Here's Why You Don't Want A Tax Refund

[0:00:12.0] 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 can't stand silence. [Silence] On the show today we'll be answering your questions about money, business and life.

Nation, I have a plea for you. Now I don't ask for much other than you listen, private plea. That music that you just heard is terrible, it is terrible but we don't' have the big bucks to go out and ask Foo Fighters to license their music. We don't have the big bucks to go out and ask Linkin Park to license their music for the intro. We certainly can't afford Metallica. But with your help, if you just share this show with a few of your friends, we can get more listeners, the show can grow.

Someday, someone is going to come in and say, "Here's a bunch of money Turner. Boom, to do the show in order to promote it everywhere across the world," and then we've got all the resources to go out and ask Foo Fighters and license their music. Someday we're going to get to that point but the sooner we get there, the sooner you guys can quit listening to that garbage at the beginning, we can get some real music.

Okay, I'm going to spend a few minutes showing you a simple tax tip that will put hundreds of dollars in your wallet each month. According to the IRS in 2014, the average tax refund was $3,034. If you get a tax refund, you are giving the government an interest free loan. Since the average refund is $3,034, a bunch of yawl are doing it. You're getting ripped off! That comes out to $252 each month people are loaning the government interest free. That's $252 each month you could have in your wallet to do something else with.

If you took that money every month, put it in the Roth IRA earning around 10%, 10 years you'd have about $50 grand and in 35 years or so you'd have a million dollars, tax free. You don't want to get a big refund, you don't want to owe any money but you really don't want to get a big refund. If you're getting a big refund, you're letting the government borrow your money, interest free. Wouldn't you rather have the extra money each month in your paycheck instead?

Now, you wouldn't give me a free interest free loan. If I said, "Hey everybody, send me $3,000 right now and I'll give it back to you in 12 months with no interest." You would say, "You're an idiot Turner," but that's what you're doing, that is what you're doing. It's one of those things you don't want to procrastinate about, your next paycheck coming up soon. It's not that hard to figure out.

By taking about 20 minutes, you can get an estimate of how much you owe, can save by using the withholding calculator at IRS.gov. Once you used that withholding calculator, you'll need to fill out a new W4 with your employer to have the correct amount withheld from your paycheck. Now you already fill out a W4 when you started working wherever you are currently employed, if you're not a contractor.

It's time to fill a new one. Start keeping your money, that's all there is to it. You tell the employer you want them to take fewer taxes out of your paycheck each week. If you do this, you will no longer be overpaying each week on your taxes. You'll have more take home cash, buy your next paycheck if you adjust your withholding properly today.

Don't give the government a $3,000 tax free loan. You may want to check with your local tax preparer to determine any adjustments you need to make to your W4, because you don't want to underpay either. Now, onto your questions. Dana says:

[0:03:54.9] D: "I heard you talking about preventing identity theft and how you should use a security freeze. I've heard some people say freezing your credit isn't the best way to prevent someone from stealing your identity because thieves can still take out credit in your name. Is that true?"

[0:04:10.0] ST: Now you're referring to show number 29 where we talked about the best way to prevent identity theft and putting a security freeze on your account and not using one of those garbage yearly services or monthly services that you're paying big bucks for, that we're not going to get into all the issues. So, does a security freeze guarantee that you will not be the victim of identity theft? No, it does not.

A security freeze is going to help prevent a potential identity thief from opening most of the new accounts in your name. It's not going to prevent every type of identity theft out there. For example, if someone steals your existing credit card, you go to a store restaurant, they swipe your credit card number and they go out and run up a bunch of charges. Happened to me a couple of times, and it actually happened twice last year. Had to have my credit card changed twice.

So in that case no, it's not going to prevent that type of theft but you're protected in that case from fraud by the credit card company. Also such things as your cell phone service, different bank accounts which may not require a credit check depending on the bank. Most of them do a credit check now. If there's already identity theft going on that's already been taking place while you put this security freezes on your account? Then no, it cannot prevent that either.

Now while a security freeze may not prevent every type of fraud, it will protect you from the vast majority of identity thefts such as opening new lines of credit. In these paid for services that I'd referred to in the past, they can't provide that level of protection either for every type of security identity theft. It says that on their websites as well. But the best protection is still freezing your credit, there's nothing better that you can do. Thanks Dana for the question.

David is up next. He says:

[0:06:10.7] ST: "I got laid off from my job and now I'm struggling to make mortgage payments, I'm a single parent with one child in elementary school and the job was my only income. I missed one mortgage payment and I'm worried I might miss another one, what are my options?"

[0:06:22.1] ST: Sorry to hear about your jobless David. In general, there are a lot of options if you're in foreclosure, if you're falling behind on payments or you think you might be in danger of a foreclosure. Now which options are available to you depend on how far you are alone in the situation, but no matter where you are, you want to review all of your options first and you don't want to delay so you're being proactive and that's a good thing.

First you want to figure out what your options are and then you want to call up your lender. If you don't know what your options are, call the lender, the person hanging on to the loan and explain the situation and have them explain the options to you. You don't want to wait to call. If you lost a job yesterday, you have no savings, you make the call today. You don't wait until you miss two mortgage payments, three mortgage payments, four mortgage payments.

If you're behind on the mortgage payments, if you're worried about how you're going to make the next one already, you want to check out the following website, makinghomeaffordable.gov. Link will be in the show notes, they have a modification program, this is exactly what this program was setup for, people who have lost jobs based on the economy situation.

There's an easy way to figure out if you qualify for a loan modification, you just visit that website, there's a self-assessment test, you walk through. You'll need to have a loan that is owned by one of the two giant mortgage clearing houses in our country in order to take advantage of that program; Fannie Mae or Freddie Mac and the numbers for those are 800-7fannie and for Freddie that's 800-Freddie. They're open from 8 to 8 eastern and you could figure out if they are maintaining the loan that you have.

A lot of times the lenders who have given out these loans, you've got a situation, they'll write down the interest on the loans if you qualify for those. Now, there's a couple of situations under which you might qualify. The first is you can refinance if you're current on your mortgage, if you have no equity in your home. Now under the second program you get a loan modification under the case where you are behind on your loan.

The dates keep changing every other and keep extending this program but right now you have until December 31st 2016 to apply and leave the deadline and at the end of the year they may extend that to 2017 as well. If you're already behind them on your payments, you can check out the Home Affordable Unemployment Program, it's called UP. That can reduce or suspend your payments for up to 12 months if you're unemployed and have some criteria you have to meet to see if you're eligible for that.

For example that you're struggling to make your mortgage payments because you're unemployed. If you are already behind on your mortgage payments, if you're delinquent, if you're in danger of falling behind when your mortgage was obtained, outstanding balance on your mortgage, so there are different criteria for those but you visit that website, you'll see the checklist that you can go through, figure out the requirements and again, don't delay. Thanks for the question David.

Anastasia from Miami, Jovan from Gladewater Texas, thanks for subscribing. If you want a shout out in the show, send me a screenshot showing you subscribed along with your email, name and where you're from. Get your name heard by five, sometimes six people and my two cats.

[BREAK]

[0:09:54.0] ST: Alright so we are out living at the lake this past year, internets bad out there, this is rural. If you know about Internet speeds, 1.5 down, 500 meg up or vice versa. I don't remember which one goes first but that's bad, that's slow. Especially when trying to work, can't upload anything at that speed. Then when you get two people in the house and your wife is trying to watch The Originals and you're trying to work, that doesn't work.

So I had to go out and get an AT&T hotspot, which works on the cellular network out there way faster but also way expensive. $130 bucks a month for that hotspot which is insane so I use it just for the few months we're out there, unloaded it as quickly as possible, made sure I got the month to month plan and then sold it on eBay as soon as we moved back to the city. Now, there's this thing, Facebook ads finally paid off, they should be something that was interesting called Karma Mobility.

$50 bucks a month and you can get online as much as you need, there's no data caps, cancel any time, speeds up to five megs and you get three personal devices online at a time. I'm still waiting for mine, I ordered it several weeks ago. I think everybody else saw the Facebook ad and they're just out of stock so I'm very excited to get that and try it out. The plan I got was —- trying to think, I bought the device and I think its $14 bucks and the data never expires. So I'm interested in trying that out.

And the device works out at the lake so I'm pretty sure it's running on the AT&T network but the cool thing, you go to their website, Karma Mobility, you enter in your physical address and it will overlay the map with this green colors showing you whether the cell phone power, tower is good or bad in the area.

If you're in a rural area, if you travel, if you aren't streaming HD movies at your home, if you just will use the Internet for surfing, email, light use, really, check this out as an alternative to a hardwired connection in your house. This is the device you can take anywhere with you. You just gotta watch your data. If you get on the unlimited plan for $50 bucks a month, that's kind of comparable to what you would get in a cheap Internet service.

Again, it's working on the cellular networks so the coverage, sorry, the speeds are probably going to be variable. If everybody hops on at five pm and start streaming videos over cellular, you're going to degrade the quality of your connection a little bit but rural area, it's something to consider if you are not a big Internet user. Alright, back to your questions. Leo says:

[0:12:33] L: "I'm not a fan of the way Mint — Mint.com — handles annual expenses and I think I may be better to track that on my own. Sure I will lose some tracking ability and fancy pie charts but I can live with that. I'm wanna make sure this method of tracking is not complicated or taboo. I plan on funding a hidden from budgets and trends bank account to separate this money from my monthly expenses. Would you advise for or against saving monthly for annual expenses?"

[0:13:00.9] ST: Oh yeah, you absolutely have to save for annual or semi-annual expenses otherwise you blow up your budget. Car insurance, pay that once a year, Christmas presents because Christmas comes every year, the big vacation, you get your car registration, homeowners association dues, if you've got those, your yearly membership, on and on and on. There's a lot of stuff that has annual fees that comes once a year that you've got to carve out and set aside money for.

When you're saving for annual expenses, that money goes in what's called a sinking fund. That's a fancy name for a place you set aside money periodically for an upcoming payment of some sort. The technical definition or the definition I found online of a sinking fund is "a fund formed by periodically setting aside money for the gradual repayment of a debt or a placement of a wasting asset." Yeah, that's kind of overkill for the name, it's just a fund that you set aside that you're going to use money later on for. You can use —- stick it on an envelope if you want.

But let's say car insurance that you might pay once a year because when you pay car insurance once a year, you will not have to pay the one or two or three dollars surcharge they charge you if you pay it monthly so you save money. You got two cars, pay $1,200 bucks a year, that's a $100 a month you have to save up, you set aside the $100 a month in your car insurance in sinking fund. Then when the bill comes due, the money's available.

You pick where to put your money. I leave mine in my main checking account, that is a bad idea for some people because they think, "Oh I have extra money in my checking account, I can spend it." I've learned extra money in my checking account doesn't mean I have extra money. I just leave it there and eventually get spent on a proper bills. So I'm not tempted to spend it. You can create a second savings account that you move all of your sinking fund balances into.

If you use an online bank, CapitalOne for example, you're going to set up 10 separate savings accounts if you want for free. You just go through, set them up, you can set them all up within 30 seconds. You can treat each of those as a separate sinking fund if that makes sense for you so you put money into your car insurance savings fund at the beginning of the month when you're working on your budget. If it's a small fund like Christmas presents or gifts, I suggest you just pull out the cash each month and stick it in an envelope in your kitchen drawer.

The important thing is to track it and keep it separate somehow. Physical cash in envelopes works using your budgeting tool works. In Mint you create a budget item that occurs what's called "every few months", then you input that you spend $1,200 every 12 months. In the Mint budget you'll see the amount growing each month, $100 in January, $200 in February, $300 in March, et cetera, et cetera until you pay the bill.

The physical money is just going to sit in your checking account. Don't spend it. It might look like there's an extra thousand bucks there in October but your Mint budget will show you it's for a car insurance due in December. Depending on how and when you create your budget, you might have some big negatives showing, it's going to be scary. For example of the insurance is due February, $1,200 and you create the budget now, March to December, the budget is going to show going negative each month. What I did in that case, I just delete the budget item when I make the bill and I start over.

Now, something similar is an opportunity fund. Let's say your best friend from college is coming to town next week for unexpected business trip and Metallica is playing a big festival a couple of hours away. They want you to pack your bags, do a quick road trip, jump into the mosh pit like you did back in college. Well opportunity funds lets you use extra money, you set aside for unexpected opportunities.

The opportunity fund is 100% discretionary whereas your emergency funds or you're sinking funds, they are not. You might find a TV that's on sale, an investment opportunity, a weekend getaway like the one I just mentioned. You've got the cash, do it but it's the last on the priority list of your expenses. Thanks Leo for the question.

Steve ask:

[0:17:05.9] S: "The largest part of our retirement portfolio has grown to $340,000. Seems like a good idea to sell $40,000 off and put it in a money market for a rainy day and/or a motorhome or travel. It just seems like when the market takes off to the sky, we ought to snatch a little benefit from it before it goes back down."

[0:17:25.0] ST: Yeah, you're right Steve for any type of short term savings defined as money needed in the next five years, best place is to put it in an online bank like Ally where you'll earn 1% which is about the best you can get right now. If you think you're going to be spending $40 grand in the next five years, yes, I would pull it out and set it aside.

Especially you have some gains, that way you don't lose them by waiting around for the next 12, 24 months. Note, you will be taxed on any gains you have. So if you hold some losers in your portfolio, sell those, take the loss on your taxes. It's always a worth a call to your tax person to see what will save you the most money. Thanks Steve for the question.

[0:18:10.5] ST: Okay, quick break, back in 30 seconds, I'll be answering more of your questions, you're listening to Scott Alan Turner.

[BREAK]

[0:18:15] ST: Hey nation, Scott Alan Turner here. Who else would it be? 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 trying to get you buy an expensive name brand memory foam mattress, cuz the Novaform from Costco is best. Or recommending you buy New York style pizza when Chicago style is clearly the best — Lou Malnati's, I'm coming for you in June! No, I have a name to uphold to you my Rock star listeners.

But if I were to recommend something to you, I would tell you about The Dancing Pony Steakhouse. Can't get enough of that flowering onion appetizer. What about that honey wheat bread? So delicious! Forget paleo. And that chocolate volcano for dessert is to dess-ie for. Steaks, they're okay too.

Next time you're hungry and looking for a place to celebrate, visit The Dancing Pony, it's not only a great place to eat, each location has a tiny inn above if you stuffed or you want to spend the night. Give them a ring and tell them Scott Alan Turner sent you.

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[0:19:18.9] ST: Welcome back Nation, Lisa left me a voicemail, let's have a listen.

[0:19:25.6] L: "Hi Scott. My name is Lisa. My question is about retirement. My husband and I probably will have to work until we leave this earth because of financial situations throughout our lifetime, just life. We're fast approaching "official retirement age". He's 61 and I'm 59. I would like to know your best advice for — we have no savings, it just looks really dire right now.

So I would like to know your best advice on how to at least put something away, or how to save or what little side hustle we should do? We both work nine to five jobs and I'm really tired of working. I've worked since I was 16 years old and him as well. But like I said because of circumstances, different things happen in life and we've not rolled over any of our savings, any of our 401(k)'s and right now neither one of our jobs even have a 401(k). No pensions, I'm just really stressed. Could you please —"

[0:20:42.4] ST: Sorry, the voicemail got cut off there. Now around half of American households have no retirement accounts at all, they have no 401(k), no 403(b), no 457 plans, no traditional Roth IRA or Roth IRA. They have no nothing. Now you might think half the people have a pension waiting for them? No, sorry, wrong again. According to the government accountability office, the GAO, around 29% of households age 55 and older have no retirement savings. Not good.

What about homes? That's an asset. Well, producer Katie, the stat master has the census bureau showing the people age 55 to 64 have $45 grand equity for their home. Considering the average home price is $190,000 that means most people have negative net worth. It is a very bleak situation. Most people are finding they'll have to work longer and retire later. If you are younger, listen very closely to what you and I discuss on every show.

When you listen to Lisa, what are you hearing? Really, the vast majority of us, we're just one medical emergency away from a dire financial situation. I'll tell you a story my financial planner told me. He had a client, had several million dollars in savings, that's a lot. He was retired. Either he or his mom got sick, not him but someone in his family got sick — his wife is what I meant. His wife or his mother.

And they had to go into 24 hour care in a nursing home for the remainder of her life. Well they didn't have long term care insurance and he had to pay out of pocket for that care. It cost him over one million dollars for that care. One million dollars to take care of that elderly person. Now, if you're retirement age, is it all gloom and doom if you have no savings? No, no, no, no. Not at all.

I talked about my mom before. She lives off social security, she is in a low income retirement housing community, she's never owned a home in her life, happy as a clam. Now why is that so? Because she has her family and her friends. Those are the most important things to her in her life. Her entire apartment is smaller than my living room, but she's 'happy. She loves the grandkids, she loves seeing us kids when we visit. She hates to fly though. I offered to fly her to Massachusetts, pick her up and fly her back down with me to visit. No. She doesn't want to.

You can survive on social security and be happy. You do have to scale back your lifestyle to the bone. You won't be traveling, you won't be buying new cars, you won't have fancy clothes, you won't be eating out a lot. You may not be able to own your home, you may have to rent a cheap place like my mom does. I'm pretty sure you won't be living in an expensive city, you're not going to be in downtown Manhattan or in New York or downtown Boston.

My dad who I've also mentioned on the show before, he worked until he no longer physically could. He had a pension but he just enjoyed working at the trash transportation on Tuesdays and Saturdays. Gave him something to do. If you're younger, you might be banking on making up for any retirement gap by working longer and retiring later. Keep in mind, if you work for someone else, your boss may have other ideas. It's very risky to assume you'll have your current job forever so consider that scenario.

Much better to start saving as early as you can, then you can work if you want to not because you have to. You do want to take a hard look at your housing situation. If you own a home, the upkeep, maintenance, taxes, insurance of home ownership. That is a significant source of expenses. The last apartment my parents rented was $675 a month, that's pretty cheap considering the average monthly social security benefits are $1,294. Their rent would have taken up 50% of their monthly income, which is way too high in that scenario.

So you're probably going to have to keep working, so try to find something you really enjoy. Our occasional baby sitter, she is in around 70, recently divorced, has a full time job as a live in nanny. She loves kids so it's a good fit for her but she still has to work. Mother in law also passed retirement age, she works four days a week as an office worker, she enjoys the people she works with and it gives her some additional money.

Now, there are employers out there willing to hire experienced workers. Doing something you enjoy part time will help with extra income and will give you purpose in retirement. Both are important. As a side note, as a small business owner, I would much rather hire an older person that has their kids out of the house, depending on the job I wanted to fill. So I'm a reverse age discriminator but I'm not hiring anyone right now so I can say that. No one could sue me.

I'm sure I will get sued some year from now by some young person who I didn't hire, "Listen to this, he said he prefers old people." I would like that person to know right now, the reason you didn't get hired is because the older candidate was much more qualified and because of that spelling mistake on your resume.

Medical cost, they're a burden of everyone regardless of age but if you're on a fixed income, trips to the doctor, prescriptions, hospital visits, they're big blows to your purse. Try to stay healthy as you get age. Exercise, my mom walks a lot and it keeps her healthy and cuts down on you getting sick which will save you more money.

[BREAK]

[0:26:18.6] ST: Finally, “dire” is a state of mind, as is overwhelm and stress. I’m not arguing or dismissing your feelings Lisa but I want to remind you that you live in a great country, you live in a first world country, you have your health, you have a husband, you love each other, you both have jobs. You have a roof over your head, you have clothes, food and transportation. You have opportunity and sitting on top of all those things you have the courage to ask for help and to not give up.

There is no reason you can’t make these the best years of your life. Find joy in knowing each day you’ve been given another day and make the best of it. Thank you Lisa for the question. There’s no rocket science to any of this personal finance stuff. You don’t need a college education to build wealth. You don’t even need a college education. There’s just a few basic rules; spend less than you earn, save early and save often, avoid the debt like the plague, be a boring investor, set goals and work towards them.

I guess I just talked myself right out of the show there, we’re all done. As my two year old says, “All done.” You can quit listening now, we’re all done. Just kidding, please do listen because we’re having fun here. Overthinking makes you worry and just makes everything much worse than it actually is. Keep it simple and you’ll be fine. Those are the words.

If you have a money related question you like answered, please visit goaskscott.com to get in touch with me, that website has my email address, Twitter, you can also leave me a voicemail. Please contact me, I am here to help you. Next time on the show, how to save a thousand dollars on your next car purchase. That’s it for this episode, I’m your host Scott Alan Turner. Rock star Katie is my producer, all the links mentioned on the show are available on the show notes at Scottalanturner.com. Today’s episode is powered by Ben and Jerry’s ice cream. Thanks for listening, we’re done.

[0:28:07.5] 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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