EPISODE 680

[ASK FARNOOSH]

[0:00:35.6]

FT: Happy Friday everyone, welcome back to the show. Welcome to 'Ask Farnoosh' on So Money, I'm your host Farnoosh Torabi. In case you missed it, my financial course is now live. Very excited about this it's called, 'Master Your Money' did this in partnership with Investopedia which is the grand daddy of financial information on the internet and they have a massive library of incredible courses and this is the latest course to arrive and really proud of this work, you know, this is something that I always wanted to do just didn't really know how to get it all done.

It's a lot of work, and time, and team effort getting a course done. Everyone who has one I'm very impressed with the fact that they are able to execute a successful course so I'm very fortunate that Investopedia came knocking on my door asked me to partner with them to bring this course to the masses and so, a little bit more about Master Your Money and I do have a special code for So Money listeners, you get a discount. It is a nine module course that you can have a lifetime access to. It's going to teach you how to of course, budget, save more, invest wisely, how to earn more money this year, that's on your to do list, and it's not just a course with slides and voice over, I get right in there, I talk to real people with real issues, try to help them with their financial questions in the moment on the spot so try to keep it really conversational.

You don't want the same boring stuff, you want information that you can use and then you can apply and that is entertaining maybe even to watch so that is Master Your Money in a nutshell. It's normally $99 but if you use the code Farnoosh20, you get 20% off. Now, to get to this course go to academy.investopedia.com, that's academy.investopedia.com. Search for Master Your Money and use the code Farnoosh20 for 20% off. Not a bad way to start the New Year, right?

Alright so, to our Ask Farnoosh session of the day, we have a very special co-host on the show and someone who shares an Alma Mater with me, Steven Blivess, welcome to the show.

[0:02:57.7]

SB: Thank you, thank you very much. I am excited to participate.

[0:03:02.6]

FT: I'm excited to have you on the show. I understand that you are a fellow Nittany Lion fellow Penn Stater, how did you first learn about So Money?

[0:03:10.5]

SB: I was looking around for podcasts on personal finance and money issue because other things that I'm always interested in learning more about and you can't search iTunes for a podcast on personal finance and not find So Money.

[0:03:25.7]

FT: Well, that's nice to know. Thank you to iTunes for giving us some store love putting us in the personal finance section, front and center. It's really thanks to listeners because we have over I don't know, 550 reviews, something like that. That definitely helps as far as your algorithm, your iTunes juice, as they say. Getting in the store and getting good placement it's a testament to how much people are listening and enjoying the show although I will say, I got a one star review recently and it is my fault if any of you listened to the January 1st episode of Katia Beauchamp.

I was on vacation and unbeknownst to me that episode I had the audio tracks overlapped there is a technical glitch and those who listen to it the day that it went live experienced some terrible audio. I will be the first to admit, and I'm so sorry this happened and it was – I won't blame or name who is at fault. I mean, really we're at fault all the whole team because we should have really triple-checked it but we caught some audio overlap late in the day as people were letting us know and one listener thought that the guest Katia was just cutting me off and being rude and that I had lost control of the interview.

When in fact she was a lovely guest and there was gaps in between our question and answers but you didn't know it because the audio tracks were slipping and so we fixed it but by then it was probably too late for some listeners and it resulted it in some one negative review on iTunes and that's actually how I found out. So, I had a heart attack when that happened and anyway all this to say that you take the good with the bad and I apologize if anyone is wondering about that episode, but I digress. Steve, tell us a little bit more about yourself. I understand that you are a lawyer and I know that sometimes law and finance intersect, they dovetail, tell me a little bit more about your passions.

[0:05:40.5]

SB: Well, so I am a lawyer. I practiced in New York City actually for the first nine years or so doing all kinds of different things. Both in municipal government and in private practice and then I moved down to the DC area and I worked for the District of Colombia government now and my area now is labour relations so I'm the go between the union and management for the agency that I work for. And, it's my passion for personal finance has been something, that I've always been interested in this.

I can remember from my earliest days my dad and I listening a radio broadcast on Saturday mornings in the Philadelphia areas this columnist named is Harry Gross who people would call in and he would give them personal finance advice. How to, you know, how to approach paying off debt? How shall I invest money? I just always found that stuff really interesting so, kind of, what kept my interest.

[0:06:36.1]

FT: Well, thank you to Harry Gross and actually I'm from the Philly area and I do recall that show. Imagine if there were podcasts for all of us as we are growing up as kids and teens and even just maybe 10 years ago. And so, what I'm hearing from you Steve is that it sounds like that your parents are really proactive and cognizant of trying to relate some good financial principles to really try to inform you as much as they could in a way when you were a child. Is there something that you are grappling with still? Are you, looking at 2018 and hoping to master some aspect of your finances that you haven't yet?

[0:07:14.2]

SB: I'm just trying to, you know, figure out in the new year, how to, you know, redirect my investment savings so I'm making sure that I'm well balanced and have everything, you know, in the right direction. So, I've been thinking about going to a financial advisor I have not yet done that, kind of, do everything on my own and it's all that works so I've been thinking about going to a financial advisor and I've listened to your podcast before so I know you have always great advice about finding one.

[0:07:48.3]

FT: Yeah, I mean the New Year is a great time to start looking at ways that you can support your financial life with resources whether that's real other people, apps, websites, services, a course, and just the shameless plug my financial course is live now on Investopedia use the code Farnoosh20 for 20% off and all seriousness finding a financial advisor we talked about them on the show a lot and I think that you know you're ready to work with someone when you want someone to help you with the time commitment aspect to managing your money and making a lot of the decisions. Somebody who can give you a second opinion, someone who also can if you're married or in partnership be a objective voice and someone who can level the field a little bit for the two of you as sometimes couples tend to disagree over financial choices. Someone like a financial advisor can really step in and offer some objectivity and facts to go along with the emotions.

But for you I'd say if you wanted to start looking at financial advisors, obviously have to start interviewing some, talk to friends, who are they working with, colleagues, and there are websites out there like, XY Planning Network and napfa.org that's the National Association of Personal Financial Advisers.

Interview a few of them, narrow down your choices ultimately you want to work with somebody that not just has a good track record and a solid business but understands your needs and has perhaps other clients that are similar to you in the sense that they have similar goals, maybe they are at the same life stage and they can really relay and give catered advise to you. Now, shifting gears over to the audience and their questions and servicing them.

Our first question comes from Jennifer and she left an audio voice mail through SpeakPipe which by the way you can all do it's really fun just head over to somoneypodcast.com click on Ask Farnoosh and opt for SpeakPipe where you can leave a voice question and her question has to do with how to get on the same page with her partner when it comes to money. Here we go, here's Jennifer.

[00:10:09]

J: I love your podcast Farnoosh and financial insight my spouse is onboard with our macro vision of our financial retirement plan but how can I make our day to day conversations of finances more detailed without scaring him off with the numbers. I am the sole bread winner and take care of the bills and financial obligations. So, I just worry that he would be lost if something happened to me. I love your help, thank you.

[00:10:34]

FT: And, Jennifer you are right to be worried that if something did happen to you he would be lost and the best way to get ahead of that is to start involving him in the bill payments, creating transparency around where the accounts are, the passwords, the usernames, where the bills go, how much things costs, just because he is not making as much or any money right now in the relationship doesn't mean that he doesn't have the need to know what's going on in the finances of the relationship. It doesn't mean that he should keep it head in the sand or that you should not introduce things to him. It may overwhelm him but he's a big boy he'll get over it, right? There are scarier things in life than just numbers.

And just like you asked me just like you brought up the topic with me that you have these concerns that if god permits something happen to you that he would not be able to step in and really take over seamlessly, bring that up to him that's a very valid point and it shows that you care and it shows that you are trying to - just protect everybody and him.

I think that's a very thoughtful position to have and how you start to involve him in all of this is to do it slowly, you know, give him a habit so that he's keeping an eye on certain accounts. He maybe provides weekly reports or monthly reports.

It's not that he has to do much but it's really about getting in the know and sometimes it's just a small tweak, like, that you're talking about money. Do you have scheduled weekly or monthly meetings? Maybe, that's a good thing to start to do on the New Year just to get the ball going and to make sure that you're both on the same page but this has to happen and I think that when there is income disparity there's inevitably the spouse who makes less who tends to veer off when it comes to making financial decisions and managing the money. How we make money, how much we make sometimes dictates the level of responsibility that we feel around managing the money.

And then, I will also suggest that with the new year upon us your husband look at ways to bring in income. Maybe, not going back to work full-time if that's something that is desirable or works for your family or it's not something that he wants to do but seriously, look at ways for him to bring in some income. I think that will allow him to feel more of a financial player in the relationship and frankly it's going to level the financial security in the relationship. If you lose your job or something does, God forbid, happen to you at least there is another revenue stream coming in.

Steve what do you think?

[0:13:06.3]

SB: Oh, I definitely agree. I think that, you know, it's important that he – if he's, you know, if he's a stay at home dad maybe that's why she's the sole bread winner, there is still going to be times when he can do something on the side I mean the babies going to nap at times. The baby will go to bed and you can do stuff in the evening. There's always some kind of way you can try and find, you know, a source of income and I do agree that it's really important that he, you know, start getting involved with that. I think it's really important to get involve just period.

He needs to know what these – what's going on because if something happens he is going to get blindsided if he doesn't know.

[0:13:44.8]

FT: Yeah, Jennifer just get those money meetings on the calendar. Make it a recurring meeting so that you don't forget, so it doesn't sleep with the cracks, have an agenda, do this at least for a couple of months and that way I think you'll, at least, establish a good foundation, some additional awareness around, what the bills are, how things get paid, what the financial obligations are every month. These is the stuff every single member of the relationship, every couple should know about at the minimum.

Alright, shifting gears to Tabitha's questions, Steve why don't you to take this one, tell us what's on your money mind.

[0:14:21.0]

SB: Sure, Tabatha writes she has $2700 in credit card debt with a high APR. $7600 in school debt and $1600 in other debt with zero percent interest. She has $7600 in her 403(b) and $2600 in savings and she's asking if we have any ideas on what she could be doing to save more and payoff the debt?

[0:14:45.9]

FT: Well, the simple answer Tabatha is you either have to spend a lot less, to sure up cash, to put that towards savings, towards debt, and or earn more which is my favorite thing to do. I'd rather earn more than try to cut corners with my spending if it means giving up things that I love, but so let's focus on the savings variable first. Are you going through your bills and your budget and going through your expenditures and looking at leaks potentially? Are there subscriptions that you have that you no longer need to be subscribing to? Every little bit counts, $10 here, $20 there, making sure that you're conscious of the expenses that you do daily that could be adding up to big bucks over time.

Not, going to say latte but in New York for example it's Uber and, you know, all this automated apps that you get things delivered to your house, Amazon Prime, and Seamless for food, I mean it's very convenient but it almost is convenient to a fault where you are using it more than you should and it ends up being a huge bite out of your budget.

So, that's the first assignment, is to really examine your expenses and to be critical about how you're spending your money and that debt, that $2700 in credit card debt. I'm not sure what the darnedest interest rate is on that but if you say it's a high APR so that should be the first order of attack. Of course, you're paying minimums on everything else but whatever extra money you have every month that goes towards the high APR credit card debt. If you get a bonus at work, if you get a birthday cash gift, if you get a tax return that too can help to accelerate that pay down.

Then, you can try to earn more, i mean this is the year to earn your darnedest. I'm all about trying to help people find ways to bring in a side hustle, ask for a raise, have you asked a raise in a while? If not, maybe it's time to do that. Do you have skills that are going untapped that you can cash in on, that you can monetize and then as far as that 403(b) at work I would say, if you're concerned about whether or not you're not maximizing that at the minimum invest as much as you can to earn a match, if there is a match, but the rule of thumb really is to put about 10% to 15% of your pay towards something like a 401(k) or 403(b), they are all very similar.

Steve, I'm not sure if you have any debt?

[0:17:04.2]

SB: I actually do. I still have student loans from law school but they are at such a low interest rate because I locked them in years and years ago that I don't pay any more because it doesn't make sense to pay more and I do have some credit card debt which is sitting on a zero percent interest rate and I'm just saving the money in an investment account to grow that and then pay it off when the zero percent comes to an end. You know, I noticed that she's on a 403(b) which means she's probably a teacher or maybe works at a non-profit but if she's a teacher, I'm wondering if she could do, you know, a side hustle where she is tutoring or doing exam craft or doing work during the summer when school is out and devoting all of that money towards paying down the credit card.

[0:17:51.7]

FT: That is a great idea. Great observation, yeah, if you got summers free or if you have education as a background teaching, man, there are a lot of ways you can bring in some extra revenue as a tutor and tutor.com in fact, I did some research on this a while ago but they are very popular website to connect with students of all ages if you are somebody who can teach a subject and math and science tutors tend to earn the most. So, if that is your area of expertise Tabatha there you go, happy New Year.

Alright now, our next question comes from Dan who is talking about college savings and his three year old son, Steve you're a dad, right?

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SB: I have a three year old son turning four in a couple of months.

[0:18:33.6]

FT: Alright, so you have much in common with Dan and Dan writes and he says, he has a three year old son who he hopes one day will desire a college degree. By the way, I have a three year old son. I have a three year old son, why am I forgetting this? Sorry, Evan mommy loves you. Well, I'll offer a little bit of advice and then I'll pass the baton over to you Steve.

In our household we started saving for our children's 529s pretty early on, for Evan whose three and a half now we started while I was pregnant, for Collete we started pretty much the month she was born. In New York state we have a really great 529 plan at least historically it's been really wonderful and as New York residents we qualify for a state tax benefit.

So, go to collegesavings.org you can choose any state's 529 plan and check particularly the one that you belong to that state 529 plan see if there are tax benefits to investing in it and so, that might incentivize you to sign up for that one. So, we have these two 529 accounts we've been investing in them regularly. Do we run the risk of having too much saved perhaps by the time they are college ready and one of them or both of them decide. I don't want to go to school or one gets a scholarship, what happens then?

I actually did an interesting interview this Monday with Abby Chao who's the co-founder of a new site called collegebacker.com and they're helping families save for college in a more efficient and easier way. They have allowed it so that they can invite family and friends to contribute to their 529 accounts and I actually learned that if your child arrives at college and gets scholarship money and you've meanwhile saved all these money in the 529 that you can then withdraw that money penalty free. But if you don't need that money because your child is not going to college then you can transfer the money to a different beneficiary.

If Evan decides not to go to college let's just say he decides to do something different then we can transfer that money over to his sister. I could use the money, his dad can use the money so there are ways to still take advantage of it. The projections as far as how much college is going to cost once our three year olds are ready for school, ready for university, that I will defer maybe that you Steve what you have some updated numbers but I have read that since the 1980's the cost of college has been increasing anywhere from 6 to 8% every year.

Double, triple, the rate of inflation and if we extrapolate then I'm guessing that we're going to have hundred and hundreds of thousands of dollars for a four year college degree especially a private college degree. Tim and I are not going to foot all of the college expense I mean we will try to do as much as we can as far as tuition and housing but I do believe in children having some skin in the game when it comes to college whether that's paying for their own club fees, trips, obviously not all parents can afford tuition and room and board but we're planning on it and then everything else is going to be extra and Evan better have a job or just learn how to enjoy those Ramen noodles.

But the 529 has been at least recently the go to way to save for college. If you're going to save for college. There are those risks of maybe your child deciding not to go to school the money must be used for college related expenses or it's considered an unqualified withdrawal then you have to pay a penalty, plus of course taxes. So, you could potentially lose some of that investment. I'm a fan, general speaking, Steve what do you think?

[0:22:20.6]

SB: Well so, when I got this question it struck really close to home because I do have a three year old son and I am also thinking really long-term and what college is going to cost for him so I did a little research and I found an article published by CNBC in 2012 projecting the cost of college in 2030. Which is 13 years from now so that's not too far from the 15 years that Dan is asking about. According to the article a private four year college will cost about $130,000 a year and a state school will be about $42,000 a year.

So, to go to a private school for four years is more than a half a million dollars. That is a huge number.

[0:23:03.4]

FT: That's triple the cost of a public school education?

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SB: Yeah.

[0:23:09.3]

FT: Steve, as a public school graduate I, kind of, call BS on that.

[0:23:13.2]

SB: See as am I. I went my law, I went to University of Connecticut for law school, public school, loved it.

[0:23:19.7]

FT: Yeah, I mean you want to go where you feel most connected. Some people want to go to that smaller school, a private college has a lot of benefits but you have to really analyze the price tag. Is it worth it? What's the return on your investment? The good news is our listener Dan who's asked the question here about 529s, sounds like he's getting a really nice head start wherever his child ends up he will have more money than the rest of us, as we know and, you know, people sometimes don't have enough to save for college. They don't think to be proactive, so Dan kudos to you for being proactive.

[0:23:59.4]

SB: Can I ask you a question Farnoosh?

[0:23:59.1]

FT: Yeah, sure.

[0:24:01.3]

SB: So, within the 529 plan there's two choices, there's the prepaid college trust or the college investment plan. One is paying the tuition for the future now the other is more of like it's a 401(k) for your education, which one would you recommend?

[0:24:16.3]

FT: Well, the prepaid tuition plan, yes, you get a lock in future tuition rates at in-state public colleges at current prices but that's, I mean if you're concerned about whether or not your child is going to go to college or the fate of college in the future and now you're talking 15 years down the road who knows what's going to happen by then, a prepaid tuition plan is pretty rigid and we know that for our listener who've asked the question about what to do if you don't know what the future holds that would definitely not be something that I recommend for him and I think for most people. Yes, you get to lock in those future tuition rates today and save a significant amount of money but you really need to be certain that your child, A is going to go to college and B and will want to go to the schools to small portfolio of schools where that those tuition rates will apply.

What if your kid wants to go out of state? What if your kid wants to go overseas? I mean I would like to be able to give our children the option of choice when it comes to picking where they want to go, now as I said earlier it has to make sense financially, they could just go where they want because they want to go there. I mean it would have to be a good return on investment but this is in the prepaid tuition plan I find very limiting for us but I know parents who have done it, they've been successful and they saved boatload of money.

[0:25:40.5]

SB: I know, I'm on the same page actually it was the college investment plan through the State of Maryland because that's where I live the – I looked at the prepaid college trust and it seems like it has more options than I think it used to have but I'm like you I'm still concerned about the restrictions that the college trust puts on you for where you're going to go and what you're going to do with that money.

[0:26:03.3]

FT: Agree, alright, last but not the least here we have a question here from Dennis. Steve, would you mind reading it off so I can take a drink of water.

[0:26:13.3]

SB: Yeah, sure. So, Dennis and his wife are working to payoff $8,000 in credit card debt and two car loans totaling $6,000 but they feel like something is always happening to set them back and lose confidence. Since July they had to put $3,000 into one of their cars and put $2200 on a credit card for medical bills. The latest piece of the puzzle is trying to figure out how they will afford daycare at $9,000 a year in a couple of months. To give us a little more information and tell us that, Dennis tells us that he and his wife gross around $85,000 a year and they just bought a home in May. Congratulations to them for buying a home.

[0:26:55.3]

FT: Wow, so lots of moving parts. They got a child on the way, daycare is not inexpensive. They have what seems to be some mounting debt from medical bills to car expenses, credit card debt, I feel for them. Dennis did not mention how much they have in savings. My first instinct is if they don't have any money in savings which maybe why they're, sort of, perpetuating this cycle of debt that they prioritize savings, you know, it's go time. You got a child on the way, you got huge expenses forthcoming including child care and of course other costs to raising a child, today.

So, if Dennis and his wife have not started to really get on automatic savings plan this is the time to do it and I may sound counter intuitive and say, kind of, shelf the debt for a little bit don't ignore the debt but if you can just bear by putting the minimums on those debts for a few months, six months, whatever to be able to then more aggressively add to your savings account I would be okay with that. And then, once you get to a better healthier place with savings get back to being more aggressive with the debt and start with a higher interest rate loans. And that way once you have savings and if something else happens another shoe drops you can tap in to savings as opposed to increasing your credit card debt.

[0:28:23.1]

SB: I actually, kind of, went in a different direction. I read the question and thought that they really needed a psychological boost and so, I was thinking more along the lines of applying the snow ball method for debt reduction. Where you're paying off your debts in order of smallest to largest so they can get that psychological boost of seeing that first debt disappear and if they're aggressive with paying the debt down before the baby is born all of that money that they were putting towards debt payment would then be available for things like the day care. So I, kind of, went to a different direction but I think both ways is makes total sense if that's what you're comfortable with.

[0:28:59.3]

FT: I like your idea too, Steve. I think that would be my advice although again I don't know what the savings situation is. If they don't have savings then I think that needs to be the priority. If they do have enough tucked away and they're just holding on to that for the arrival of the baby then they don't want to touch it, even if a car breaks down or whatever they want to like maybe use debt to solve those financial crises then sure.

Start with baby something like a snowball method. They do sound overwhelmed and being able to attack even just the smallest balance get it off your books right away quickly we'll give you the confidence to really go after the rest of your debt and really conquer it.

Steve thank you so much for co-hosting with me so proud to call you a fellow Penn Stater, a fellow parent with three year old and I really appreciate mostly that you came to co-host with a lot of perspective, you even asked me some questions and really gave our listeners some amazing feedback so thank you to you, wishing you a wonderful new year and keep in touch, okay?

[0:30:08.4]

SB: Thank you for having me and I would be happy to come and do this again anytime.

[END]