EPISODE 857

[ASK FARNOOSH]

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FT: Welcome back to So Money everybody. March 8th, International Women's Day everybody. Congratulations to all the super star women out there; moms, lady bosses. Very honored to know that many of you listen to this show, many of you have asked questions for today's episodes so I look forward to servicing you and hence supporting you in your financial goals. It's a great day to celebrate womanhood and sisterhood.

This morning actually I appeared on Cheddar, which is a sort of this really cool network for millennials talking about all things business and money and I got an opportunity to talk a little bit about the importance of female financial literacy on this day and all the things that we're doing with Stacks House that was a really great way for me to start my day and connect with all the celebration going around the world regarding women and our advances in society.

So, we have a ways to go but I like to think that we're all doing our part and this week in particular, not really consciously, but it turns out that I had some pretty incredible female guests on this week that really embody the spirit of what it means to be a well-rounded, a thoughtful, a mindful woman today I society that's really achieving on all levels; motherhood, if that's what you want to be, career and more.

We had Rachel Rogers on Monday, who is the founder of Hello Seven, and we talked about unapologetically, the importance of making your own money as a woman and she goes out so far as to say that you cannot actually be a feminist if you don't have your own money, if you're broke, she's sorry to say, you're going to have a hard time practicing feminism.

That's a pretty bold statement so I encourage you to go back, if you haven't listened yet, to episode 855 with Rachel Rogers and then on Wednesday, we had Tonya Rapley on the show who is the founder of My Fab Finance and Tonya has a really incredible story about her journey to basically launching this destination online for women to help them feel more empowered around money and she comes from a background where she was in an abusive relationship, she had to find her way out of some money troubles and arrived at this mission to help other women as she was helping herself.

She's been doing pretty well for herself and for her community. So check out Tonya on Wednesday and today too, we have an incredible female cohost. She's been here on the show before, you may have listened to us back in January dissect your money questions, but Megan Gorman is back today. Very excited to bring you back on stage Megan, how are you?

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MG: I'm great. Thanks for having me. In particular, it's really nice to be here on International Women's Day because today is actually the fourth anniversary of when I founded my firm, which is aa female owned tax and financial planning firm. As most women in finance will tell you, there are very few of us and there's even less of us who own our own firms. So it's sort of perfect timing to be on the show.

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FT: Wow, the stars are aligning. Did you know that it was International Women's Day when you launched?

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MG: You know, truth of the matter is no, it was just right when – the day I picked was really because it was the right time for me to leave my old job and just get started and then in looking back, I'm like, "Wait a minute, it was International Women's Day, how perfect is that?"

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FT: That's pretty perfect.

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MG: No, just by chance. Yeah.

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FT: That's really special. Well, we're really grateful to have you back on and I remember saying, when you were on in January that I had to have you back because you just helped so much carry these questions to some definitive answers and we have a lot of questions today, I'm happy to say, some questions related to retirement. I find that after doing these, this show now, this is like episode 880 something that a lot of the ask Farnoosh questions are skewing more and more towards retirement and investing, which is, I think really great.

What are you noticing on your end as far as retirement readiness amongst women?

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MG: Yeah, I mean, I think the good news is, there's a lot of ways to get information on what you should be doing for retirement. This isn't a topic that most people haven't gotten to yet, right? They thought about it at least and many of them are actually doing things whether it's funding their 401(k) or doing their IRAs or even funding HSAs. I think that with most people are looking for is they know they have a lot of the key elements in place but are they pulling them together in the right strategic manner, right?

That's because all of us, especially and I say this as a woman, I want all the i's dotted and t's crossed. I want to make sure, am I really thinking through all the different elements? I think a lot of the questions that we're going to talk about today Farnoosh, are those sort of issues that women are facing, which is, "I'm doing what I'm supposed to be doing but am I supposed to do something else? Am I missing something?"

That's where I think we can sort of add a little dynamic today to make people feel that they've pulled together their strategy in the right manner.

[0:05:50.8]

FT: Yes. Well, let's start with Kelly on Instagram. She's 24 years young and happy to say, she's interested in starting to invest in the market. Here's the thing, she wants to do this. I think with a lot of millennials, we're hearing this too, a lot of young adults, got to love this, they want to do right by their investments. She in particular wants to align her values with where she's putting her money in the market and she's heard about a platform called Swell Investing, which by the way, we've had the founder on our show, Dave Finger.

Swell is basically a financial, automated financial platform where you can invest in portfolios that are designed around certain sort of value driven themes and they have several of these kinds of portfolios and I think it was really designed with this kind of investor like Kelly in mind who really, as she states, wants to invest in ways that are more maybe socially conscious, environmentally conscious, doing things that she feels like she's investing, making a return but also making a contribution and doing right by herself in the world. I love that.

So her question is if I have any insights on Swell and I guess I just answer to that. I think Megan, the better answer here from us is just sort of how to approach investing as she sounds like a beginner here and if you do want to carve out room in your portfolio for investing in things that are perhaps in line with your hardcore values, is there a way to do that very broadly or should you just kind of carve that proportion out? How do you do it?

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MG: Yeah, I mean, I think the great news for Kelly and for other women like Kelly who want to invest on their values is that if we were sitting here even five years ago, that wasn't really possible, it wasn't easy to get those investments. What's great today is there's a number of different platforms in the robo world and in the investment world that allow you to invest based on your values.

But I think what's really important here for Kelly and other listeners to think about is that as you embark on your investment life, it's really exciting but there is a whole world of emotion that you also have to really factor in. Because, interestingly enough, today on March 8th, 10 years ago today, actually, 10 years ago tomorrow, the S&P 500 hit its bottom during the economic crisis. It was at 667, okay? It was really at the bottom of the market and so the market was on sale and if I could tell Kelly and all the other listeners out there that, you know, one of the things that I think most people missed out on is they didn't want to buy when the market was down.

So I think this goes into how do you envision your investment strategy in that the emotional aspect of investing often runs contrary to what we should be doing, okay? So when you're starting to think about entering the market and let's say you go out and you find a great platform with diversified investments that reflect your values, what I want you to think about really is ignore the noise. Ignore the TV shows, ignore everything you're hearing about the market moving up and down and that's because they're all working on your emotion and the best investors don't get caught up in emotion.

You know, Warren Buffett said, "Be fearful when others are greedy and greedy when others are fearful." Women, we all like a good sale, right? What we should do as we approach investing, particularly when you're just getting into it, is say to yourself, "Look, I'm not going to get caught up in the emotion of it and I'm always going to be buying and I'm not going to look at my portfolio too much," okay? You want to build that discipline around it.

If you're in the right basket of funds that give you your value driven investing approach and you're buying consistently whether it's you're putting $50 in every month, right? Just consistently be buying and then don't get caught up in the noise, that's the right investment strategy that will allow you to really succeed. I think that Kelly will feel very satisfied with the choices she's made in that. I don't know how you feel about that Farnoosh, in terms of emotion and investing with women. But that's sort of how I've always viewed it is to sort of try to take the emotion out.

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FT: Right, because as you stated earlier, we're already approaching generally the investing, the concept of investing with a lot of questions and I think on the one hand, I really love that about women. We have a lot of questions, we come armed with curiosity and we want to feel like we're making an informed decision but to a fault sometimes. We don't make a decision because we feel like we don't have 110% of the answers and that's really a play on emotions too, which is like, “Oh, but this is making me feel insecure, I’m not going to do the right thing. I’m going to make a mistake and then I’m going to feel bad, I’m going to let people down.”

I think you need to get over that, you know? I think you need to just sort of trust the general advice, which is that what you said, you know, having a long term view, not getting caught up in the day to day fluctuations, understanding that, you know what? The market is going to be volatile. There are going to be some really bad days, there are going to be some really great days and that’s just part of the journey and I think what’s to Kelly’s benefit here is that she is 24 years old.

She is starting young and I think if we were to give you one last bit of general investing advice is that perhaps prior to looking into these alternative platforms like Swell, think about what are some of the more broader ways, more conventional ways to get in the market? Whether that’s your workplace 401(k), an individual retirement account, which we’ll talk about later. I have some questions here about Roth IRAs. How can you consistently get into this plan to save for retirement? Can you do 10% of your income every paycheck? Can you need to do 15%? I think that’s important, just getting into those habits and those automations, really helpful.

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MG: Right. When you see the markets pull back, don’t be afraid, just think to yourself, “I’m buying on the cheap, I’m buying at a low price.” Because guess what? If you are able to play this for the long term and you don’t get caught up in the noise, you will benefit from that. You want to be the one who looks back like a Warne Buffett and says, “I bought when everybody else was panicking.” That’s a good feeling and it’s hard to do, it’s very hard to do.

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FT: All it takes is looking back through time and we have recent evidence of this. I mean, people who stayed with the market in 2008 and also bought more in the market when the market was down, they’re doing much better than those who pulled out and lost all that opportunity for compounding.

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MG: Exactly.

[0:12:56.5]

FT: Okay. So Joyce now on Instagram. By the way, Instagram's a great way to reach out to me. Where I'm hanging out a lot these days so these questions, a lot of them came in through direct message. Thank you to everybody who has been following me there and helping me grow the community and for sending in all these great questions.

So Joyce, Megan, is a long time podcast subscriber since the beginning, which is pretty amazing. She's an original gangster of So Money, I love it.

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MG: Oh wow, that's great.

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FT: This is her first time messaging and it's a pretty heavy question. Just want to prepare you and she says, "My husband and I had a roller coaster 2018 because of money issues. I found out that he had $40,000 in credit card debt and he took out most of his 401(k) to pay for that. He's in his 40s and I'm in my mid-30s. Come tax time, this early withdrawal penalty from the 401(k) means that we're going to owe a combined $40,000 in taxes, most of which is his. He cannot even pay for half of that," she says and she's always been the saver and she's been pretty disciplined but you know, they're in this pickle.

She says, she's going to have to pay for it, she's really shocked that he kind of held this from her and it's been a huge disappointment in their marriage. They also make a combined $300,000 a year so this is, I guess, good news? But also she's upset because she's like, "This shouldn't be happening to us. You know, we make a good salary, we shouldn't have this debt.

Furthermore, he shouldn't be hiding things from me," and here is what she says. She says, "I feel like getting a divorce and that's the only way out."

Now, I'm not a divorce expert, I'm not a marriage expert, I'm not going to give you advice on how to pursue in your relationship but I will say that, there has been some broken trust and I think that it would be good to kind of have a really big, long conversation or a series of conversations around this because I agree with her that it's really hard to move forward when something like this happens but you have to have a conversation about it.

I want to know from you Megan, what should that conversation be like? Is there any advice that you have for her as far as how to communicate her feelings about this and what if there's anything they can do to kind of create systems so that this doesn't happen again?

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MG: Yeah, I mean, Joyce's situation to some degree, it's obviously very upsetting. But, you know, I think one of the things, there's often a feeling that if you're a high earner, right? That you should have all the financial issues sort of well covered. You know, I spend most of my days counseling very wealthy people. What you find in what makes people, couple's successful financially is that they're able to create a safe space where they talk about money, talk about issues, and are able to create a strategy to move forward. It sounds a lot like therapy.

So in this situation, I think to provide a path to move forward. What I would tell Joyce is – You really need to do a reset of your financial relationship with your husband and, you know, because you're going to be paying the tax bill here. You can sort of take this moment to say, "Look, I'm going to do this once but I don't want to do this again," right? And create that boundary. In order to do that, I think we need to sit down and have a third party really help us with this.

What I would suggest to Joyce and her husband and they can – they're high earners, they seem to be doing well, is it to go out and get either a fee only planner or a CPA who does financial planning and come up with a relationship with that person where you can talk about your money plans, your money issues and come up with a strategy to move forward. Because what you need to be doing regularly with your husband is going over your assets, your budgeting and other financial issues.

The reason I bring up a CPA in this is, a lot of times, you know, there are people and I'm one of these people who have the firm that does this where you can do your tax planning all year round, right? Where they can sort of say, "Okay let me see your tax return, let me see your pay stubs and everything that's going on and let's plot out what your balance due is next April." By getting everything on the table, by being that sort of open, you know, you get to see these issues and get to emotionally work through it.

Then, you know Joyce, I think the last thing and Farnoosh, you know, obviously, relationships are hard, marriages are hard work. I can say that because I am married and I'd like to believe my marriage is successful. You know, if the hard work doesn't kick in, if your husband is not being transparent about things, but you want to – you know, you can either go down the path of divorce or if you want to stay married, you have to build boundaries and you can do things like saying, "Look, the end of the day, since you can't keep your finances in order, I'm going to file married filing separately. Because I don't want to be dealing with your tax issues," and you can go and get a post nup. I work with certain people who you know, have decided not to co mingle finances. You know, it might be the best way to keep a relationship going. We all think it's very intimate to co-mingle everything, but sometimes the best way to manage the relationship is to have that partition up.

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FT: Well thank you for saying that because I've always been an advocate of the minimum having your own financial accounts in your marriage, whether that's your own credit card and/or bank account and not because for the purposes of hiding things from your partner or because there is this tension that you want to mitigate but really because I think every person in the relationship would benefit from some financial autonomy. It's really more to promote independence because I think too if you look at modern marriages, people are getting married later. We are arriving at marriage and courtship already having our own systems around money and habits around money and not to say that in a marriage there shouldn't be tradeoffs and compromises over how you manage the money but I think that it is still really important for everyone to have a layer of independence and in some cases perhaps like you say Megan, just build a wall in between. Just don't have any co-mingling if that is what it means to avoid fights, avoid these feelings of betrayal, etcetera.

But I think really at the core of this, it's about communication, transparency and rebuilding that trust has to happen foundationally, and I think some therapy whether there's even financial therapist out there who can help with this who have backgrounds in both money and also emotional therapy. So that could be something to also look into but I love the idea of also a CPA and a CFP. Anyone you can bring into your help to be a third party voice of reason. I think especially in marriages it is so helpful. My husband and I had a financial planner in the beginning of our relationship, mainly to help set us up in a way that would be efficient, she would be able to come in and just tell us where the holes were and also it was an opportunity for us to really get out in the open about where our money was, what our money is doing for us and I think having that third party, it just helps to facilitate it and keep the emotions pretty much at bay.

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MG: Right, you behave a little bit better when you've got a third party in the room and the third party if they are good at what they do can get you out of those relationship ruts because anybody who is married or in a long term relationship realizes, you and your partner have the same argument every time just about a different topic but it is the same underlying issue and the right person who can push you forward could really help, and in Joyce's case I think that this is a fixable situation going forward if they can sort of work through this with a third party.

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FT: We're rooting for you, Joyce. You know, we really want this to work out for you. I am really sorry that this happened and I've had questions like this here and there were money is the leading cause of divorce that's for sure but I think there is still room here to work things out. We hope that you will stay in touch and keep us posted.

Okay Irina has a question about Roth IRAs, which I love. I love when someone has a Roth IRA question. It means to me that their head is in the right place because we love Roth IRAs. But she wants a little bit more information Megan, you know, she has some conflicting information around the penalties related to early withdrawals and we know that Roth IRAs have a lot of flexibility, inherent flexibility compared to a traditional IRA. So let's walk her through it. Okay so I will start and then chime in.

So a Roth IRA, just to take a giant step back, this is a retirement vehicle. You can open up a Roth IRA pretty much at any financial institution. You can open one up online, you can go to your bank and within the Roth IRA, you can invest in a variety of investments; funds, bonds, mutual funds things like that. There are some requirements around your income, so after you exceed a particular income level you are no longer eligible and this year you could contribute up to $6,000 in your Roth IRA.

The biggest difference between a Roth IRA and a traditional IRA, your Roth IRA earnings can be withdrawn in retirement tax free. So you invest in a Roth IRA with after tax dollars.

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MG: And then it grows tax deferred and it comes out tax free. So it is sort of that perfect confluence of tax benefits, right? But it gets confusing and I think anytime you add the IRS to these unique plans and there is all these different rules, I think it gets overwhelming and I have to remind myself from time to time how they work. Because again, it is a powerful tool for Millennials and Gen Zs and I think this is where some of the confusion can come from.

Because, you know, you can take money out to buy a home but there's two types of fund inside a Roth, right? There is your contributions and then there is the earnings, okay? So if you are looking at the contributions, you can always take them out for any reason and there is no tax or no penalty.

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FT: At any time, right. So there's a five year rule though for earnings.

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MG: Earnings, this is the magic, yes. It has to be at least five years since you made your first Roth IRA contribution and then you can pull out up to $10,000 in investment earnings tax and penalty free towards your first home and how you know it's been five years since the first contribution is that the five year clock starts January 1st of the year you made your first Roth IRA contribution.

So the IRS makes this very, very complicated. It makes it overwhelming but I think it is an amazing tool because it is a great way to sort of force savings and I think what's really going to be important for women building wealth is making sure that they can buy homes. Home purchases really make a big difference in increasing your net worth. So for Irina here, you know if you want to be able to take money out because you want to be able to buy a house down the line, a Roth IRA is a great way to do it.

I have seen it worked numerous times where you are able to do this and it's a great way to get yourself in a home.

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FT: Right and good news, young women are buying homes at a faster clip than men across the country and that has been true for quite some time and I think you are absolutely right and there are some other allowable reasons to withdraw your earnings before five years and that is if you have a disability and also if your withdrawal is made by a beneficiary of your estate after your death. There are some requirements, go to irs.gov to get the full download.

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MG: And actually just one last thin, Farnoosh, for Irina. If you do this technique the one thing that I would strongly suggest is as you are doing this, call your custodian of your Roth IRA and make sure that they are coding the 1099R correct and that is because you will have to report on the tax return, regardless of whether it was a qualified correct distribution for a first time home buyer or it was just to take money out, you want to make sure the 1099 is coded correctly or you could inadvertently have to take tax, pay tax.

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FT: We have an anonymous question on Instagram that is sort of a follow up to this Roth IRA question and this person wants to know, when is the right time to open up a Roth IRA? Right now this person is contributing 10% plus an employer match to their 401(k) and wondering should this Roth IRA be something to add to the mix? This person makes a $130,000 a year.

I think yes. I love the diversity of having a 401(k) and a Roth IRA because of the differences in the tax benefits.

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MG: Yeah, I think there's two ways to go about this. I agree with you that for someone who is 31, single, who might want to buy a house, doing the 401(k) and then having the Roth IRA on the side could be a great strategy and remember, you can still fund your Roth IRA up until April 15th of this year for tax year 2018. But the one thing I will say is one of the newest features that are coming out there in the employee benefit world is the Roth 401(k).

So just remember, Roth IRAs were really created for people who made under a certain limit amount but now because they've taken on, you know, people really like the Roth concept they now have the Roth 401(k). So you could fund your 401(k) with after tax dollars instead of pre-tax dollars. It grows tax deferred and it comes out tax free.

Now the decision to maybe make your 401(k) a Roth 401(k) can be a hard one, and the reason I say that is when we are funding our 401(k) we are putting our pre-tax dollars in and so it is not costing us as much in our paycheck as it is if we were to fund a Roth 401(k). So that is the one thing to keep your eye on. The other thing is you got to propel yourself forward to when you're 70 and that can be hard to think about because I want you to think about tax rates and do you think at age 70, you will be at a higher tax bracket than you are today.

Because if you are, then the Roth 401(k) is more compelling because the distributions, one, are tax free and two, you don't have to take a requirement of distribution at age 70. So I think in this case, I think that the way that you are talking about it, Farnoosh, where you split it between a regular 401(k) and a Roth or I would look to see if I could do a Roth 401(k) and just to be clear here, you can fund it up to $19,000 for tax year 2019. So this young woman here who is doing 10% or about $13,000 she still has another six she could fund, if she wanted to.

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FT: I guess she is wondering should I do the six extra to the Roth, to my 401(k)? I don't know if a Roth 401(k) is available to her.

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MG: And I think the answer I would tell her is when you think about all your financial goals, is if there are goals — if you don't have an outside account for saving, for buying a home and everything is inside your 401(k), then maybe doing the Roth IRA is a good solution because you can start building up that account that, as we talked about with the last question with Irina, you can then have that money ear marked to take out if you would want to buy your first time home. Then if you feel that you've got — the other thing to look at is if you feel that you already have an outside savings account for a home purchase then you could do the Roth 401(k) if your employer makes it available to you.

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FT: Right, I like the idea of a Roth being somewhere in the mix here just because of the flexibility too that you talked about to be able to use that if you wanted to purchase a home. He or she anonymous, I am guessing a she, also has a question related to HSAs and we'll end here after we answer this question, health savings accounts. Wanting to know what is the difference between the health savings account and a Roth IRA?

I mean I think the big difference here is that an HSA is designed for health savings and a Roth IRA is really intended for retirement.

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MG: Yeah and I think that they actually are parallel strategies because one of the things and I know that we're going through a period of time politically where people are talking about health care and getting everybody covered but we all have to remember that in retirement, we are going to probably have to pay a significant amount towards our health care and so what I love about HSAs if you have the ability to fund one, you might want to consider doing it, taking the money, funding it, getting the tax deduction for funding it, letting it grow tax deferred. So that means putting the money to work and investing it, not touching it and let it ride to your 65.

Because anytime you take the money out of an HSA for qualified medical expenses, it comes out tax free and if you wait until you're 65, you can also also — it converts into an IRA and you can take the money out for non-medical expenses and just pay Fed tax and state tax. But what I like about people funding HSAs and letting it ride to age 65 is I believe Fidelity says today the average couple who's 65 needs $233,000 to cover their health care expenses through retirement.

So if you fund this today in your 20s and 30s, let it ride and then you've got a bank that just as ear marked for your health care expenses and retirement, it's so powerful. I mean I work with boomers who are struggling to figure out how are they going to cover themselves through retirement and you have to remember, the big question mark with all of our retirements is we just don't know how healthy we'll be, right? And we don't know the cost of medical.

So the ability to save now in your 20s for that, it's the most perfect tool. What I love about this is this is not a tool for baby boomers, because everything else is, right? This is a tool for my generation, which is Gen X, your generation Farnoosh, which is Millennials and then also Gen Zs. This is for us because we are in the prime working years. We can put the money in, we can invest it and let it ride and that should be your strategy with HSA.

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FT: So there is a lot of flexibility with an HSA. It is, as you say, like very much speaking to where we are right now in society as far as where health care cost are going, that is like a quarter of a million dollars. Another reason too, why some people are looking for long term health insurance plans, which might be able to supplement some of their costs later down the road.

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MG: Yeah and I think one other thing you are going to start seeing is employers want people to do the HSA route. Employers are going to do things to encourage employees to fund an HSA. So when you are going through open enrolment, ask if there is a match. You may be surprised. I work with a number of different corporations and I am seeing every year an increase in employers who are matching HSA contributions.

So, you know, if you've got a limited amount of money to save, what I always tell people is fund your 401(k) at least up to your employer match and then fund your HSA because those two tied together create a really strong baseline retirement strategy.

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FT: As always, incredible advice, Megan Gorman. Thank you for helping out all of our listeners and tell us what's the latest and greatest with the wealthintersection.com, your site?

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MG: Yeah, so I've just been writing about a lot of different things. I think that some of the things that I have been focusing on is more about estate planning. There's been a lot of different people passing away, from Carl Lagerfeld to Luke Perry, and I think that it really shows that all of us have to focus on our estate planning. Whether we are 20 years old, 50 years old or 80 years old, and so I think there is a lot of great stuff I have been focusing on in my writing in terms of making sure you maximizing your beneficiary designations, getting your health care directives and then even how to take care of your pet if you pass away to make sure they're covered.

So yeah, feel free to follow me @wealthintersect on Twitter and @thewealthintersection on Instagram but lots of good stuff we're writing about and just excited to see what news issues pop up for the personal finance space.

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FT: Yeah, I am so sad Luke Perry passed. It was too soon and what a human. Well, thank you for the work that you do, Megan. Thank you for revisiting and we hope to have you back again. We'll be sure to post blings to The Wealth Intersection on our site as well and everybody listening, thank you so much. Happy International Women's Day and I hope you weekend is So Money.

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