EPISODE 977

[ASK FARNOOSH]

[00:00:31]

FT: Happy Friday, everybody. It's So Money time. I hope you're enjoying your walk, your run, your commute, your cooking of your dinner. That's how I understand people listen to this episode, multitasking, all us high achievers out there. I'm your host, Farnoosh Torabi, and this is Ask Farnoosh when I answer your biggest, baddest money questions.

We have several that come in through the gram, Instagram. That is probably the best way to reach me if you have an urgent question is to direct message me there. First step, follow me on Instagram @farnooshtorabi. Second step, send me a direct message. That way, once we're connected and following, your message will rise to the top. It won't get buried.

We have questions this week about term life insurance, how to invest for retirement if your employer does not offer a 401(k), and should you freeze your children's credit. For those of you who have kids, this question got me thinking. I have two little kids. If you are in a situation where your kids' Social Security numbers get exposed – Interesting question. We're going to tackle that in just a few.

But first, let's go to the review section of iTunes and pick our favorite review of the week. Many thanks to your commitment to leaving reviews. We have surpassed 1,000 reviews in iTunes, which is unbelievable. I started this mission to increase reviews. I know it's hard to feel motivated to like go on to iTunes and go through the whole charade of trying to leave a review. They don't make it that easy.

So I have been offering free 15-minute money sessions to one lucky recent reviewer every single week, and this week our winner is Mika01034Ever who left a review on December 5th saying that, "This podcast has changed my money life." Mika says, "I've been listening to So Money for about seven months, and it's completely changed my life." Seven months, that is commitment. For your generosity, Mika, for leaving this review, I'd love to connect with you and

answer your money questions. Let me know that you left a review. You can do this in a couple of ways, reaching me at Instagram, on Instagram. Like I mentioned earlier, direct message me there or you can email me farnoosh@farnoosh.tv. Let me know that you left the review on December 5th and I will promptly get in touch.

This is a pretty big week for my podcast. I had Busy Philipps on the show on Tuesday for a very quick interview, my shortest one yet. But busy packed a punch. For those of you who aren't familiar with Busy, she is a fantastic actress who's been in shows like Freaks and Geeks, Dawson's Creek, Cougar Town. She's also a writer, social media personality. She has over two million followers on Instagram and she talks candidly with me about how she learned about money growing up, all the different jobs that she had, what she did with her first big paycheck, and show she tries to kind of stick up for herself, stand up for herself in Hollywood.

It was also a big week for me personally. I got a chance to talk at Google in New York City at Google headquarters in New York City, invited to talk about when she makes more and female breadwinners. Did you know that Google has a female breadwinners at Google organization within the company? If you're a woman working in tech at Google, chances are you're making a good decent amount of money. You might be outearning your partner, and there are 1,300 women across the world in this organization, this sort of internal community at Google.

It's been spearheaded by Bethany Baynes, who is a Googler and also a female breadwinner. She was on our podcast not too long ago. I highly encourage you to go back and listen to her interview to learn about her rise through the world of tech, coming to terms with being the female breadwinner in her marriage, and then sharing all of that and using that as a platform to encourage more women at Google to connect over this sometimes complicated topic. Bethany and I have since become friends. She brought me into Google to continue that conversation, and it was a dream come true. I've always wanted to talk at the Google. It's going to be on YouTube soon, and I will share that post once it is live.

All right. It's off to the Instagram mailbag we go for your biggest money questions of late. First question here is from Claire. Claire has big hair. That's her Instagram handle. That's hilarious. She says, "I work for a small company that doesn't offer a 401(k). In my line of work, this is fairly common and I wouldn't be surprised if I go through life never having an employee offer a 401(k).

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I'm turning 30 this year and I'm starting to make decent money due to a recent raise. I max out my Roth IRA every year but will now still have a good chunk of change left over that I'd like to put toward retirement. What are some good strategies for me and others who don't have the option of investing in a 401(k)?"

All right, Claire. Well, first of all, congrats on the up and up, on being on the up and up in your career, making more money. I know it's tough. A lot of us I think these days working in various industries, depending on the company, you're not going to have all the souped-up benefits that generations past had. Don't have pensions, 401(k)s. While we thought everybody had these, it turns out a lot of the younger companies, the startups and sometimes just the ones that are in stealth mode don't offer their employees a 401(k).

We had a tangential question last week about what to do as far as supplementing retirement income when you've kind of maxed out all your options from work. In this case, it doesn't sound like there is an option at work. She's been maxing out her Roth IRA, which is excellent. I would say that would be my first step if you don't have a 401(k). Or even if you have a 401(k) and you want to do more towards retirement, a Roth IRA is a really great next step.

Two thoughts for you, Claire. You're already did the Roth, which is excellent. We talked about this last week, an HAS, Health Savings Account. Not sure if your company offers a high deductible insurance plan, health plan. But I hope that you company has sort of health insurance offering for their employees.

If you're on a high-deductible plan, you may qualify for a Health Savings Account, which allows you to take pretax dollars and put that in a savings account for the purposes of paying for out-of-pocket medical expenses. So these contributions to your HSA allow you to reduce your taxable income, and then the money that you use from the HSA to pay for things like doctor co-pays, over-the-counter medicine, prescription drugs, those withdrawals will be taxed, right? So there is that really big benefit to utilizing a Health Savings Account.

The bonus is that if you don't use the contributions in that tax year, they can carry over to the next year and the next year and the next year. Some people are actually using HSAs as supplemental retirement savings vehicles so that they can have this money for them in

retirement. It is money that will be invested as well, so it can grow more aggressively than, say, in a plain vanilla savings account. So I just want to put that – Plant that seed. If you do have access to this, it might be something to consider.

Separately, you could invest in a brokerage account. This is something that all of us can do, regardless of our scenarios and our situations, how we're making money, where we're working. You can open up a brokerage account at pretty much any trading platform, online bank, brokerage firm. There's a lot of these sort of Robo-advisors that we've been talking about a lot on So Money. Many of them sponsor the show, people like Schwab has a automated intelligent investor it's called. I actually use that. There's also You Invest from Chase. There is Betterment. There is Wealthfront, etc., etc., Ellevest. There's something for everybody out there.

The benefit to all of these automated platforms is that you can open up a brokerage account online from home, and the fees are much smaller than, say, working with a human being who's going to take their time to open up a diversified portfolio for you and manage the account.

So that's what I would say that the next option, once you've sort of maxed out the 401(k), the Roth IRA or you don't have access to 401(k) and you want to do something else, is a brokerage account. You can take the money out at any time. No penalty. There are going to be some taxes associated with those withdrawals, whether it's considered a short-term capital gain or a long-term capital gain, different tax implications. But that would be the next best thing.

All right, Claire, Claire has big hair, thanks for your question. Next up is Tammy who has a really serious question. As a parent, this kind of made me stop and think. So her question is – Well, it starts with kind of a sad situation, which is that her kid's school database was hacked. This is going to become more and more of a risk as we come just a more connected society, and hackers are getting more sophisticated. Question, should I put credit freezes on my 14 and 12-year-old children?

So I think the answer would – I would also yes and I would also ask your school what they recommend. Because depending on kind of the severity of the hack, you may really want to do this. Or it may not be as big of a problem, but I would also talk to school administrators to find out what exactly happened, what was compromised, what are the potential risks, and if they

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have any recommendations. But for me, sitting here in my apartment in Brooklyn and scared to death, thinking worst-case scenario, they took all the Social Security numbers, I would deftly look into putting credit freezes on your kids.

Now, you might be thinking, “Huh? A credit freeze on a 14-year-old who doesn't even have a credit report? A 12-year-old who doesn't even have a credit card or even a bank account?” Here is the thing. These hackers can potentially create a fake consumer by blending a child’s Social Security number with a different name, a different address, a different birthday, and do what’s called synthetic identity theft. There's actually a really great article about this on nerdwallet.com. They have the best articles I think when it comes to really breaking down all of the financial conundrums. What is an HAS? What is an IRA? What happens is my child's identity gets stolen?

This is important because, well, with your 12-year-old, obviously you’re not checking his or her credit report. That person, that child doesn’t even have a credit report. But there could be a fake credit profile created with their Social Security number, and then that can cause problems years later when they’re 21, 22, thinking about opening up their first credit card or applying for a student loan.

That Social Security number of theirs may be associated with this fake account, and then you kind of try to trace your steps from there. It can get pretty hard at that point, because there's years potentially of damage. So getting at the – Getting ahead of it now can’t hurt. This is not going to be a quick fix. I will just say that there are some steps involved but nothing you can't do over the course of like a lunch break. So here's what you would want to do.

The first is to first understand that there are three major credit reporting agencies, Experian, Equifax, and TransUnion. They don't communicate with one another, although each of these organizations collect a lot of the same information about all of us; criminal history, our credit history, our addresses, our ages, our Social Security numbers. That's what turns up on the credit report, which then also communicates to your credit score. Separate things.

But these three bureaus are the main credit bureaus; Experian, Equifax, and TransUnion. You want to contact each of them and go through each of their protocols for doing credit freezes.

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Experian and Equifax, you can basically apply online for a credit freeze. They have a form. Trans Union I don't believe has a form. You have to actually write a letter to them. So just follow the directions on all of the sites, as far as going through this process.

Then you have to send each of the forms or the letter, along with some documents. Things like government-issued ID, your birth certificate, your child's birth certificate, your child’s Social Security card, etc., etc. You send them to the different mailing addresses for these credit bureaus and then you wait. You will get confirmation in the mail that a freeze has actually been put into place, and your child will get a corresponding pin.

That number, that pain is going to be important for later, unfreezing your child's credit. So put that somewhere safe, virtually safe, physically safe, like a fireproof safe, as well as somewhere online, which is behind a firewall or behind a multi-character password. Then just know that that freeze will be put into place until your child unfreezes it later to apply for credit.

I think I’m going to do this for my kids anyway, regardless of a situation happening. I think that – I mean, not to be an alarmist, but just knowing where the world's going and the sophistication of technology which has its benefits and also its drawbacks, right, that we have to assume that nobody is bulletproof when it comes to hacks, especially kids. I think that as a – If I was a thief, I would really target those people who are most vulnerable like people like kids. These are individuals that are not checking their credit, because they don't think they have a credit profile, and your child’s Social Security number is out there at your child's school, medical office, government agencies, a lot of places.

So just thinking about that makes you wonder. Maybe it’s worth like the 45 minutes to put these letters together and put them in the mail. It’s free to do it, and I can have peace of mind until they are ready to be responsible borrowers and apply for credit when they're ready and not have to have the surprise of, “Oh! My Social Security has been compromised.”

So I think this is a really great question. I appreciate you, Tammy, for bringing this up. I don't think I have addressed this before on the podcast. It’s always nice to get a new, new, new question, and I hope this was helpful to everybody listening.

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All right, [inaudible 00:15:39] has a question about term life insurance. He just wants to know the deeds. Should I get this? Can you give me a little bit of a 411 on it? I'd be happy to. I think everyone who is working and has at least one dependent or will have maybe some things to want to take care of and afford in the event of a death like a funeral or you want to maybe leave money to family or friends or a beneficiary, important to have term life insurance. It's the best kind of life insurance for most people and it's pretty inexpensive. So how does it work?

So just like it sounds, term life insurance, it’s life insurance much like car insurance, health insurance that has coverage for a period of time, and that term can be anything from 10 years to 15 years to 20 years, 25 years, etc. You get the picture. Well, a lot of parents who have kids might want to get life insurance until their kids are 18 or 20. That’s sometimes how the rationale goes.

It’s like, “I want to at least be sure that if something happens to me, my family can be take care of until they’re legally able to take care of themselves, until they’re adults and they’re 18 and they're kind of on their own or maybe 25 when they’re really on their own. Let be serious. People aren’t adulating at 18. But that’s the idea that it covers you for a period of time, a term.

The rule of thumb as far as what kind of a policy to get for how much of a policy to get is to take your salary and multiply that by 8 to 10. So let's say you make $50,000 a year. That’s anywhere from 400 to 500,000 dollars of a policy that would come due if you passed away during the term of the life insurance. That would go to your state or your beneficiary. It’s inexpensive, like I mentioned. It’s anywhere from – Here’s just a few examples. So it's generally cheaper for women who are healthy than men who are healthy, slightly cheaper. A 30-year-old healthy woman can expect to pay anywhere from 35 to 36 dollars a month on average for a 20-year policy that amounts to a million dollars.

Let’s see. Men, I have an example here. If you’re a healthy 30-year-old man, then it would cost about 50 bucks a month for a 20-year policy with a one million dollar coverage. This is stuff that you can find online. I would recommend that you work through an online broker that doesn't work specifically for an insurance company, because what you don't want to happen is get sold a policy that was pushed upon you by someone who’s going to necessarily make a commission

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off of that because it's their company. So someone who is a little bit more neutral who can show you kind of a menu of options from all the different carriers so that you can really price shop.

It’s no secret that a Policygenius is a sponsor of this show, but I actually do think they're one of the best in class as far as being able to see all the different options out there. It’s a very simple and direct website, and there's no gimmicks. I like them, and they tend to find the most affordable plans for their clients. So Policygenius is one idea. There’s also ehealthinsurance.com. I would ask around.

Your employer offers you some life insurance, but it's often not enough. It’s often very basic. Very, very basic like not much. So most people want to probably get a more souped-up plan that covers them for 8 to 10 times their income for a lengthier period of time. But that's the 411 on term life insurance, and I'm really happy that you asked the question.

Okay. Next is Michelle, and she wants to ask about debt reduction strategies. So here's the specifics on Michelle. She and her husband, they have $70,000 in debt between credit cards, student loans, and car loans. The credit cards are about 10 grand. Student loans are 30 grand. Car loans also 30 grand. Do I recommend using the snowball or avalanche method to pay off the debt or do I have a totally different method?

Well, first of all, thanks for listening to this show. She says that she’s obsessed and currently binging on older episodes. Okay. So, firstly, let’s do a primer on avalanche versus snowball method. So some of you are hearing this lingo and you’re like, “What are you talking about these snowstorms?” So avalanche is method by which you make minimum payments on all your debts, so you’re not going to fall behind. You’re not going to get delinquent. You’re going to do what at least is minimally required on all of your debt. Then with whatever left – Whatever money you have left after that, you take it and you put it towards the debt with the highest interest rate.

This is also what I call the most mathematically sound approach. It is getting rid of your most expensive piece debt first, which if that's important to you, then that's the way that I would go. If your goal is to get out of debt in a way that is most economical, most financially savvy, then I think that avalanche method is the method for you.

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Snowball method is more of a play on your psychology. If you're somebody that is just having a hard time getting started, it's overwhelming to you, right, I would say think about the snowball method. So this is a method where if you owe money on more than one account, which it sounds like you do, you pay off the account starting with the smallest balance first, while again paying the minimum payment on all the larger debts.

So the benefit to starting with the smaller balance as opposed to the higher interest rate is that you can theoretically get rid of that debt stat ASAP, which does what? It makes you happy. It makes you excited. It's thrilling. It motivates you. You see a result quickly, which then motivates you to kind of go and tackle all the other debt.

Now, you might want to do a combination of the two. Here is where I would do like the Farnoosh method is starting with a snowball approach where if you do have like a piece of credit card data that is maybe just like under a thousand dollars, quick win. Pay it off. Quick win. Hopefully, that will be enough stimulation to then feel like, "Okay. I got this. I'm going to do it. This is good. I'm on the right track. Now, I'm going to be a little bit more financially strategic. Then I'm going to transition to avalanche and go next to the piece of debt that does have the higher interest rate and pay all minimums but put more of my money towards the highest interest rate debt."

So what is that really? It's a hybrid method. It's a method that starts with snowball, ends with the avalanche. But I think if you need that jolt in the beginning, that good feel, then the snowball method might be the best way to start. But if you want to save more money on interest, you would want to ultimately be on the avalanche method.

So that's my two cents and that's how we're going to wrap this episode of Ask Farnoosh. Thank you so much to my listeners who brought in their questions, and I want to encourage you to continue to send me your questions. The best way is Instagram, as I mentioned, @farnooshtorabi. Follow me there. Or you go on the So Money Podcast website. Go to somoneypodcast.com and click on the button that says Ask Farnoosh and leave your question there. That goes right into my inbox.

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I'm wishing you guys a really great weekend. I hope the end of the year is treating you well. We'll see you right back here on Monday. In the meantime, I hope your weekend is So Money.

[END]

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