EPISODE 929

[ASK FARNOOSH]

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FT: Welcome to So Money, everybody. August 23rd, 2019. It is Ask Farnoosh Friday. I have some disappointing news. Y'all, Dancing with the Stars came out with its new lineup for the latest season. I wasn't selected. What's it going to take? I've surpassed 10 million downloads on this podcast, written a few books. I'm no James Van Der Beek. Anyway, I'm hoping that someday I'll still get that phone call. If anybody out there knows someone who knows someone who can get me an audition tape to the top of the pile, let me know. I would really appreciate it.

All right, this Friday we have a number of questions through Instagram. To put it in the words of somebody who just started following me on Instagram, she said, "Why did I wait so long?" I don't know. I don't know. I mean, I'm pretty active on Instagram, not in the feeds so much, but in stories. I like to just go live, or post things and also answer your questions on the go. A lot of you know that I might respond with a video, or a quick message back.

Before we get to those questions, I want to as promised to go right now to our iTunes page for So Money and select a recent reviewer. Much like I started at the very beginning of this podcast back in 2015 to encourage people to leave reviews, I decided that every week I would select a new reviewer to receive a 15-minute money session with me for free over the phone. I thought to reinstate that, because we're getting pretty close to a thousand reviews. I want to get us there sooner than later.

Not just because it feeds my ego, but it is really helpful for reviews to be out there about your show as people want to know where to subscribe, what to listen to. iTunes really does reward podcasts that have reviews. It shows that people are listening. Look, it doesn't have to be five-stars. Obviously, I would love the glowing reviews. It's really an opportunity for you to give feedback and I'm going to try to be neutral when it comes to selecting people to have these 15-minute money sessions with me. I'm not going to necessarily pick you because you gave the "best review." I want to give everybody the opportunity.

This week, I'm going to pick Kiara Davis who wrote a review, so good, I need to take notes; a five-star review. This person says, "I discovered So Money this summer and it has everything I crave, a long unexplored history, compelling guest, guests, personal stories and actionable information. I have an MBA and consider myself quite financially literate, yet I still learn a lot on a daily basis from this podcast."

I really appreciate this review, especially coming from somebody with an MBA. I don't have an MBA, so I feel pretty cool, but someone with an MBA thinks that this show is smart and keeps them learning. Kiara Davis, you left review on August 19th. Please get in touch at farnoosh@farnoosh.tv. Let me know that you are the kind soul that left this review. I will be in touch with a link where we can connect for our 15-minute money session. You can also connect with me on Instagram, on direct message. Direct message me there and let me know that you are the Kiara Davis who left a review and we will connect. Thank you so much.

Yeah. Anyone who leaves a review, every week you have the opportunity, the chance to be selected at random for a free 15-minute money session with me. If you're interested in that, would love for you to leave a review.

All right, so let's hit the mailbag over on the Instagram. Our first question is from Chad who also left a really kind review. P.S., he let me know that. Rather than doing a 15-minute money session with him, he suggested we do the question on the show. This way he left a question and he said that he is having a – he's at a crossroads about what to do with long-term care insurance. Should he buy it?

He's 37-years-old. He's a young candidate for long-term care. Typically long-term care insurance is purchased in your 50s and he's 37 and he's thinking about it, because he does have a bit of family history, he says, and worried about meeting long-term care insurance. Now just as a refresher, what is long-term care insurance? Okay, I'm on the National Institute on Aging website. It says, long-term care involves a variety of services designed to meet a person's health, or personal care needs during a short or long period of time. These services help people live as independently and safely as possible when they can no longer perform everyday activities on their own.

Now, specifically everyday activities; these are called activities of daily living. ADL's. It includes bathing, dressing, grooming, using the toilet, eating and moving around, like getting out of a bed, or getting into a chair. Your benefits kick in when you are unable to perform at least two of these activities. He's wondering if he should get this. The thing is he says, “I have been shopping around. The options in the market are not great.” That I believe. The cost for long-term care has increased. I think I read about 9% year-over-year.

A lot of people they're discovering they're overpaying for long-term care. There's a lot of different kinds of long-term care you can get. There's the policy that will cover you for an extended period of time in a nursing home, which can be very expensive. The nursing home facilities are quite costly, but people are realizing now as they're going through the aging years that they're not staying in nursing homes for an extended period of time, even if they have dementia, even if they have Alzheimer's. They are then going and living with family. You may have bought this really expensive policy that you're not really able to take advantage, simply because your needs in your later years are not as you measured when you originally bought into this policy.

He is telling me, Chad, that he's considering instead of long-term care insurance, getting a whole life insurance policy that has what's known as an accelerated care benefit. This is an additional rider that you can get onto the policy that allows him to access his own death benefit to pay for long-term care if he needs it. He says, “If I don't ever need long-term care, then I have a nice life insurance product with cash value. Curious to hear your thoughts.”

Well in general, we know that whole life insurance is a more expensive way to go, versus a term life insurance policy. Term life insurance policy is for a limited period of time. Sometimes people get it for 15 years, or 20 years, whereas, whole life insurance covers you until the end of your life. It is more expensive on a monthly basis to pay for whole life insurance.

Here's the thing, if you start your whole life insurance policy today, you just got to be sure, Chad, that you can absolutely make those payments every month for the indefinite future. I have read that when the going gets tough and let's say gosh, you lose your job, or money gets tight, the whole life insurance policy for those who have it is the first thing that drops. Then what a waste, right? You've spent all this money buying into it and then you miss a month's payment for whatever reason and it's completely lapsed and you're done. You can no longer have this insurance policy. That's a big risk and that is a risk that people are realizing a lot. I would just caution that.

The other thing is that I was reading about people who are weighing getting insurance versus not getting insurance. Here's the thing, what if you invested into an index fund for the next 25 years, okay? Yeah, you can you take out a life insurance policy with a required monthly premium. You have to pay it every single month in order to continue to keep this life insurance active, or you can just take that money that you were going to put into a life insurance policy and put it in the market. Now not a guarantee obviously, like life insurance, that you will have this money that you want, this exact amount that you need or want in the foreseeable future in the future.

You're 37-years-old. Unless, you are thinking that you're going to get sick in the next 5 years or 10 years and need some major financial cushion to help you through those years, I think that there might be something to be said about putting money in the market, let's say an index fund over the next 25 years. I just did a little bit of math for you. If you invested $200 a month for the next 30 years and that let's say was earning about 4% on average every year, which I think is conservative looking at where the market typically goes over a 30-year period. The average return is usually between 6% and 8%. I'm using 4% as a pretty low rate of return.

That is going to yield you a $135,000 in 30 years, that $200 a month, which may be around what you might pay for a whole life insurance policy at your age, assuming you're a nonsmoker. I'm not sure. I'm not sure what the rates are that you're getting quoted, but $200 a month for the next 30 years, put it aside, you're going to have over $130,000 for your future. That's assuming the market does around 4% a year. Yes, you'll have to pay capital gains on that, but still, it's a lot more of a flexible option for you. If there's a month, or a year that you don't want to pay into it, fine, the money's not going to go away. You're creating your own policy here, your own life insurance cushion. I don't know. I think that's something to consider.

Here, it's really a measure of math, it's a measure of reality and risk and it's a measure of what can you afford and what would happen if you had a bad month, or a bad year of earning? Could you keep up with these payments and these insurance payments? I also looked and saw what it would cost you for a 20-year term life insurance policy. There are lots of different shapes and sizes of life insurance policies, but the most popular options for people around your age is about a half a million dollar policy. If you're a nonsmoker, 40-years-old, it's about $35 a month.

I don't know if you need life insurance, term life insurance. I don't know if you've got kids, if you have dependents. If you do and you don't have life insurance, I would look into a term policy. Just to give you some more links to look into for more research, I was looking around and I saw that there's a website called genworth.com/costofcare. This is a good site for you to go and see what the estimated cost of things, like adult day healthcare, assisted living facilities, nursing homes might cost in your community in the future. That can give you a good assessment of like, “Okay, if I am going to get a long-term care policy, realistically how much of a policy? What size amount policy do I want to take out?” Because it is happening, where people are realizing they over insured themselves.

The center for retirement research is another great website. That's crr.bc.edu. Bottom line, I think if you're looking at this whole life insurance policy with the added benefit to the accelerated care benefit, I think you just have to be real with yourself and say, “If I'm going to buy into this, can I make these monthly payments for the next how many years?” I don't know. If you're worried about it, I think that you want to look at alternatives where you feel you're more in control and you're not maybe overextending yourself financially. That's my advice. Again, not knowing all the details, but this is just a little bit of surface research that I did for you and my two cents.

I think maybe you want to look into investing that money, instead of buying a whole life insurance policy. If you do need life insurance, that's a whole separate thing. I think you should get that. You should get it maybe as a term policy. It doesn't have to be very expensive. It could be 30, 40 bucks a month, depending on your health and your smoking habits and things like that. If you are interested in whole life insurance, at the end you've done all the research and all the math, I think you just got to be really confident that you're going to be able to make that payment, because it would be such a bummer if you couldn't and then you've lost out on all of those contributions and you've lost out on that policy. That would crush me, personally. Good luck to you and thanks so much again, Chad, for that really kind review.

All right, next up is Elena. She says, “Hey, Farnoosh. I'm a big fan of So Money and I'm a regular follower on Instagram.” Thanks Elena. She says that, “What are your thoughts on the best way to refuse lending money to a friend, when you know that they will not return it? I had to go through this twice and both times I feel I ended up explaining myself to the other person too much. Is there a “right way” to go about this? Thank you for everything that you do.” Thank you so much, Ellie.

Yeah. I don't think you need to over-explain yourself. Right for you to not want to give money to a friend that you believe will not pay you back. I mean, the reality is that if a friend asks you for money, we want to consider it, but very importantly consider what is the likelihood of this friend paying you back? Do you have the means to give them the money with the risk of the money not coming back? How will that hurt you financially and how will that hurt you emotionally?

If you find yourself just being really cautious and worried about this, then I think that you need to follow your gut. I would say to this person very kindly, very straightforwardly, “I understand, but I'm unfortunately not in a place where I can lend anyone money right now.” You're not really making it about them specifically. You're just saying, “Generally, I'm just not really in a good position to lend money to anybody right now. Is there any other way I can support you?” I think it's really important to finish by saying, “Hey, I'm sorry but is there some other way that I can help you?”

Clothes for a job interview. If they need, “Can I cook you some meals?” If they're looking to just ease up their budget, “Can I help you with your budget? Can I help you with getting out of debt? I did it and I would love to give you some advice.” Still be a friend and still offer your friendly advice and services, but money is not going to be an option. I think that's totally fine and I'm with you on that.

Anyone else listening, rule of thumb, if someone asks you for money and you can't really part with it without being okay, with the probability, the high probability that it will not get returned, don't do it. It's not unfriendly of you, because the reality is if you lend money to your friend and then that friend cannot pay you back, you're more likely to harm the relationship, to sever the relationship at that point, as opposed to nipping it in the bud right now and saying, “I'm so sorry. I would love to support you. I can't do it financially, but is there another way? Please let me know. I'd like to help." That's it. That is what's happening, my friend. Okay, Elena, Ellie. Thank you so much for your question. I hope that helps a lot of listeners.

Stacy says, "Hey, Farnoosh. My husband and I own a 2-level flat in Chicago. We live in one unit with our four-year-old and we rent out the other. Unfortunately, our unit is not ideal for us, but I like the idea of keeping the rental income. I'm stuck in my decision to renovate our place. I'm also considering selling it to buy another place, but then I would lose the rental. Should I hang on to this long enough to get enough money to buy a new place?" She's just not sure what to do with this property. She says that, "One more detail, we've only fully owned the property for a year. We don't have a lot of equity in it yet."

All right, so I had a guest on the podcast recently who is the Head of Partnerships at Realogy, which owns Coldwell Banker, Century 21, really smart guy, Eric Chesin. He's a homeowner and we talked about what you're alluding to, which is what is the right time to make a real estate move? I think how you answer this is where do you want to be in a couple of years with your family? What's the story you want to tell yourself in a couple of years?

It could be that despite the fact that we had good rental income in this two-story home, we were able to sell at a good time. Good, meaning as far as where we were in our life and where we were and where we were going, to be able to then use the equity that we had in the home to buy something else that was a little bit more fitting for our family. Look, I'm in a similar situation. I live in Brooklyn. I do have equity in my home, but Tim and I are like, "Okay, do we stay? Do we take out a home equity line of credit and rent this place out, use that line of credit to buy our forever home somewhere in the suburbs?"

Is it a good time to sell? Is it a good time to buy? The latter of is it a good time to buy, sell, that I think is not really the bottom line when you're trying to make a decision that's going to impact your life goals. Our life goal is to eventually be somewhere more spacious, to have a backyard, to be somewhere where the public schools are fantastic. It's not necessarily going to be here in Brooklyn for us. We know that it's going to mean somewhere outside of New York State.

That's not like it's 10 years down the road. It's probably a couple years down the road. Right now is the time to be planting some seeds. We're thinking about selling our apartment, renting for maybe a year in Brooklyn and then eventually making the jump to the suburbs, because that's going to buy us some time to figure out really where our next move should be. You never want to jump into a new suburb cold. You want to do your research, spend some time in that town, because it's a big, big investment and you want to make sure that you're pretty sure about it, that you're not just going on a hunch.

For you, maybe it's that you sublet your apartment, your section, right? So that you can continue to keep this home and then you rent for a little bit, into something a little bit more amenable for your family. Then reassess a situation. Thinking about baby steps, could there be a scenario where you're in the middle a little bit, where you giving yourself some opportunities and you're buying yourself some time to really be able to think through things more? Again, maybe rent, subletting your unit out, your floor, so that you're able to still make the mortgage on this home, you can still make a little bit of cash flow every month and then go out and rent something for a year to give yourselves the opportunity to explore neighborhoods, given also the home might appreciate in that year, right? Then you could sell it, a little bit more equity to go and then buy your next home. I'm warm to that idea. I like the idea of just finding a middle ground at first. I don't know. Let me know what you think of that? Does that make sense? Does that sound appealing?

Carrie has a question here. She says, “My husband and I,” again, about rental properties. “Want to buy a rental property and want to know some ways to come up with our down payment. We could save some cash. However, it was recently recommended that we refinance our home and pull from our equity. It's a great source of money. It's about $200,000 in equity, but our interest rate on our mortgage right now is low. It's 3.25%. Refinancing it could see it increase, because right now rates are hovering at around 4%. What should we do?”

It's true. If you refinance this home, if you do what's called a cash out refi, you definitely can benefit from having some of that equity in the bank, in your hands. However, you're refinancing, so two things are going to happen; your loan balance is actually going to go up, because basically what you're doing is you're taking out a new mortgage. It's going to be the mortgage, plus whatever you’re borrowing from your equity. You're going to get that as a check that whatever cash out that you do. Do keep in mind that your balance will go up, your interest rate is going to go up, given the environment right now where rates are.

There's also going to be probably closing costs that could be bundled in to the loan amount, but you're looking ultimately at a bigger, bigger amount of money that you're going to owe every month for your home. Just be sure you can afford that before jumping into this next rental property.

The other way you could go about this is just taking out a home equity line of credit, where you can borrow against the equity in your home and with a HELOC, you can't borrow the 100% of that equity. You can't take out all $200,000, but maybe you could do 75%, or 80%. That interest rate would likely be wherever the current rates are. 4% may be a little bit higher. Think about that.

I would not borrow the max that you can borrow. I would try to be pretty conservative. You want to keep some equity in your primary home. You don't ever want to over leverage, right? Get yourself in a situation where you've taken out all the equity, or a lot of the equity in your primary home and you've plunked it into another property. What if the market tanks, right? Then your rental property value goes down, your home property value goes down, you've got these two loans, you might be underwater. I'm not saying that is going to happen, but that is a risk.

When you are borrowing against your home, you always want to just be conservative, as conservative as possible. Maybe it's a hybrid of taking a little bit of cash out of your home using a little bit of your savings, so you're not putting your home too much on the line, if that makes sense.

She says to me, "Thank you. I love all the advice, Farnoosh. Plus hearing you dabble into a fun side gig for your standup." Well, thank you so much Carrie. I'm having a blast with the standup. I want to do more for sure, so stay tuned. If you're in the New York area, I might be doing a couple of gigs in the fall. Thanks so much and good luck with your rental property.

Okay, question – last question here from Pheebs on Instagram. She says she's a longtime fan, been listening for years. Thank you so much, Pheebs. She has a question about, oh, wow, this is good. A lot of real estate today. Home hunting in Brooklyn. She's looking for a two-family and the budget is tight, so it is slim pickins. I know what that feels like, Pheebs.

She has found a house in East New York. Yeah, there's a part of Brooklyn called East New York. That's not confusing. I am hearing about this Pheebs. I'm hearing about East New York being the next frontier. Your instincts are good. She says, “It checks off all of my boxes. However, I did a walk around the neighborhood last night and I did not feel safe. It's near a housing project that has multiple reports per week of gunshots and there's always something going on at the train station. As a single female with no family, I'm concerned.” Yeah, I would be too.

Her question is, “I know East New York is up-and-coming. Should I purchase the place and renovate it for the sake of the potential equity, or are my safety concerns legit and I should look elsewhere? I know it's slim pickings for me. I really want to own a multi-family home and build wealth and stability.” This is tough. I don't know if this is the right place for you to live in. I'm saying this as female-to-female, right? I would not feel safe. If there's reports as you say about multiple shootings. You got to trust your instincts. You got to feel safe where you live, period.

That said, if you think this is a great investment opportunity for you where you could rent it out to some other person who would feel comfortable, that could be worth exploring. Looking at how much you would cost to purchase this, to renovate it, what can you rent it out for? Are you going to make some cash flow? Are you going to be cash flow positive? Then I do think that East New York is going to appreciate, much like Crown Heights and Bedford Stuyvesant have and will continue to.

You want to do a lot of research. You want to talk to people maybe who have moved in in the last year. What are they experiencing? Do they have regrets? This probably isn't the right place for you right now, but maybe for somebody else. If you can make cash flow positive every month, hey, I think you're onto something, all right?

Thank you so much everybody for these questions. A lot of real estate questions. It's an interesting time in the real estate market, right? Interest rates are historically very low. We're hearing about the Federal Reserve reducing rates at the next few meetings. That is going to bode well for borrowing for the purposes of housing. However what will it mean for the rest of the economy? Time will tell.

A lot of people talking about the recession. We've been talking about a looming recession on this show for the last 18 months and it seems like now, it's becoming more of a daily conversation in the press. My advice is just cash is king during a recession. If a lot of you are thinking about borrowing, because interest rates are low, just to be careful, right? You don't want to over borrow, you don't want to over-leverage if interest rates are low, but the rest of the market is not good, meaning, you don't have a job, because the job market is not good, or the stock market is not good.

I think that you got to try to balance it out. The best thing is to have a rainy day account. Is to make sure that if you're doing nothing else right now and you're worried about the recession, is you're saving your money. Keeping it in cash. I'm not saying stop investing for your future, but I'm saying if you don't have a three to six month rainy day reserve to help you pay your bills, pay your mortgage, pay your rent, feed your family, in the event of a job loss, I think that's a priority. It's always a priority, but it's especially priority right now. Liquidity is going to be the name of the game.

All right, everybody. I hope you have a wonderful weekend. Looking forward to checking out more of your questions on Instagram. Again, if anyone knows someone at Dancing with the Stars, call me. Thanks so much and I hope your weekend is so money.

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