EPISODE 869

[ASK FARNOOSH]

[0:00:34.3]

FT: You're listening to So Money, everybody. Welcome back to the show. It is Friday. The date is April 5th. How is everyone doing? I hope everybody had a good first week of April and that you enjoyed the episode this week. We had Ida Rademacher on Monday, who is with the Aspen Institute talking about all the important ways that she's working with individuals and government and corporations to help bridge the gap between the rich and the poor, frankly. Ida works at the Think Tank Aspen Institute that's doing some really incredible work with economic policy. Of course, she had an incredible story of her own, her personal journey, how she got to where she is, her upbringing. Check out that episode if you haven't.

Our episode today is Ask Farnoosh. In the spirit of the show, we got on a listener, Lily Chen. Let me just brag about Lily for a second and I'll pull her up on stage. Lily's a listener of this show. She reached out to me quite some time ago. We finally made it happen for her to co-host with me.

She's a medical doctor and a podcast host on her own. From Sydney Australia, she has come a long way. She's overcome some hardships, like being rejected from job applications three times. She veered her life in a different direction and chose to attend medical school and then became the host of her own podcast, which I love the name of her podcast. It's How To Win Friends & Influenza. Oh, my gosh. Welcome to the show.

[0:02:11.9]

LC: Thank you so much, Farnoosh. Thank you for that generous introduction.

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FT: Well, what brought you to a money podcast?

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LC: Well, I just love the work that you're doing, Farnoosh; the work that you're doing on educating people on what they can be doing with their money. It's a way of empowering them really. The topic is interesting. I love your presentation style and the information you give and it was just a great resource to learn more about this thing.

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FT: What inspired you to start your own podcast? Do you feel there's a big market for I guess your audience is physicians?

[0:02:40.9]

LC: Yeah, a mixture of junior physicians and medical students who want to learn more, but it's really open to everyone. It's going to really sound like you paid me to say this, but your podcast was really one of the first that I listened to, and that idea of getting knowledge from different people, different interviews, that spoke to me and I thought, "Do we really have something like this in medicine?" I think the answer is no.

People want to learn about cardiology and immunology and what the difference between each one is, but there isn't something out there that's really fun and audio-based that they can listen to. That's what drove this.

[0:03:14.1]

FT: Wow. I also want to learn a little bit about your career transition.

[0:03:18.5]

LC: When I was in university, my undergraduate was actually business. I worked in business for a while. Then after some point, I started thinking health is really interesting and it's one of those big pillars of our lives; health and children and family and whatever else that people are interested in. I naturally gravitated towards it; find it really interesting and went and studied health. That's where I am now.

[0:03:40.8]

FT: Do you have a specific focus in how – was it pediatrics?

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LC: You know what? A little bit of everything. I think just in medicine, medicine in general is just so interesting. Some general practice is really what I'm aiming towards.

[0:03:54.0]

FT: I've had a couple of doctors on the show. In America, there's a lot of student loan debt that comes with becoming a doctor often. It's very expensive to pursue. Often, physicians find themselves in a place where they're trying to build their careers and also trying to manage their debt loads and just get up to speed financially, because they've been in school for about a decade. They feel a little bit behind with regards to things like retirement planning and things like that. Is it similar on your side of the pond?

[0:04:25.2]

LC: Well, in Australia we're quite lucky because our universities are government-funded, so there are some private institutions. Basically it's funded by the government, strongly subsidized. We don't really end up with those quarter of a million dollar loans. It's maybe something like $10,000 a year for four years, something like this. We have a very, very generous loan system, which is indexed at the rate of inflation. It's almost an interest-free loan. We are very, very lucky in that respect.

[0:04:52.0]

FT: My gosh.

[0:04:52.5]

LC: Probably the biggest hurdle is just the fact that you're behind your peers. Some of your friends who went down a different path will be in respectable jobs, being taxpayers while you're still in the student eating ramen phase. It's more that life set back in a way. From that point of view, I'm not sure everyone will recommend doing medicine if you want money or something like that. It's more like if you're willing to put your life on hold for a little bit to get more education on something you find really exciting.

[0:05:21.3]

FT: Well, you heard it here. If you want to get your medical degree at no cost, head over to –

[0:05:27.1]

LC: Come to Australia.

[0:05:28.1]

FT: Australia. What a difference. Okay, well we have some questions here from our listeners. The first couple actually deal with a 401k. In Australia, how does it work with retirement planning? Do your workplaces typically offer a retirement plan? How does that work?

[0:05:43.5]

LC: Yeah. Here, we don't have the two system with a 401k and the Roth IRA. We just have one system called superannuation. At the moment, it's compulsory government-mandated contribution of about 9.5%, so the employer has to take that amount and put it in your superannuation. Unless super, super special circumstances, you can't access it till your [inaudible 0:06:05.3] age, something like 65.

It's this forced savings plan. You can always contribute a little bit more, but it's just that idea that we don't know if people can say for themselves, so just in case let's set some good habits aside for the long term. It's a little bit more simple than the US, I think.

[0:06:21.7]

FT: Just a tad. Yet another reason to move to Australia, I guess. I mean, we do have social security, but it's nothing to bank your whole retirement on, at least not in most parts of this country. That is what it sounds like, but it's so robust, almost 10%. That's what people are now really tasked with saving on their own if they want to get to retirement with a healthy, sizable nest egg.

Okay, so the questions regarding 401k from our listeners, the first one on Instagram is what is the best way to get my 401k rebalanced if I don't use a financial advisor? This is really simple. A lot of times, your 401k will have an auto rebalance feature. Here's the thing, if you have a 401k at work, I don't think you need a financial advisor going in there and making money moves. In fact, I think you want to reserve working with a financial advisor until you have other things on your plate. You want to actually plan for your future, plan for a family, or plan for your business, and/or buying a home and retirement, all that.

I mean, your 401k is an aspect of your financial planning, but it comes with its own portfolio manager so to speak through the 401k company. You can set up things like auto rebalance. You can talk to somebody through the free 800 number. You can re-allocate the portfolio, if for some reason you decide you want to take on more risk, or less risk, etc. I don't think hiring a financial advisor makes a lot of sense if it's just for managing your 401k.

Good news, you can just do this automatically with either going on the website for your 401k plan manager, or calling the 800 number and saying, “Hey, can you set me up with 401k auto rebalance?” Which just to take a step back, means that let's say you have an 80% stock, 20% bond allocation in your portfolio. If the market really has a great year, or an amazing quarter, your allocation might look more something like 90% stocks, 10% bonds after that big rise in the market, which may not be something that you want necessarily.

You might feel you're a little too exposed in the market now in stocks. What auto rebalance does is every quarter or once a year, I think you can set it periodically, it will rebalance to the percentage allocation that you're comfortable with.

Next question is from Holly on Instagram who has a 401k and a Roth IRA, which Lily, a Roth IRA is like a supplement to sometimes what people have as a 401k. It's another way to save for retirement. She wants to invest another $50,000 of her money somewhere. At this point thinking, maybe I should hire a money manager or a financial advisor. Coming out of the previous question about working with a financial advisor, I think Holly, it might make sense to work with somebody to think about where to best allocate this, not so much a stock picker for you, but someone who can look at your holistic financial plan.

Yes, part of your plan is to figure out where to park this $50,000 extra dollars, which congratulations that you have it. Really putting it into consideration like okay, what are your goals, right? What are your five-year goals, your 10-year goals, your 30-year goals, your six-month goals? Then where does this $50,000 best fit into that plan? Could you take some of it and put it into rainy day if you don't have enough of a rainy day? Should you take some of it and put it into the stock market for the long run, because you feel you maybe want to do more on the retirement front? Do you want to use some of that for a down payment on a home? Do you want to use some of that to build a business?

Working with someone like a financial planner can't hurt in this circumstance to help you shape that bigger picture plan and how to really best leverage this money. I don't necessarily think it has to go in one place. It could go in a number of places. It's a lot of money to work with. If you had $50,000 Lilly, what would you do with it?

[0:10:31.0]

LC: Ooh, I guess the first answer people attempted to say is, “Oh, go on a holiday,” and do something like that. For me, I would probably go down that Warren Buffett school of thought and put it in Vanguard or somewhere safe, somewhere nicely index, somewhere safe with some algorithm away from human hands, where that it'll grow. Not too ambitious, but reasonable way.

I wonder, one thing is when should people go to someone for their money management, versus getting some education themselves and looking into it themselves? Because not everyone has a financial adviser, or not everyone has a money manager. How do people decide if they're better off being independent, or if they should seek some help?

[0:11:11.7]

FT: Sure. Yeah, it's a really good question. I can speak for myself and just say that in my life, I have worked independently, I've worked with a planner, I work independently now. When I worked with a planner, I found it really helpful because I was at a point in my life where I was really going through a transition. I was getting married, my business was growing, I wanted to start planning for a family. At that point, I thought having an expert who could look at the big picture and offer my husband and I some objective advice and help us really level the playing field a little bit and see where we could meet each other and where some of the holes and things like insurance and family planning and etc., etc., we all benefited from that timeframe when we worked with somebody who was able to get us a plan, get us – meeting with other people too who could help us with for example, our will and our tax planning.

A lot of times your financial planner is point one in your overall building your network out. If you need an estate attorney, or you need an accountant for your business, or an insurance agent to help you find some life insurance, your planner can often make recommendations. Then those people talk – your planner then talks to these people and can help to really create some synergy and connect dots. It helped.

Then I eventually felt we outgrew needing a planner, because once she got us the plan and got us rocking and rolling and automating a lot of the savings and investment whatever, I felt you know what? I don't want to be paying someone at this point, because all she's doing is more or less being on call if we need her advice, or moving some of our money around in our portfolio, which frankly I don't think is necessary, right? I just want to be in a portfolio that's riding the market, nothing crazy. I don't want to be paying a lot of fees for my investments.

We have now put our money on an automated investment platform. Then the planning stuff, we feel we have a good handle on. We have all the plan figured out, more or less. I will say that if let's say down the road my business 10X's, or Tim wants to start a business, or we get a huge inheritance and we're like, “Ah, what do we do with this that's the best?” I think that perhaps rather than enlisting the help of a planner to work with us on an annual basis, now you can just work with the planner on a monthly retainer basis, right?

I think it's always helpful to get a third party to weigh in, an expert to say, “I like what you're doing, or have you thought about this? Or I wouldn't do it that way and here's why.” As you're about to make a big decision with your money, why not? Then just paying that person by the hour, or for the month. Does that make sense?

[0:14:12.1]

LC: Yeah, yeah. That sounds like great advice. Getting people to start off with the help and you can always turn down later as needed, but not a bad idea to get someone with some expertise to chip in.

Another thought there is for Holly, if she's going to start off with her first money manager interaction, what characteristics would tell her if this person is dodgy, or if they're trustworthy, what things she’d look out for?

[0:14:36.4]

FT: I love that you have these supplementary questions for my listeners. For Holly, I'd say and for everyone listening, because this has come up quite a bit when you're looking for a planner is one, go through your recommendations, ask friends and family and co-workers for their best people. Usually, that's a good way to start, talking to a number of people. In terms of what to look out for, I think that you want to click with this person. A lot of times, it's just about a gut check. Obviously, you want to make sure that they're credentialed, that they are certified. You want to ask them about their fees. Don't assume. Don't be embarrassed. It's part of their job to disclose. If they're not disclosing, ask.

If then they get a little – if they make you feel uncomfortable for asking, or if you somehow felt it wasn't an appropriate question, that's a red flag. You don't want to work with somebody whose wishy washy about their fees. Ask about what it's going to cost. Ask them about off the top of their head, what are some of the recommendations and ways that you think that they would be able to help you.

It's an audition. It's an interview. The first meeting is often free, but I find that the best relationships are the ones where you feel as though this planner really is going to bat for you, really cares about your goals. A good sign in the first meeting is if this planner rather than touting off all of their successes with other clients, or name-dropping, whatever, because that happens a lot in New York too, “Did you know that I manage this person's money?” Is that they ask you a lot of questions about your goals and what do you care about? Where do you want to be? You feel like you got somebody who is not just going to manage your money, but is really going to champion you. That's important.

It's a relationship like any other and it's quite an intimate one. They're going to be looking at your money and your savings and your everything. You want to feel there's a lot of trust there. Are we good, Lily? Are you taking notes? Are you looking into hiring a planner?

[0:16:40.4]

LC: Maybe that was my question. On behalf of Holly on Instagram, your fan, I will say that I'm sure she is satisfied with all that information. Sounds great.

[0:16:51.0]

FT: All right. Well, good luck Holly. You know we’re always here for you. Okay, the next question is from Madison. This I can relate to a lot, because this was basically me. She says she's going out of her college a year or soon. She's finishing up school and she's got about $30,000 in student loans. Now I didn't have loans from undergrad, but when I went to graduate school, I definitely amassed a good $25,000, $30,000 of debt. The good news is that she says she's actively paying it off by moving back in with her parents for her final year of school. She's putting about a $1,000 towards it a month, which is a lot. I think that's really great.

Wondering if it would be smarter to try to max out my Roth IRA this year before focusing on loans. Currently, she's putting money in her retirement Roth every month. I think that – I don't know the interest rate on these student loans, Madison. I don't know if they're crazy high, or if they're average around 5%, 6%, but I think that with retirement, it would be great to get a head start if you can max out the Roth, especially because you are young. This is a really good time to take advantage of the Roth.

As you know with the Roth IRA, the more money you make, eventually you might phase out of being able to qualify for it. Take advantage of it if you can. Don't neglect your student loans. Pay them on time and to the extent that you have to. If you've got extra, put money towards that. I think trying to do both, like straddle both the student loans and the Roth IRA would be my plan, because again, it's really an opportunistic time now to be getting into retirement savings. I mean, you're already so ahead of the curve. So smart right, Lily, that she moved in with her parents to start paying down that debt? I don't know again the interest rate on that, but I think she'll be debt-free within three years at this rate.

[0:18:43.9]

LC: I feel the rational response to this is as to anything, it depends, because it really does depend on the rate of student loans. If it’s some crazy loan shark thing with a 100 million thousand percent, sure it makes sense to pay the loans off first. The rational argument is that mathematical analysis. You have to sit down with a pen and paper and actually calculate, is it worth the return of the Roth, or is the loans going to be bigger? At the same time, there is that psychological argument that maybe it's good to develop those saving habits now and do a little bit of both like you said, Farnoosh.

[0:19:17.4]

FT: Yeah. Madison, really proud that you made this bold move to move back in with your parents and do the responsible thing of paying down the debt sooner than later. Your 30-year-old self will be thanking you if you're not already thinking yourself.

[0:19:34.1]

LC: Parents are usually happy to have that kid around anyway.

[0:19:36.1]

FT: Yeah. What a treat for mom and dad. Last question here is from Amy and she – okay, so this question I think that the intention is so lovely, but I want to give her some different advice contrary to what she's suggesting. Anyway, let me tell you what is on her money mind. Amy's been saving money for her niece for college since she was born, which is so great. Now wondering what is the best course of action for the money that Amy, aunt Amy has saved for her niece. Aunt Amy thinks that maybe she should open up a credit card in her niece's name – sorry in – yes, in her niece's name and have that bill come to Amy and Amy would pay it off and that the credit card could be used for books and pizza and whatever within reason. That Aunt Amy would pay it off monthly and in fact, be creating a credit history for her niece. What are my thoughts and suggestions on this? I don't love that plan, Lily. Can you tell why?

[0:20:40.5]

LC: Look, I'm going to quote, I think it's a millionaire next door, where he has that little bit sad story about the two kids. One of them is very financially dependent on the parents and it creates this needy Paris citizen, like symbiotic relationship like that. The other one goes off and is a little bit more independent, but in the long run is a lot more satisfied. I guess my worry there is what incentives are being created for the niece if she's got this free pass. I'm not saying she's going to spend all her money on beer and cocaine or anything, but to give someone a head start in something like education, or something solid like that could be a different way to go.

[0:21:17.6]

FT: Yeah. I mean, there's nothing wrong with Amy wanting to support her niece. I love this. I think, I wish more people had family that could be as generous and forward-thinking. I mean, she's been saving for her since she was little. I would love to see more of an accountability here for the niece, right? Rather than just saying, "Here's your credit card and I'll just clear the bill within reason even," I'd say have your niece come up with a budget that she needs to realistically spend every semester; her books, food, travel, etc., etc. You perhaps allocating that to her on a debit card to start, maybe not a credit card, because one, she's not going to be able to qualify on her own.

I don't love the idea of you opening it for her in her name. I think we have some time here still to work on the credit profile. We don't have to start at first year of college. I think if she's really new to money management, she needs to first learn how to live within her means. If you want to give her $500 a month, or a semester or whatever, then she has to learn to actually stick to that budget. There might be some weeks where money is really tight and the bank of Aunt Amy is closed. That's a really good exercise to go through.

I would also sit down and talk to her parents perhaps. I don't know what the relationship here is if parents are in the picture, if you're close with her parents. I think that college is a family affair. It's an expensive cost for everybody involved. A lot of kids of course pay their own way, but if the parents are affording a bit of her college, having a family conversation about how can we best take advantage in a positive way and Amy's resources perhaps it's that you directly contribute to the tuition, or you directly contribute to her rent.

As far as building credit, I do want to say that the earlier you can establish credit, obviously the better. You want to make sure that you're ready, right? To take on the responsibilities. It's not a learning process if your aunt is covering the bill every month. Yeah, you're helping her establish credit positively, but then what happens if she graduates, opens up her own credit card, has no idea how to use it and then ruins all the good work that you've helped her achieve, all the good credit that you've helped her achieve.

A secured card perhaps might be better. She actually brought up a secured card where you can go with your niece to the bank, help or open up a secured card, which is a credit card on training wheels. You put initial $500 of your own money on it, which acts now is your credit limit. This could be Aunt Amy's $500. As your niece uses this and hopefully pays it back responsibly on her own, then she's establishing credit, that activity gets reported to credit bureaus, then she gets a credit score.

I know maybe she doesn't have any disposable income of her own to pay back this secured card, but perhaps she should not open this up until she has means to do so, getting that job. It's not always easy to tackle academics and work, but if she wants to splurge on dinners out and travel, I think that's where she needs to really step up and afford that on her own.

I think that if you want to be this bank for your niece where you're providing her with money for the necessities, that's going to go a long way. College is very expensive between books and fees and tuition and food. If she wants to go on a ski trip with her friends, I think she should get a job and pay for that. That's my opinion. That's what I hope to do with my kids.

I don't know, Lily how it works in Australia. As you said, college often is affordable and it's a lot of times compensated through the government. We've got a little bit of a different scenario here in the states.

[0:25:03.2]

LC: I do think one thing is universal and very, very lovely. The impression I get from this question is just the aunt wants to do something really, really kind for her niece. I think that doesn't have to be expressed through money. I think money is one way we can do that. Just her intentions being so pure, I'm sure there are other ways that will shine through, even just spending time with the niece, cooking for her, doing something nice.

There are so many ways that I'll come through. It doesn't have to be just giving your life savings, or just setting up this very, very generous credit card scheme. I think there are other ways. Maybe there's no rush to just do it all financially.

[0:25:37.5]

FT: Well said. Lily Chen, thank you so much for joining us. Tell us a bit more about where we can find you and obviously your podcast is How To Win Friends & Influenza. Everybody subscribe. The website is also howtowinfriendsandinfluenza.com.

[0:25:52.7]

LC: Thank you so much for having me on. It's been great. I think your show is just doing so much and educating people about their financial management. How To Win Friends & Influenza, you can search it on any of those fancy podcast sites, or iTunes, or like you said, go to howtowinfriendsandinfluenza.com. Mainly, I'll just say keep listening to So Money, because it's a really great show and I was not paid to say that.

[0:26:14.3]

FT: Oh, man. Thank you so much. It's so lovely to connect with a fellow female podcaster. I hope you stick with it. We need you.

[0:26:20.7]

LC: Thank you.

[0:26:21.1]

FT: We need more voices like you out there creating the diverse dialogue that we need and to support other women and men. Thank you for the work that you're doing Lily. It's really needed.

[0:26:33.0]

LC: Thank you.

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FT: Everybody, hope your weekend is Lily?

[0:26:36.7]

LC: So Money.

[0:26:37.5]

FT: So money.

[END]