EPISODE 1794

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FT: So Money episode 1794, Ask Farnoosh.

[INTRODUCTION]

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ANNOUNCER: You're listening to So Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to So Money.

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi, and we are here with another day of answering your money questions. I think this is my favorite time of the week, where we're going to tackle some of your most pressing financial questions, including whether debt relief programs are worth it, to how to balance individual stocks versus index funds in your portfolio. For my job seekers out there, I've got advice for a recent college grad trying to land her first position in a cooling job market and some guidance for someone who was laid off from a tech job. How to maximize severance, navigate health insurance options, and make the most of their unemployment benefits.

We're also going to talk about the best strategies for saving. How to save for a six-month emergency cushion, and we're going to break down the age-old investing debate. Is dollar cost averaging better than lump sum investing? But first, let's talk about what's happening today. I woke up this morning to a text message from my friend Kofi about the 24-hour economic blackout. I have to say, I didn't know this was happening today. I am not in the loop about this.

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I don't know what this says about the movement. Is it getting enough press? You may have seen this circulating online. Today, February 28 is a planned day of financial protest. The People's Union USA is taking credit for initiating the no-spend day. The organization's website says it's not tied to a political party, but stands for all people. The blackout has been running since 12 AM today. It'll run through midnight Friday.

The group is urging customers to abstain from making any purchases, whether that's in stores or online, particularly from big retailers and chains. They want us to avoid fast food, avoid filling our cars with gas. There's another broad-based economic blackout plan for March 28. That one's targeting specific retailers. You can imagine which ones they are. The goal is to demonstrate the power of collective spending movements like this have happened before and they make headlines, but do they actually work?

I think a single day boycott can bring awareness. The real question is whether it leads to lasting structural change. In my opinion, I would say that the better strategy isn't just about withholding dollars for a day or even a month, but it's about intentionally redirecting where we spend our money on a going basis. I know maybe a one-day boycott can stimulate that thinking, but I also think that the messaging around this, I would have for me, I think it can lead to a more of a rallying effect when it's positive, when you're like, okay, let's support small businesses. Let's support mom and pops.

The idea that you're going to just stop spending at Amazon for a day is not going to hurt Amazon, but if you support a small business for an entire month and just shop local, you will change lives in your community. You will allow your neighbors to maintain a sustainable living. They'll be able to keep their businesses running. We've done episodes on this. There's even studies around this that show how it's more effective to reorient your spending.

If you want to make a statement, if you want to stick it to the man, it's about just honing in on that small business economy, small business and minority owned businesses. I don't think the organizers behind this would disagree with me, but I think that sometimes when you say boycott and when you're talking Amazon and billionaires in your marketing, it takes over the messaging and then you realize, oh, what they really mean is we should shop small and maybe then you're like, oh, then that's too similar to small business Saturday.

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The AP also ran a story wondering whether there's economic blackout will make a difference. I quote, some retailers may feel a slight pinch from Friday's broad blackout, which is taking place in a tough economic environment, according to experts. They interviewed Marshal Cohen. I used to interview Marshal when I was at New York One News and I would produce a lot of business and economic segments. He's the Chief Retail Advisor at the market research firm, Circana, and Marshall thinks the overall impact may be limited with any meaningful sales declines more likely to surface in liberal leaning coastal regions and big cities.

They also interviewed a marketing professor at Northwestern University's Kellogg School of Management. Anna Tuchman who says she thinks the blackout will likely make a dent in daily retail sales, but it won't be sustainable. She says, “I think this is an opportunity for consumers to show that they have a voice on a single day. Although I think it's unlikely that we'll see long run sustained decreases and economic activity supported by this boycott.”

Hey, you know what? It's sparking dialogue. It's making you remember the importance of supporting your local economy in the spirit of this boycott. I'm going to focus on supporting our local merchants here in Montclair and I've gotten to know a lot of them over the last couple of months reporting for the Montclair pod, which by the way, the Montclair pod is on fire everybody. It's a lot of work launching a podcast for the first time in 2025, but we have been making a lot of inroads in town. People are listening. Our Instagram is growing. We're really proud of the work that we're doing.

Me and my cohost we run separate lives outside of the podcast. We have businesses. We work. We have family. This is mainly a passion project right now, but I think we're also thinking, maybe we could turn this into something more impactful and grow it, and well, stay tuned. One last piece of news before we hit the mailbag, my website is getting a major facelift today. If you haven't visited in a while, please do. I've refreshed the entire site to make it even easier to access the podcast, the resources to connect with me.

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I think it's updated now. It's you know, with these website conversions, it takes time. But my developer said that it should be fixed live today at some point. Keep going back and refreshing and let me know what you think and let me know what you think also in the Apple podcast review section. We haven't gotten a review in a couple of weeks. I know, I have to just keep asking. It's one of those things. So, if you leave a review in the Apple podcasts app for this podcast every Friday, if I catch a new review, I'll mention it on the show and that person will be eligible for a free 15-minute money session with me. If you're interested in some one-on-one time with me to talk about whatever is on your money mind, that's a great way to do it. Leave a review in the Apple podcast review section.

All right, let's hit the mailbag starting with an important question about debt payoff. Alicia wants to know if I had any insights or opinions about the national debt relief program for those who want to pay down credit card debt. It's a good idea or bad idea. I looked this up and I initially thought that something called national debt relief program was a federal program like the jobs act or something, but this is actually a private company. It's a for profit company. While I don't know anything specifically about this program, I want to speak broadly about debt relief options.

Let's walk through some of the pros and cons of debt reduction debt relief programs. On the plus side, companies like National Debt Relief, what they do in exchange for your money is to negotiate with creditors to reduce the total amount of debt that you owe. Of course, we run busy lives. So, this can be helpful if we're struggling and we don't have the time and we really want to get out of debt. Additionally, companies like national debt relief, what they may do is they'll consolidate your payment, so they'll take several credit balances, turn it into one monthly payment to simplify the process for you. Ultimately, if you go through these programs and it's successful, you could avoid bankruptcy.

A lot of people come to the debt relief programs on the verge of collapse. I can't do this on my own. These are the pros. You could potentially avoid more financial stress. On the flip side, things I would caution is when you pay for a debt relief program, you have to understand the fee structure. Companies typically charge fees generally based on a percentage of the total debt that you have when you enroll in the program.

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You want to consider the long-term costs as well, where a lot of times when you go through a debt relief program, there is a hit to your credit. Now, you may say, well, it doesn't even matter, because I'm not really in the market right now to be shopping for a loan. I don't even have good credit. This may not be pertinent to those of us who are in a real financial debt bind, but these programs often require you to stop making payments to your creditors while the negotiations are ongoing, which can negatively impact your credit score. It can lead to late fees, other penalties, and that impact can last several years, even after the debts are settled.

Also, there's no guarantee, right? There's no guarantee that these programs are going to come through for you, that the creditors will reach an agreement with these programs, these agencies to negotiate or settle your debt for less than what is owed. I'll just say that while I don't know anything about the National Debt Relief Program, it has been around since 2009, 2010. It has since grown. It's one of the, kind of more, I guess, “reputable” debt relief programs. But the industry as a whole has faced a lot of scrutiny and a lot of regulatory challenges from the FTC and consumer protection groups.

Before you work with any one of these agencies, it's important to do a background check. Check with the Better Business Bureau. Look for reviews. If there's any shadiness, if there's any lack of clarity and they're not willing to clarify things for you, then I would think twice about working with that organization, but National Debt Relief, not a federal policy, a company, is one of the largest and most well-known debt settlement companies. So, not having done my own deep dive just can tell you off the bat that in that industry, they're pretty well-known. If you're going to start your research, I'd start there.

One last thing I want to say about debt relief is that outside of the for-profit world, there are also nonprofit organizations that help with debt relief. They don't consolidate your debt, but they'll help you manage your debt. They will first meet with you free meeting initially to review your debt situation, your budget. From there, come up with a plan to pay off the debt slowly, not within six months. It's not a speedy program, but they do have debt management programs. They cost like 15 bucks a month. They're pretty nominal. if you're in real dire straits, they can potentially waive that.

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Just some names, National Foundation for Credit Counseling, Money Management International. What they do is they hook you up with a certified credit counselor to look at your debts, organize them, help you find ways to pay them down. Yes, they will negotiate with your creditors not to "settle your debts" like these other for-profit companies will probably do, but they'll ask if they can reduce the interest rates or waive some of the fees just to make the monthly payments more manageable. That's an alternative.

All right, next question is from Jennifer who bought some individual stocks this year. She's tried to follow the buy and hold strategy, but just saw one of her stocks plunge dramatically and lost quite a bit of money. Now, she wants to move that money towards index funds that followed the S&P 500. She's worried about her recession as this has come up in the media over the last few weeks and wonders if she should sell some of her other individual stocks while they're still at a profit and then take that money to continue to buy index funds.

She says she has the majority of her money in diversified funds. She does have an emergency fund that will last at least six months. She's very fortunate there and she says, "I know you've told us to leave our investments alone, Farnoosh, but what if I want to trade these investments for better investments? I would really appreciate your advice."

Yeah. Typically, we to buy and hold, because we know that the market is just going to do its thing sometimes. The market is volatile. I like hearing that you do have a majority of your investments in a diversified portfolio tracking indices. Now, you have these few stocks, you know in the grand scheme of it, that might be fine. If you still believe in these companies and you want to just throw darts, that's okay. I always say within your portfolio, one to 5% of your overall portfolio can be in alternative investments. An individual stock could be like an alternative investment.

It's alternative to a fund, these traditional investments that tend to have better track records over long stretches of time. If you're dead set against having these in your portfolio, though, you want to just consider the tax implications of selling them. One stock you said has declined significantly. The other stocks have regained their value.

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Keep in mind that there will be some tax implications and more so because you're selling within the first year of owning these stocks. You're going to potentially face short term capital gains for the stocks that you're selling at a gain. Then for the stock that's a loss, that's a capital loss. That can actually be used to offset any capital gains that you realize during the tax year. Just keep a record of this.

If you work with an accountant, maybe you want to bring this to their attention and see what they recommend. Maybe they recommend, no, don't sell them, because you'll get hit with a big tax bill, maybe sell it in the next year, which comes with some risk, because maybe you're going to lose more money in these stocks, but you're going to have to weigh those pros and cons, because once you've owned stocks for more than a year and when you want to go to sell them, then you're talking about long term capital gains, which is usually a smaller hit than short term capital gains.

The government really wants you to hold on to your investments. But in general, I like the idea of investing more in index funds, but if a majority of your portfolio already is an index funds and you have these few little stocks that you want to just track individually for your own entertainment and education, that's okay. Hey, in the long run, they may do well. I'd be curious to know what these stocks are. You may already have them within these index funds that you own.

Bella wants to know how to approach the job market. She's graduating from college with a degree in finance. What are some things I could be doing to make myself more hirable? She's already been applying to jobs, but it seems like it's harder to get one right now. She doesn't have any student debt, which is great. in terms of goals, she wants to move out as soon as possible, move out of her parents' home. She has about $6,000 saved up, so does her boyfriend and they want to move in together.

I just want to address the macro job market. It is a bit of a cooling job market for college grads right now. About 40% of recent college grads are under employed, meaning that they're working in jobs that don't require a college degree. Certain industries like technology are seeing a reduction in hiring. We know that tech is having its own little moment right now, a lot of layoffs in the tech field. So, as you can imagine, not a lot of hiring either.

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Our friend in the audience who asked this question has a degree in finance, which is what I graduated with from college. I mean, my advice to you is to cast a wide net, Bella. If you're looking for a finance job at a financial institution, that can be really competitive. Your better bet may be to cast a wider pool, a wider net. Can you work in finance within other industries, a finance job at a media company, a finance job at a health care company?

In the current job market, there are certain industries that are more actively hiring college grads, namely health care, legal services, nonprofits, construction, arts and entertainment, AI and data science. Thinking about your degree and how it can work within these industries, all these companies, they need financial people. That would be my biggest tip is to broaden your job search to extend beyond financial services.

As for your desire to move out of your family's house. Totally get that. That is not fun, but just also know that if you're willing to look at the next year as an investment living with mom and dad and I'm going to save X dollars a month on rent. Let's say the average rent right now for you and your partner or just you alone is like $2,000 a month or 1500 – I don't know where you are, but I'm just using a number.

If you imagine saving that, $2,000 times 12 and you actually have to save it, I would encourage you to do that, then you're going to be able to leave your parents' home in a year with a lot of money saved and have far many more options. So, don't be so down on yourself. A lot of people your age, are living with family upon graduation. It's just the times. We talked about inflation in the show earlier and rent is one of the areas that hasn't seen a lot of relief.

My brother who lives in Brooklyn, his rent is going up 10%. Is that even allowed? But here we are and he's looking for a new place to live, because of that. It's really tough for those looking for affordable housing. If you have a place to live, even if it's not ideal, make do for a bit of time and realize those savings and actually save them.

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Next up is a question from Gemma who's having a difficult time saving. She's trying to save the recommended six months' worth of expenses, which she says it seems like it would take a life-time. What's my advice? All right, Gemma, firstly, just give yourself some grace and know that when we say it's important to save a six-month cushion where you take your minimal bare bones necessities that you have to make every month. These are not the nice to have.

This is like housing utilities, the bills, right? If you don't pay them, someone might sue you. You add that up. What is that total in a given month? Then you multiply that by six. That's what you want to have ideally in a savings account in the event that you lose your job and you have to make ends meet, not because we expect that you'll never make money for the next six months. It's just a good target and that more likely depending, of course, on your profession and where you live and the strength of the job market. It could take anywhere from four to six months to find a full-time job. But in the meantime, you could be part-timing. You could be side hustling. You could be reducing your spending all to make that savings stretch.

My recommendation is, make small automatic contributions if you're not already. What you could do is you could go to your employer and fill out a form. If they're already making automatic deposits for you, taking your paycheck and putting it automatically in one bank account, see they can split it up and put some in one bank account, which is designated for your savings and the other into your checking account. That can happen at the employer level. Sometimes it's just going into HR and asking for that form or going online and making that adjustment through your employer's HR portal.

If they don't do it for you, you could do that yourself where once your paycheck hits your bank account, you have it set up so that a percentage automatically goes into a separate siloed account labeled savings. That can be at your existing bank. It can be someplace else a high online savings account. That's one piece of it. Then as you get lump sums through your tax refund, your bonuses, any windfalls commit to having all or a majority of that go into savings until you reach that six months. The important thing is that you just get into the habit of contributing.

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A lot of this can be automated and don't give up. Look at how you're spending currently and you can start there. Is there anywhere you can cut back? Any monthly recurring costs subscriptions that you can give up for a bit of time and channel that money into savings. Once you're at a more comfortable place with savings, you can go back to turning those subscriptions on.

We covered site hustles in the So Money Members Club and that's another piece of this, which I could go on and on about and you can actually check out that workshop. If you go to somoneymembers.com and sign up. It's a monthly program. We have a massive library of live workshops that I've recorded on things like side hustles. We have one in the fun budgeting. We talk about investing, alternative investments, real estate, but specifically to this question about saving money, sometimes you do what you can with the existing budget that you have.

Then you realize if I need to save more money, I need to make more money. Is there a $500 a month side hustle that you can start to perform? It could be within your profession. It could be tangential to your skills that you're bringing to the workplace already, or it could be completely outside of that. It could be pet sitting. It could be caregiving. It could be renting out your car. You know you could do this when you're not using it. That's quite the passive income.

That's my other offer to this person who's looking to save more money and anybody who's struggling with saving. It's that sometimes you reach a limit. You've done everything you can to make the most of your income to save, but it's not happening fast enough or enough enough, so you have to bring in more money and that could be asking for a raise, but much faster is sometimes just starting your own side hustle.

Again, if you want to check out that workshop, go to somoneymembers.com, become a member, which gives you access to workshops like that. Monthly office hours are engaging community. You can get access to me on the go. You also get to listen to this podcast without commercials, so much in store for you within the Money Members Club. That's somoneymembers.com.

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Next up is a question to an audience member who was recently laid off from their tech job after 11 years of service. They say it comes with a severance package, thankfully, but it's the first time this person is going through a layoff and wondering if I have any advice with respect to minimizing the taxes on that lump sum severance health insurance. Should they sign up for COBRA? Would it make sense to look for something in the marketplace? Is there a way to contribute after tax dollars into their 401K and then deduct it when they file taxes? Are they eligible for unemployment?

I'm going to go through this list of questions first about minimizing taxes on the severance. Is there a way to do that? By the way, this question came in through our So Money Members Club. So, I answered it already for our friend, but I wanted to bring it to the show, because I think a lot of us, unfortunately, may be in this camp or are about to be in this camp and wanted to share my thoughts with everybody, but minimizing your taxes on the severance, it's a pain, right? They take the taxes out and while you – and you feel the pain pretty heavily right away.

There are ways to later on this year in this same tax year, make some financial moves that could help to reduce your taxable income. Come tax filing season and then maybe you'll get a bit of a refund. One is to contribute to a traditional IRA where your contributions will be deducted from your taxable income. The limit this year is $6,500 if you're under the age of 50. 7,500 if you're 50 or older. You get a $1,000 catch up contribution. There's that to help offset the tax bill from the severance.

If you have access to a health savings account, either because you had one through your employer and you're going to continue with that or if you go out into the marketplace and purchase a health savings account, you can make contributions to that. Those are tax deductible. Then if you make any expenses this year related to searching for a new job, moving perhaps for that new job or taking classes, taking on expenses related to higher ed education. Those can also potentially lower your tax bill. But as far as reducing your tax hit right now, no, you will have to make these moves throughout the year and then account for them when you file your taxes in spring of 2025.

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Next question is about health insurance. Is COBRA worth it? Our friend wants to know. She doesn't have any major health concerns. Right now, currently has a high deductible plan with an HSA. Okay, great. Again, if you have the HSA, you could contribute to that. Assuming you continue with that plan and how you would do that is you would want to go on COBRA.

COBRA is a federal program, allows us to continue the health insurance plan that we had with our employers in the aftermath of a layoff. You can continue to have all of those benefits. Continue to be available to you, but it comes at a much higher price. So, when you were working at your company, you were getting a subsidized version of that plan. Your employer was paying for part of it and then you were paying for part of it.

Now, on COBRA, you are exclusively paying for that health plan, which means now you're covering your employer's portion, plus your portion, plus a management fee, which is about 2%. COBRA tends to be a pretty pricey option. That said, a lot of people just take the path of lease resistance. They sign up for COBRA and they never have to shop around for new insurance. They can continue to see their doctors and not worry about their new plan without of network doctors.

I'll get that up to you. If you can afford that, that's the easiest option potentially. But if you're indifferent to your current policy and or it's expensive, I would shop around on the marketplace with a layoff. You qualify for a special enrollment period on the marketplace, because losing job-based health insurance is considered a qualifying life event. So, you can purchase coverage outside of the regular open enrollment period. You generally have 60 days from the time that you lose coverage to enroll. So, just keep that in mind. There is a bit of a deadline to this.

Paying into COBRA. Would that be tax deductible? It's a really good question. Our audience member wants to know. Usually not. COBRA premiums are typically not tax deductible. The only thing I would say is that if you do itemize your tax deductions when you file your taxes, there is a medical expense deduction, but it's a pretty high threshold. If you spend more than 7 and a half percent of your gross income on qualified medical expenses, including COBRA premiums, then the portion of your medical expenses that exceed 7.5%, that would be tax deductible. Also, if you contribute to an HSA, you can use those pretax funds to pay for COBRA premiums, which indirectly provides some tax savings.

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Another question, is there a way to contribute after tax dollars into my 401K and deduct it when I file taxes? The short answer is no. When you get laid off, your 401K immediately pretty much is defunct, that said you can and you should roll that over into a traditional IRA usually to keep that money intact and to be able to continue contributing to that retirement account. Now, it won't be your old 401K, but now it's a new traditional IRA. From there, you can make contributions, the annual limit again, $6,500 and that money is tax deductible.

Your old 401K, essentially, sunsets once you get laid off, but there is a time frame during which you can roll that over into a traditional IRA and start using that like it was your old 401K. But of course, the contribution limit is much smaller. So, just FYI. Then is this person eligible for unemployment benefits? I think so. Check with your state, but most layoffs in many cases and most cases is a qualifying event for unemployment benefits and I would apply sooner rather than later.

All right, let's move on to our last question about how to invest wisely. Should we be investing a little bit every week, a little bit every month, once a year? Does it matter? All right. The best way to invest in terms of cadence, it really depends on your stomach for risk. That's really how I see it. There are many different kinds of studies that look at what's called dollar cost averaging where you invest a fixed amount at regular intervals, whether that's weekly, monthly, quarterly, and you do this regardless of market conditions versus lump sum investing, which is, you know, once a year, you gather up all your funds and you throw it into an account.

Who is best for either method? I think it comes down to your risk tolerance. If you're not somebody who stomachs volatility well, then I wouldn't recommend doing lump sum contributions, because if you invest just once a year and then the next day, the market falls 10%, that is not going to make you feel good and it could prevent you from doing that ever again. So, for someone like that that has a low risk tolerance, but is also aware of how the market moves and isn't using that as a reason not to invest, but they just want to limit their – the shock value, I suppose, is to do it in increments so that a little bit gets invested consistently.

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When there are fluctuations in the market, it doesn't feel like as big of a loss, as big of a hit, but over the course of your lifetime, over the course of your investment horizon, it all evens out for the most part. I say that with a little bit of an asterisk, because studies suggest that dollar cost averaging can psychologically ease the investment process, but over long periods, lump sum investing may outperform dollar cost averaging, because markets generally trend upwards.

Just keep that in mind. What is your goal? Is your goal to make as much money as possible or is your goal to make money and do it with a little bit less of a shock value, and a little bit more of a rested stomach, and a better night sleep. In that case, if you're the latter, I would say dollar cost average. If you are okay with the risk and want to make as much money as possible, I would say do it as a lump sum investor once a year.

Honestly, I do both. I invest in a lump sum in my SEP IRA, and then I invest in increments in my brokerage account. Why? I have no idea, but it's just the way that it's worked out. I'm okay with it. I do a little bit of both. You'll learn that about me. I like a hybrid approach to most everything.

That's our show everybody. I hope you enjoyed this episode. You learned quite a bit. If you are liking these episodes, please leave us a review. As you know I pick a reviewer every week to get a 15-minute phone call with me and a 30-day trial of the So Money Members Club during which time we're going to do workshopping and office hours. You'll get a lot out of that and share it with a friend. Share the episode with a friend. Share the podcast with a friend. It's the best way to support the show. Thank you. Thank you. Thank you. I hope your weekend is so money.

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