buying a home where she'd want to be for a long time. This sounds like maybe it is not a forever home but it is definitely a home she wants to live in with her partner for a long time.

In that case, I think the buying is a no-brainer. It has never been easier in history to buy a home if you do it the right way and I have a whole chapter on this built around what I call house hacking, which is how to make sure that your first home, which in my opinion is the most important investment that you are going to make in your entire life, and so buying your first home the right way is really important and I talk a lot about the benefit of putting down for example 5% down payment instead of waiting for 20%.

I know in Canada and in the US, it's one of the biggest myths out there that you need 20% down. When in fact, if you have a secure job and secure income source, 5% down to get into the market often actually makes the most sense and with that being said, I know in Canada there are specific rules where the first $500,000 of a mortgage you can take out at 5% with a 5% down payment but then after that you have to pay more. So there are some nuances to this.

But the simplest way that I recommend, put down 5% on a home that you really like and then get a roommate or two just for a year or two. Just for a little while and what those roommates, this is called house hacking, getting roommates even as a couple for a little while, rent it out to an older couple or an older man or an older woman or one of your friends and just do that for one or two years, it's going to offset the cost of your mortgage and so not only does it reduce your mortgage payment in some cases it can eliminate it completely and so you might be able to buy like a three or 4-bedroom house, rent out the other rooms and then just the rent that your renters are paying could cover your mortgage.

So then you bought a house that is going up in value that you are able to live in for free and more and more millennials, more of my followers, more readers are using creative ways to buy a home and I have an entire chapter dedicated to this all about how to best buy your first home and invest in real estate. But some of these counter intuitive methods, the first home that I bought I put 5% down. If I had waited until I had 20% it would have taken me another year and a half and the home would have cost over $100,000 more and so I wouldn't have been able to, even saving 20% I wouldn't have been able to afford it.

So getting into the market and getting renters for a little while are two of the best strategies and in most markets, as I mentioned, now buying is often the best decision if you are going to live in a home for at least three years and there are plenty of rent-buy calculators. The New York Times has a good one, Bank Rate has a good one, Zillow has a good one and just run the numbers but don't let not having a 20% down payment if you have a secure income, and it sounds like they have two secure incomes, don't let that hold you back.

[0:34:32.3]

FT: It does sound though that maybe it would require reducing your expectations a little bit around what this home is going to look like, what it's going to cost. If your husband's credit score is not great, some couples and I don't say this is the best idea but it is up to you if you want to do this, just have the spouse with the better credit score apply for the mortgage. Now this has pros and cons.

The pro is that you'll be likely to qualify for a mortgage, a more attractive mortgage with a lower interest rate but the amount that you'll receive will be less because it won't be factoring in both of your incomes or both of your financial profiles. So you know if that is something that you're wanting to do just to expedite this a little bit. Because it sounds like, Grant, they are getting a little tired living with their family, their parents, they have two kids, they really do need their own space, I completely relate to this.

So what I would recommend is sort of reassessing what this move is going to look like and you know, a starter home is a good place to start, you know? This doesn't have to be your forever home that you are saving up for. Just a little bit of a starter home, maybe it is not as big as you thought, you wanted or desire, but it is enough to get you out of your parents' home, saving some money on – I don't know, I guess they are not paying anything right now living with their family. But having maybe affordable enough and to Grant's point, keeping your cost as low as possible when it comes to housing.

I know that in America a lot of financial advisers will say, "Don't spend more than 30% of your income," and that's okay. I would argue try not to spend more than 20%, 15% of your income on your housing payment. Because then that does free up so much more money to pay off things like debt or to save more aggressively in your 401(k) or retirement etcetera. So, Siobhan, maybe that's the way to go about it. I mean, just giving yourself a little bit more of a more conservative parameter then that may seem more achievable to you, not knowing yet, Grant, what their goals are as far as home buying but that's a good place to start.

[0:36:51.9]

GS: Great advice.

[0:36:53.2]

FT: Okay, a couple more questions. Let's see Melanie has just moved in with her boyfriend Grant. They have been dating for a few years, they spend a lot of time in a long distance relationship and she has finished law school. They recently bought a house in his name, which she said it's fine because she is paying off her debt and focusing on that. But they have yet to really sit down and have a big financial conversation. So where do they begin?

I think that the beginning of this is you are living together now, you should have had this conversation a while ago. But I get it, better late than never. I think where you start is talking about what are our goals? Where do we want to be in the next five years? Assuming also that you are very transparent about what you guys have in savings and debt and all that stuff is accessible and transparent. That's also what should be happening as you have this conversation.

I will tell you what my husband and I did: before we were married, we're about to move in together. We went to a bar, this is a famous story it is on my book. We went to a bar and we, on posted notes, wrote down all of our financial numbers. So credit scores, saving account, retirement account balance, debt levels, etcetera, etcetera and that was a great ice breaker. We swapped posted notes at the same time. So we got the news at the same time and it wasn't a surprise. Because we had been dating for many years. So there were no surprises really. But it was a great way to break the ice and then talk about, "Okay so we are doing this right? We are in it to win it. Where are we going to be this time next year? What are our plans for family, for home buying, for location?" Etcetera, etcetera.

So, share the numbers, share your goals, do it as soon as possible, break open a bottle of wine or whatever you guys like to drink and not make it so intense. But really dedicate a month, once a months for the next year to talking about this on a regular basis. Any advice, Grant?

[0:39:03.6]

GS: Yeah, I think I love this question, first off. I think that is awesome advice, yes always starting that's the big mistake I see couples make is they go right to the numbers especially if one of them is really into personal finance and one of them is not. They always sit down with the spreadsheet or with the budget. Like I said before, a lot of people they start with the budget and they're like, "Hey, oh you know we over spent this month, or we underspent this month or we're spending too much."

But the most important question that you definitely eluded to was what kind of life that we want to live? Like, what do we want our life to look like and then figuring out, "Okay how much money do we need to live that life?" and envisioning it and sitting your partner down and being like, "Hey I have been reading about money. I have been listening to Farnoosh, I have been thinking more about this and this life that we talked about living, whether it is the lake house or being able to travel more or spend more time with our kids, this life that we talk about, money is a pathway to that and if we can manage our money together, we can get there. It might take us two, three, five years or a little longer but that life that we've always wanted, this is how we can get there," and then focus on that.

Talk about your dreams, talk about where you want to travel. What you want to do, the fun things you want to experience and then figure out how much money it takes to live that life. Then the other thing, you know, when you sit down once a month, lead with that question, you know, and look back on the past month when you do your expense review and ask the question of like, "How happy were we? How good of a month did we have?" So when you're sitting down at the beginning of February with your partner and you're reviewing how much you spent in January, don't just go to the numbers first. Say, "Hey, let's talk about January. What did we like about it? Did we have fun? Did we do the things we wanted to do? Did we enjoy our life? Did we do," and focus on reflecting back on your life. Then filter the numbers through that.

Because maybe in January, you spent 2,000 more dollars than you'd planned but you had a really great month and you did something that you never would have done and you were really happy. Realize that money only matters if it helps you live a life you love and so if you loved your life in January, even if you spent a little more money, that's okay. Do that next month and one of the things that a lot of couples make the mistake out of is they take their income and then they figure out a budget for each month and it's the same budget every month.

But give yourself some flexibility so maybe when an opportunity comes up in January but your budget was $3,000 and it's going to cost a thousand, realize that, "Hey, we're going to spend this extra thousand dollars January because this is a unique opportunity and we really want to do this," and then just cut back that thousand dollars some other part of the year. So your budget doesn't have to be the same thing every month. "Focus on maximizing your happiness per dollar," is what I say in the book. By doing that, you're going to ultimately really enjoy your life and realize at the end of the day that's what money is for.

So focus on those two things, lead with the life before the money, you're going to have a lot more fun and it's going to put everything in context and then your partner's going to get on board because they're going to be like, "Woah, this is actually possible. We can make that happen." Because sitting down, setting those goals together and envisioning your life, that's the first step to obviously ultimately getting there.

[0:42:32.8]

FT: Life before money. I like that. Suzie Orman says, friends before money, family, friends and something else before money. But I don't think she says "life before money".

[0:42:42.9]

GS: Always life before money.

[0:42:44.2]

FT: Always life before money. All right, we're friends with – we like Suzie over here at so money. She was on episode, oh I don't even remember. But she was on the show back in September so check that episode out.

All right. Jackie, last question, has a question about retirement and wondering if she's doing enough. She and her husband are both in their late 30's, they work for municipalities and she assumes that she's going to stay working for the local government for a while for the duration of their careers. If that happens, they will retire with pensions equivalent to 80% of the average of our best three years, she says. That will be around age 64.

They're contributing 10% pre tax to the pension plan and so, "Is this enough?" She's wondering. What other savings and investments do you recommend? "We have access to 457 and 403(b) plans," she says, "Though we are not contributing to either at the moment." I definitely think they should start supplementing. I mean, look, anything can happen in 25 years when you're going to retire and to say today that you're definitely going to graduate with that pension is saying a lot.

I'm not saying your municipality is definitely going to go bankrupt and not have money to pay their employees but I always feel as though, you know, again, to your point, Grant, financial freedom means ownership, right? Of your financial life and I would feel a little insecure if that was all I had in my retirement portfolio was a pension.

What do you think?

[0:44:21.0]

GS: Yeah, I couldn't agree more with you. Jackie, the fact that you have access to a 457 plan, a 457 plan from a municipality is hands down the best tax advantage investment account that's available. The biggest reason is that you can actually, with a 457, it's the only account that you can withdraw your money penalty free before your turn 59 and a half.

So if you need that money earlier, often with a 401(k) and an IRA, you have to wait until you're 59 and a half to start taking withdrawals and if you take out money before then, you get penalized. With a 457(b), those plans, you don't get penalized. So say in 15 years, you want to take out that money, you're not penalized for it, you can take it out actually whenever you want, which is a unique advantage and then often, you probably have access and can contribute to both a 457 and a 403(b). This is the ultimate thing because most people can only contribute to a

403(b) or a 401(k) but you actually have the advantage of being able to save more money pre tax if you can use both of those accounts.

So you can literally save double what the normal person can and by saving pre tax, you're reducing your taxable income, which ultimately at the end of the day is giving you more money to invest and more money to grow. So I strongly encourage that you put in as much as you can to your 457 or 403(b) because what it's going to do is, even though you might not get your pension 'til, you know, 64 for example, you might have the ability even in 10 years to be able to retire if you want. If you invest in these accounts the right way.

I have, you know, it can be complicated to figure out, "Okay, what account do I invest in next to save me the most money in taxes?" In my book, I have an investment strategy that goes step by step how to invest in each account and the most tax efficient way and it leads with, if you have a 457, you need to be investing in it because the advantages are so good. Most people don't have that so I encourage you to invest in your 457 at least and ideally both of them as much as you can. It's going to give you a lot more options and freedom, and to Farnoosh's point, you can't rely on your pension, even a municipality pension.

I mean, we look at like the state of Illinois, they can't even afford to pay the pensions of their municipal workers and I think that's going to be an increasing case. So being able to diversify and have your money as well as just giving it more opportunities to grow and not have to rely on your pension. You have a unique advantage that many people don't have.

[0:47:13.9]

FT: The Roth IRA, just quickly, is like the 457 it sounds like? Although there are different tax benefits, you can also withdraw from your Roth IRA.

[0:47:22.8]

GS: Just your contribution.

[0:47:23.8]

FT: Just the contributions, right. Oh so the 457, you can just withdraw your earnings and contributions penalty free?

[0:47:29.9]

GS: Absolutely.

[0:47:30.7]

FT: Wow.

[0:47:31.3]

GS: Yup.

[0:47:31.9]

FT: That I did not know. I've never worked for a municipality before. That's pretty awesome. Well, Jackie, good luck and thank you for your question. A lot of these questions came in through the ask Farnoosh button, by the way, on the So Money Podcast website. If you have a question, that's a great way to reach out. Also, Instagram, @farnooshtorabi. I've been answering a lot of your question there on the go. So if you have a more immediate question and keep it kind of short. I tend to get overwhelmed with like the 800 word questions that have 18 different numbers and values in them. I probably won't answer that on the go.

But if you have like a quick-ish question and you want to reach me sooner than later, @farnooshtorabi on Instagram. Follow me there, then direct message me, a great way to get in touch.

Thank you so much, Grant, this was awesome! I couldn't have answered all these question so eloquently without you. We look forward to your book coming out, *Financial Freedom*, on February 5th. What are your plans for 2019? Do you have like a money resolution?

[0:48:37.3]

GS: I don't have a money resolution. I'm taking this book around the world. So I'm going to be traveling to 41 US cities, starting in March. If you want to learn more about that, just visit financialfreedombook.com, you can see all the tour dates. Follow me, @financialfreedom on Instagram. You can shoot questions if you have any follow up to today's episode.

Then I'm going international; I'm talking this to 17 countries and you know, at the end of the day, I feel very fortunate that I'm already financially independent and I really believe that financial independence is really a human right and that we should all have access to high quality information and that everyone should have the opportunity to live a life that they love and money shouldn't be that barrier.

So I'm spreading the message around the world and catch me at a city near you and I'm really excited. It was so much fun to be – these are great questions. These are really great questions. Shout out to all the So Money listeners. This was a lot of fun and hey, it's great chatting with you again Farnoosh.

[0:49:36.0]

FT: Likewise. Yes, So Money nation, you heard it from Grant, you all rock! Thank you so much, Grant and everybody. I hope your weekend is So Money.

[END]