How Much Money Is Your 401(k) Costing You?

[0:00:12.5]ST: Welcome Nation to the Financial Rock Star show, I'm your host Scott Alan Turner, ready to help you get out of debt, save more money and retire early. In the studio with me is producer Katie who has partied all night in Paris. On the show today we'll be answering your question about money, business and life. If you have a question you like answered on the show, visit Goaskscott.com.

Last time on the show I shared with you what I learned from spending the afternoon with Phil Collen, lead guitarist of Def Leppard. Very cool and knowledgeable guy. Please listen to that show, especially if you're a Def Leppard fan. Now, no matter what your political affiliation, the Obama administration is trying to get the department of labor to implement fiduciary retirement accounts. What does that mean?

That means the people who are running your 401(k) would have a legal obligation to put your best interests ahead of their own. Sounds great right? But what group of people do you think say this is a terrible idea? Well, the people who are running the 401(k)'s, the big Wall Street firms. Brokers, also known as "registered representatives", "financial advisers" and "wealth advisers" are held to a suitability standard. The suitability standard doesn't require them to have their client's' best interest in mind. That means they don't have your best interest in mind. They put profit before people.

Professional advisers held to a fiduciary standard are legally obligated to offer clients the recommendations in the client's best interest. Even if they don't match the financial interest of the adviser. They put people, you, the client before profit. Anybody paid by commissions is going to steer you in the direction that they want you to go unless they have a conscious and respect your money. Even people who have a heart of a teacher.

They have been drinking the Kool-Aid for so long, they actually believe what they are selling you is superior to any product but math says otherwise. Someone who has a fiduciary duty is legally bound to put your best interest first. They don't have any conflicts of interest. At a minimum, they have to disclose if they're getting kickbacks or commissions on what they sell you.

According to the president's council of economic advisers, using a broker instead of a fiduciary is costing people 1% annually in their investments. Now it doesn't sound like much but over a period of decades, it can add up to ten's and hundreds of thousands of dollars of your money. It's a huge amount. $10,000 invested for 30 years at 10% would have a value of $174,000. That same amount invested earning 9% because you lost 1% to investment fees is only worth $132,000, $32,000 less.

Now, I hope you're paying attention to who you get your investment advice from. This is not a republican versus democratic issue with your 401(k). This is a Wall Street versus working families. Now Wall Street wants to keep more of your money and they're busy clouding the issue by claiming employees will have less choice. They're claiming the change will only benefit the evil 1%, the rich. They couldn't come up with any better arguments, we all hate rich people right?

They're evil, they cheated the system to get their money, that's completely false too but you get the point. Hey, if there was a way to say that children would die because of this change or old people would be robbed of their social security checks, they would have said that too and maybe they will, it's still early in the argument. If you work with an investment adviser, wealth planner, financial planner, make sure you know how they get compensated. Consider working with one that has a fiduciary duty to serve you first and not their profits.

If you're looking for someone to work with, check out the national association of fee only financial planners. NAPFA.org. the Garret Planning Network which I mention frequently on the show. They have a list of hourly fee only financial planners. Now, I have no affiliation with either of them or any of their planners, they don't pay me to tell you about them but I'm here to give you that information so that you can find someone who puts your money for their interest. Now onto your questions.

Trish asks:

[0:05:02.8] T: "What are some good strategies to pay off student loans, is it worth refinancing if we plan on paying off our loans in 18 months and are already five years in? How could we negotiate rates with our current lenders or what other strategies are there to kick this debt's butt? I'm not willing to sell my house or stop contributing to my 401(k)."

[0:05:22.9] ST: I would absolutely get in touch with three or four companies that offer student loan refinancing and to see what they can offer you. Your current lenders probably won't have anything to offer you but you could always ask. Check out loan companies like SoFi, Lend EDU, Common Bond, Lend Key, see what interest rates you can get. Once you get some quotes, go online to find an interest rate calculator, figure how much you'll be saving if you continue to pay the same amount each month comparing the new and old lower interest rates.

Then you'll know if it's worthwhile given the short amount of time you've got and plan on paying back the loan. As always when you refinance student loans, make sure you don't have any prepayment penalty and no origination fees. You also want to refinance at a fixed rate, they pay more interest compared to variable rate but what you're buying is security in the case of any unforeseen circumstances, in case that thing goes wrong down the road.

Interest rates, yeah they've been historically low but we can't predict what they're going to be a few years from now. Even if you plan to have the loans paid off in 18 months. You never know what can happen in that timeframe. The risk outweighs the saving, go with a fixed rate. Thanks Trish for the question.

Mike wants to know what the difference is between an IRA and a Roth IRA?

An IRA stands for Individual Retirement Account, it's a self-funded retirement account, which grows tax differed or tax free. So those are the two different types; a traditional IRA and a Roth IRA. The primary difference between a traditional IRA and a Roth are the type of tax benefits you get. Traditional IRA's are funded with pretax dollars and you get a break on your current year's tax return based on the contribution limits and how much you invest.

Now your investment will grow until you retire and you pay taxes as you withdraw the money in retirement. The Roth, it doesn't give you any tax breaks right now. You fund a Roth with money you've already paid taxes on. The big advantage is all that money grows tax free and when you retire and withdraw the money, its tax free. The traditional IRA, it's like a 401(k) which you might have heard of or have at your company, but you start it yourself and you put money into it yourself.

You can setup the IRA with a bank, another financial institution, with a life insurance company, mutual fund with a stock broker. You can, but where should you set it up? Vanguard? If you have enough money to meet their minimum investment requirements. If not, Betterment, which doesn't have any minimum investment and requirements. Why those two? I talk about them a lot. They have low yearly expenses that you pay to have them manage their accounts.

There's some other good ones out there too, TD Ameritrade, Fidelity, Schwab, just pick a place that has funds with super low fees. You want to meet a low cost index funds so you can retire a couple of years earlier than you would if you went with a stock broker or a company trying to sell you high commission mutual funds with expensive yearly fees, big upfront commissions.

My preference when you get started investing, you have access to your 401(k), invest up to the company match. So if the company's matching 3%, you contribute 3% of your salary to 401(k). Company's matching up the 5%, you contribute 5% because it's free money right? Free money with them matching it. After that, you start investing in the Roth.

Now, a Roth is funded and it grows tax free, so you fund it with money you've already paid taxes on. Since your money grows tax free, when you pull it out of retirement, no matter what tax bracket you're in, it doesn't matter. That's why the Roth is superior to a regular IRA. If you think taxes are going to be higher when you retire, Roth IRA is the way to go.

If you follow that savings and investing advice, you get in this show, you're probably going to be in a higher tax bracket when you retire. Because I will show you how to make more and save more. We don't want to pay more taxes when we want, when we're in retirement. We want to pay less. Roth IRA, less taxes. Thanks Mike for the question.

If you have a money related question you would like answered, please visit Goaskscott.com to get in touch with me. That website has my email address, Twitter, and you can also leave me a voice mail. Please contact me, I am here to help you.

[BREAK]

[0:09:51] ST: Are you ready for the big one? The big earthquake, the big ice storm or the tornado or the flood, the hurricane, the big asteroid or you know, the alien invasion. Are you ready? Are you prepared for the big one? Most people are not. We live in a get it now society or I can hop on Amazon and I can have something delivered the same day, sometimes in the afternoon depending on what it is or I can run out to Costco and get something that I might need that day.

Most people are not prepared for any type of emergency or outage. Whether it be power, unable to get out of town for any particular reason or even out of their neighborhood in case of something, a natural disaster of some sort. We never know when something's going to come up. Last year here in Dallas, we had this big ice storm which shut down the city for days. We could get out and around but it wasn't particularly safe driving around in the icy roads. Better to be a little bit prepared. I got an article up on the website, "10 must have items for emergency survival" that you're going to want to check out.

And at a minimum, according to the Red Cross, we should have a few days' worth of food and water on hand in case of a storm or anything like that. A lot of little things that we should be prepared for, hey, don't put off that stuff. don't put it off for another day, it's not expensive to prepare and we should all have some basic supplies on hand in case these things do crop up because at some point they do end up cropping up. Now, back to your questions.

Aron is 19 years old and wants to know what the best way to invest money is? So if you start Googling for investment advice, you'll get as many different answers as there are people answering them, what is the best way, is it gold? Real estate? Drips? ETF's? High commission front loaded mutual funds? Gold? It's actually gold. No, no it's not gold. Gold is a stupid investment.

Everyone has their own idea and yes you can find some very wealthy people that have made some money in ways that most financial planners and financial experts would not tell you to follow, there are exceptions to the rule. Well let's start with the basics for a 19 year old. If you have any consumer debt, pay it off. Credit cards, school loans, car loans, those types of debts will play a major role in your financial well being in your life if you have the burden of carrying them for years or even decades.

You'll hear a lot of people say, "Well yeah, but I can make 10% in the market, my student loan's only 5%." Well bully for you pal. If you don't have any debts, you can do whatever you want in life whenever you want. When you have bills to pay to the banks, you can't. End of story. I will take freedom over debt any day. Freedom doesn't have a monthly payment or require me to work in a job I hate.

Investing the stock market at your age is good for retirement planning. Yeah, it's a goat's age away but if you stock way enough money now, the next 10 years, you won't have to ever invest again, due to the amazing power of compound interest. Invest in your education at this time in your life too. Education can help your income prospects over the long term if you pick a good field.

Spending four years to get a degree in art, not a great idea unless you plan on becoming a college professor and teaching art. Sorry artists but a $60,000 grade to open a pottery shop usually doesn't pan out. But as always, if it has worked for you, please drop me a line and tell me so I can share your success with others, I will celebrate your wins with you.

Don't invest in a nice car because a car is not an investment, it's a depreciating asset that doesn't generate wealth. Cars are just transportation to a job that does build wealth, avoid a car payment. The most successful investor in the world is Warren Buffett. If he weren't busy giving away his fortunes, he would be the richest man in the world. If you want to be rich like Warren Buffett, you have to spend all your time investing, researching and making that your entire life.

For us normal people, not how I want to spend my time. Now those times in my life where I tried it as a hobby, I failed miserably. Buffet suggest that normal people like you and I, we put our money in some type of index fund and invest gradually over time without trying to time the market or beat the market. You can YouTube him and listen to his investment advice. Thanks for the question Aron and good luck.

Cat writes:

[0:14:49.1]C: "We've perched so hard to save and minimize daily living cost that now we're struggling with spending money on our kitchen that is needed to be remodel since we moved in. We've already saved the money over the past several years, $21,000 waiting to be used in some improvement fashion. Our cabinet doors are literally falling off in our hands, our hardwood floor is bare wood and several boards are broken.

We bought the house knowing it needed work in several areas and over the years we've spent money on new HVAC, plumbing, electrical, windows, insulation, et cetera. All the things one cannot see immediately. We did all these repairs while minimizing our lifestyle and paying down debts. Our cars are paid off, my husband bikes to work, we have no landline, we've never had cable, we also have investments and retirements that we pay toward.

We also most likely use a home improvements store, and a financing options of 18 to 24 months just to have a pad of time and keep our saved money for the project versus losing all that money once into the project. I thought that fact would make it easier to make the decision to start the kitchen improvement but I'm still struggling. We ended up paying off my remaining $17,000 in student loans in five months. Every last dollar we could find went to that loan. I've got the bug, I want a mortgage burning party."

[0:16:11.2] ST: So $17,000 in five months. Boom! That is super impressive. So congrats on knocking that out so fast. That is an inspiration to everyone. Cat also sent me in a spreadsheet that I could look which is very well put together. Now you guys have done so well at paying off the debt, get all your ducks in a row. Hey, don't feel guilty about letting loose, loose the reigns, best in your house, let you want to buy a new car, you're putting money to something that will go up in value.

And it's a good feeling to come home to a place you enjoy seeing and spending time and where you can open the cabinet doors and they don't fall off in your hands. Since you can afford it, go for it guilt free. It's unusual for someone first to invest in energy efficiency, like you guys did, and address the cosmetics later. Most people do the opposite. Then they're stuck with higher utility bills for as long as they own the home. Me, I prefer your approach. Take care of the insulation, the windows, HVAC upgrades, that'll allow you to have more money in the long run. It's not sexy but hey, it saves money.

Especially if you plan on staying in the home for 10 or more years, that's one of the pay back on a lot of those efficiency costs hits. I go to the home improvement store every few months. If you're starting a project, you might end up being there every day of the week or multiple times in the weekend. Now, what is one thing you will never see outside of a home improvement store? You will never see a fleet of contractor trucks that say "Home Depot" or "Lowes". They're not out there.

Why is that? Home improvement stores, they're acting as a middle man for any home improvement service that you want. When you have a middle man, you usually have a middle man mark up. You pay more, Joe's flooring is the local guy who handles the Home Depot calls when someone wants a new carpet or hardwood to put in. If you call Joe directly, you probably get a better deal.

I'm not saying you'll always get a better deal but I would do some comparison shopping, get at least three quotes for everything. Where do you find good contractors? Well everyone knows someone who flips houses or buys foreclosures or know someone who know someone who flips houses or buys foreclosures. And if you don't, it's easy to find some online forum with people in your area who renovate homes.

You want to find those people and get the recommendations of the contractors that they use over and over. Those are the contractors you want to get quotes from, the ones that get repeat business from people that renovate houses for a living.

That's what we did when we got our hardwood floors installed. I contacted a friend that buys, fixes up and sells foreclosures and I said, "Hey, do you know a hardwood floor installer?" He said, "Yeah, here's his info. I use him all the time."

That contractor gave me a bid that was $3,000 less than compared to another company that we found in a business directory. That $3,000 was before I negotiated an even lower price by paying for the working cash, paid 50% down and 50% when the job was done. You got to remember, negotiate, negotiate, negotiate. Do you run the risk of paying in cash? Yup you do. Contractors that can take your deposits, they can go out of business, not finish the job, disappear, is it worth the risk? Yeah, it is in my opinion.

Now, if you're talking $100,000 home renovation, yeah, maybe that's a bit different. I wouldn't give a $50,000 cash deposit. But if you have four to five milestones along the way, your payments are going to be less and if you're doing $100,000 renovation, you're likely you've got some financing in there in which case the bank is going to control the payment distribution. That's not your case though. Your deposit, just cover the materials.

At least if something happens to the contractor and they can't finish the job, you have your materials at your home, you haven't lost everything. If you're replacing just floors and cabinets, you don't have to do them at the same time. You get the floors put in, six or 12 months later, you do the cabinets or vice versa. I don't know what your cabinets look like but sometimes you can replace the doors only, have things look nicer, tons of different options.

And one thing people may not know, you know who else sells cabinets? Costco. Every time you leave the store, they've got all these booths set up, they've got the big displays and you can go look at their website, they've got semi-custom cabinets. If you're in to do it yourself projects, you can order semi-custom cabinets, install them yourself or just hire a carpenter and install them for you.

Think outside the box on options and how you can get this project done for less. You'll have a nice looking home, you'll save money in the process. Thanks Cat for the question. $17,000 in five months, Nation this is a couple that's on fire to burn their debts. This is an example of what it takes to get ahead in life. Nice work Cat.

Okay, quick break, back in 30 seconds and I'll be answering more of your questions, you're listening to Scott Alan Turner.

[BREAK]

[0:31:24] ST: Hey nation, Scott Alan Turner here. Now for those of you that are my long time listeners, you know I'm not one of those guys in the radio who promotes every product that shows up on their desk. You're never going to hear me try to get you to buy snow plowing service from some company in Florida or recommending to buy neck ties from some company in Little Rock, Arkansas. No, I have a name to uphold to you my wonderful listeners.

If I were, if I were to recommend something to you, I would tell you about Helium. Helium if you don't remember from high school chemistry class is a rare earth element and we're running out of it, which means the price of helium is set to take off like a hot air balloon. Helium is going to be worth more per ounce than the price of gold. You can buy helium today at any flower shop or grocery store, store it in the attic in those balloons they give you and watch your investments rise. Tell them Scott Alan Turner sent you.

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[0:22:16.1] ST: Welcome back Nation. Amanda asks:

[0:22:18.2]A: "What are some good tips for raising kids to be smart with money?"

[0:22:21.6] ST: All of us need to learn to have conversations about money with kids because those rug rats are always watching us and imitating what we do. Even if you don't have kids. I was an uncle before I ever had kids. You have friends that have kids, you will at some point in the next month come in contact with a kid and they are watching with their beady little eyes and listening to what you say, so make sure you don't swear around them.

When mom and dad are talking about money and the household finances, they are listening. When we go into the grocery store and your daughter asks you for Captain Crunch with a toy game inside and you say, "No, we can't afford that," they're listening. When you're talking on the phone to your sister about how you spend too much money last night when you went out to eat and the bills keep piling up, they are listening. Listening and learning.

These kids are going to be running the country some day and taking care of us when we're in the old folk's home. Teaching them valuable lessons about money will benefit them and it will benefit us. So we want to make sure the messages they're hearing from us are the right messages, which is why we should give them an iPad with a subscription to the show. That starts when they're about one and a half and some of you are thinking, "Woah, one and a half!" Yeah, one and a half.

When a toddler is one and a half, they can learn to pick up their toys and put them away, they start learning responsibility, they start learning their consequences for their actions. You make a quick mess, the consequence is, you have to pick it up. You don't pick it up, there are more severe consequences. Two years old, sharing and giving; two highly desirable traits in a good human being. You get up to four and five, rewards for doing things around the house.

Getting older, it's time to introduce them to an allowance for doing jobs and chores around the house. Some chores you do because you are a contributing member of the family, some you get paid to do so your kids equate working with earning money. There are no free handouts, there will be no sense of entitlement, that just because you are born, you get stuff for free. They can earn money or on the house and start learning how to buy things at the store. The value of a dollar will become engrained to them.

My parents always taught me to save some of my money. Now I never wanted to but they made me and I did. So I bought lots of candy. It was a valuable lesson because it help me pay for part of my college education, not the candy, the saving. They also taught me to work, I've been working since I was 10, if you want to teach your teenagers some valuable skills and life lessons, help them find a job.

And watch their sadness as they get their paycheck and see how much they lose in social security payments, depending on how much they make or how they filled out their W2. That's a lesson for everyone. Go look at your paycheck when you get a chance or when you get the next one and check out social security. Then double it because your employer pays the exact amount on your behalf, it is a Ponzi scheme. See, you didn't know that did you? We're going off in a tangent because social security is such a rip off that I hate.

If you're a household income is a hundred thousand dollars, you'll pay $6,200 on social security, 6.2% shows up as FICA on your pay stub. But, your employer also pays $6,200 into social security. It's part of your salary or your hourly wages that you never see. That's why it's a rip off, they hide that information from you because can you imagine if you made $100,000 and saw that $15,000 a year was going towards social insecurity, that's 50% of your income you need to save for retirement right there to become a millionaire.

You wouldn't even need a 401(k) or hardly any other retirement investments if you could get your hands on all that social security money. But do you think for one second you're going to get a million dollars from the Imperial Federal Government. No way Jose, that's why we need to teach our kids to save, save, save and why as adults need to save, save, save. All right, back to the question.

[0:26:38.7]ST: Another tip, having kids help pay the bills, give them an opportunity to fill out the check for the electric bill. Not to forge a name but they can fill in a date, they can fill the amount and they could say we're paying $290 for electricity this month. My allowance is $6 a week, wow, I would have to save for almost a year just to pay this one bill. Maybe I'll go turn the light switch off.

When you go in the store, pay with cash, let them hand it over to the clerk. See how much food costs. Now, when they get a cardboard box or a tennis ball for their birthday, hey, they won't complain. They will complain but they'll know why. Because you showed them where your money is going to pay the bills. That there isn't any extra and that's that. If you have teenagers, put them to work if they want stuff.

They can earn money to pay for their non-essentials. Thank you Amanda for the question.

[0:27:32.7] ST: When did you start being bad with money? Most of us didn't start out in the hole but you may have ended up there and may still be there. You didn't know about interest rates, I didn't. You didn't know about taking out more loans than you could afford. I didn't.

You didn't know what you could afford, I didn't. You didn't plan ahead, I didn't. You didn't ask for advice, I didn't. You didn't understand how to control money instead of letting money control you. You didn't know what you didn't know and that's why I do this show here so you do know. Now, if you're making the same decisions, you probably haven't found goals that inspire you to change. Once you find the inspiration, the change will follow. Those are the words.

Hey, can you do me a favor please take 30 seconds right now and text three of your friends the link GetFR.com and tell them to check out the show. I really appreciate you guys listening, I would love it if you could help me spread the word. Super simple, just text GetRR.com and tell them how awesome my cats are and that the advice is okay too.

Next time on the show, are you falling for this marketing trick? You might be and if you are, it's costing you money. That's it for this episode, I'm your host Scott Alan Turner, Rock star Katie is my producer. All links mentioned in the show are available in the show notes on Scottalanturner.com. Today's episode is powered by Ben and Jerry's ice cream. Thanks for listening. You rock.

[0:29:08.6]ANNOUNCER: Okay nation, for your free copy of the guide, "How to save $1,000 in one week", simply subscribe to the podcast right now on iTunes and text the word "saving" to the number 33444 to prove that you did it. Subscribe now to get out of debt, save more money and retire early. See you next time.

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