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Taylor Paid Off $82,000 In Debt

Scott A. T.: Broadcasting from One Dallas Tower, this is Scott Alan Turner,, financial rockstar and high priest of the church of the financial truth. Here to help you get out of debt faster, save more money, and retire rich. In the studio with me is producer Katie, who wishes more afternoons could be spent binge watching shows on Netflix. Don't we all? On the show today we have general questions about money, business and life. If you have a question you would like answered on the show, just visit goaskscott.com. Let's go right into some of your questions.

Katie: DJ from Union City, California. I just refinanced my home for a new thirty year fixed term, at 3.375 percent. Some of my friends are saying that getting a thirty year fixed wasn't the smartest decisions I could have made. My question is, how would one go about choosing a mortgage product between a fixed term and an ARM? I always thought that going with an ARM was a gamble. On one hand, I would be getting a much better rate today, but there's no guarantee that I'll be able to keep this, or a similar rate down the road when I'll be refinancing again. On the other hand, if I go with a fixed term, I am locked in for the next fifteen, twenty, or thirty years, and I can have peace of mind. What are your thoughts on the subject? Also, do you have a way of comparing the break even point between the mentioned products?

Scott A. T.: All right, DJ. Glad you inquired. I am not sure why your friends would say this was not a smart decision. Maybe they're comparing it to a fifteen or twenty or twenty-five year loan. Interest rates now, it's almost free money. It is so low that the interest you're paying on the loan, it's nothing. It's almost nothing, so for a thirty year fixed, compared to what you get in an ARM, and I'm going to compare this to a five one ARM, just an example, with interest rates so low, the difference is so minute, it makes zero sense to do an ARM versus a thirty year fixed. Especially when you consider an ARM, if you go with the five one ARM, we don't know what interest rates are going to be in five years. Everyone's saying, "They're going to go up, they're going to go up!" they'd have been saying for the past four or five years.

They're going to go up in the future, yes, and maybe ten years down the road, if you had a five one ARM and were still in it, you could be paying four, five percent if you didn't refinance, but the thirty year fix is such a steal. I'll give you a on bankrate.com they've got a loan comparison calculator. I just threw in some numbers, you're in California, so I'm just going to assume you're paying huge amounts of money for a loan. I threw in a loan amount of half a million dollars. Five hundred thousand dollar loan at 3.375 percent, which is what you got, thirty years, nothing else. Then I compared it to half million dollars at 3.17 percent, which is what you can get in a five one ARM right now, again, thirty years. The difference between the monthly payment in the two, is fifty dollars, so over the course of a year, six hundred dollars difference. That ain't jack. That ain't jack.

To risk that trivial amount of savings on a thirty year mortgage by hoping that you can refinance for a lower rate in sometime over the next five years, no way. No way, Jose am I doing that. I'm going with a thirty year fixed, one hundred out of one hundred times, a hundred percent of the time. That's a lot different, when I bought my first home, when interest rates were say six and a half percent and the five one ARM was about six percent, that half percent difference, that was a significant amount of money over a course of a year, and over a course of five years, but, me being dumb back then, I didn't know about ARMs versus fixed rate. I should have gone with the fixed rate, had I known then what I do now, but the mentality of my life at that time was, I don't know what I don't know, so I'm going to buy this and then I'll refinance in a couple three years, and hopefully the interest rate will be lower and I'll save more money. That did occur, so it did work out, but interest rates again, they're so low now, and there's so little difference between a thirty-year fixed and a five one ARM, zero sense to go with the five one ARM.

On the other hand, the thirty-year fixed over the fifteen-year fixed, that's a significant difference. That's a significant difference in the interest rates. It looks like half a percent difference, so you can save a lot of more money in interest if you do a fifteen-year fixed compared to a thirty-year fixed, but thirty-year fixed compared to a five one ARM, no way, thirty-year fixed, hundred percent of the time.

Thanks for the question.

Katie: Jasmine says, my husband and I both work for the state, and we are required to contribute ten percent of our pay into our pension plan through the Ohio Public Employee Retirement system. Their traditional plan has an employer match at fourteen percent, but I recently discovered that through the self directed option, we have the opportunity of becoming involved in a self-directed brokerage account through Schwab, where we can select from a variety of mutual funds. This is the option I'm thinking we would want to take, because it would allow our money to earn more. There is also a combined option. What would you advise?

Scott A. T.: This is one of those cases where the answer is: It depends. It depends. If you sat down with a financial planner they would say "It depends." It depends, you got to look at a lot of different things that we really can't cover in just a short amount of time, but I will give you some things to think about.

A, I always say I'm not a fan of pensions, just in general. That comes from looking at how pension plans are run and how underfunded many of them are. You'll be able to dig into the Ohio plan, most pension plans have this information, you can see how funded or unfunded they are, and that helps you assess the risk of, all right, I'm going to stay in this, or do I think they might run out of money somewhere down the road. That's one thing to consider.

Your age, how long you're going to work, is another thing to consider. With the Ohio based plan, you've got the traditional pension plan, which you mentioned, you've got a member directed plan, where you can get into many good index funds, so I picked through some of those, they have very low expenses, so you have some really good options there, and then you've got the combined plan, which is a little bit of pension, a little bit of individual stuff, and then of course you've got the Schwab, which is do what ever you want, access to sixty-five hundred mutual funds.

Just kind of pick through each one, pros and cons of each, kind of give you some direction to look at. Traditional pension plan, all right, you got to work there a long time, they're going to take care of you after you worked there for a certain number of years of service. Looks like they have thirty-years to get the full benefits. If you decide to bail, you're ten, twenty, fifteen, whatever, all right, you're not going to get the full benefits. You got to look at, how long am I going to be at this place, doing this job? The nice thing about the pension plan, is they've got disability benefits, which cost a lot of money if you buy those plans, a private plan. I know, because I have a disability policy and it costs a lot of money. They've also got survivor benefits here as well, so you can use that to take care of your family.

The member directed plan, that's defined contributions. It's going to act like a 401K, 403B, they've got ten target date funds, six core investment options in this, and then you can also go through Schwab. Again, the investments, they're really low fee, they've got some good options in there for you. Is that better or worse, compared to the pension plan? Well you have to look and see what kind of match you're going to get. You didn't include that in your email, I didn't find it here on the website either, so that complaint, are you going to get more money with the match and the pension compared to this member directed plan.

Then you've got the combined plan, which is a little of each, and that combined plan depends on years of service. The nice thing about the combined plan is it does have those disability and survivor benefits in there. The kicker with those are, if you want to access those, then you have to take your defined contribution money, whatever you put in your target day funds, index funds whatever you bought in, you have to put that into the pension, in order to get access to those benefits. That for me was kind of like, well, you know you spend all this time building up your money in the investments that you want to be in, then you get disabled, then you get to take all that money and roll it into the pension. That's kind of the price of doing business if you want to get disability benefits, survivor membership benefits.

Big plus on the member directed plan is that's your money. That is your money, so you put it in, you control it, when you leave that job, you get to keep it, you say, we got so much money in here, we're going to leave it to these heirs. You have total control, you're not relying on the pension plan, whether they change it twenty years in the future, if it's underfunded. I'm not saying it's going to be underfunded, but you've got to consider that as part of your decision making process.

Then you've also got to consider, where are we going to get disability insurance from if we went with this member directed plan. Disability insurance is important. It is really important, because you're more likely to be disabled during your work lifetime than to die early, and when you become disabled and can't earn an income, that is huge. That is something that you've got to consider.

If it's me, I'm probably going to sit down and start busting out a spreadsheet and start plugging in numbers based on, here's our age, here's how long we plan on working, here's what money we can get with the pension plan, versus what if we put money in the member directed plan, what if we do the combined plan, and that's going to be hairy, and it's going to be ugly, and it's probably going to take some time, but it's going to give you a real direction, and real answer, and that's really what you need.

Or, you can go out and find somebody who will work with you, and do this stuff, and look through all this, and plug the numbers in, maybe they've already got a spreadsheet, and that's going to cost you some money. It's probably going to cost several hundred dollars for them to pick through this plan for an hour or a couple hours to come up with a good ballpark estimate on these three different options, and if you go this way this is what's going to happen, and if you go this way this is what you can think about doing, and again, you get more information so you can make a very informed decision.

Thanks for the question. This is Scott Alan Turner.

I saw on Amazon Prime day, I think the only thing we bought was an Amazon Fire stick, that was one of the big specials, Allan L, on Facebook that I made an account with by the new Fire stick, and he had this tip. He says there's an application called Kodi, K-O-D-I, that can be added, it streams any channel any network for free. Then he sent me the document used to set that up. He also says, remember you don't need to subscribe to Amazon Prime to use it, you can put Kodi on a PC or Mac as well to try it out first. I thought it might help with those trying to cut their cable bill. Kodi, K-O-D-I, I'm just the messenger, I don't know if this app is legal or illegal. We haven't set it up on our system yet, actually I haven't even installed the Fire stick yet on our system. That's how busy we've been, but there you go, thanks Allan L For the tip.

Katie: Nicholas. I've been helping my girlfriend get set up for the future financially. She's twenty-four and just graduated college. I got her to sign up for Credit Karma, to see where she is now. She has a student loan and no other credit history. I was going to get her to sign up for a credit card and use it for gas only so her credit history could start building. Since she has a loan, should she do that now or wait until it's paid off? Also, what is the best plan of attack for her loan? When should she look at refinancing to get more paid on the principal?

Scott A. T.: All right. Way to be the good boyfriend, help out the girlfriend with her credit and student loans. Now, some people might say you're a bad boyfriend, because you're wanting her to get a credit card. If you lay out the pros and cons of credit, credit cards, and say, if you go down this path you start shopping like crazy, you're doomed. You're going to doom your future, and laying it out like that, make sure she's following the responsible plan of debt management using credit cards responsibly. Which it sounds like you're doing. We'll just say it's a necessary evil of society. Having a credit score makes life a little bit easier in many situations.

The easiest time to get a credit card is when you're in college, and just after you graduate, because lenders are more than likely to approve your credit. You wait years and years and years, when you then have no credit history, it becomes harder to get a credit card, whereas a college student, for some reason, they say, "Oh, yeah, give those guys credit cards. We know they're going to run up a bunch of debt and we're going to straddle them with those payments for life." Or at least a very long time, and that is where the trouble begins, again, you're avoiding that, but if you just graduated, it's easier to get a credit card than if you wait, so, now would be the right time. Again, making sure we're using those things responsibly.

Student loans, the best plan of attack, if it's a private student loan, you want to go ahead and refinance it as soon as you can to get the lower interest rate. The ability to do that may hinge on your girlfriend's employment, and how much is she making, or does she have a job? Does she have a job, that's going to be the first thing, because if you're trading a high interest rate private student loan for a slightly lower rate private student loan, maybe you wait until the employment history is there, the income history is there, then when you go and apply for these loans, through some of these third party lenders, where you can get the lower interest rate, you may get a lower interest rate because you have the employment history to show and prove.

With the public student loans, federal student loans, they are pros and cons of refinancing those to a lower interest rate. You lose all the perks that come along with them. You can't do income based repayment, IBR, you can't do pay as you earn, or repay any of those federal programs that when you're in a very low income earning years, which your girlfriend would be since she just graduated, you can't take advantage of any of those programs if you go and refinance out with a third party over-rider.

With those, you want to go to the student loan officer at the school and say, "Can you help me out, give me some advice, give me some direction." You can also go to the magical land of the Interweb, consult Dr. Google, just input "Repay versus IBR versus PAYE." Tons of articles, information out there, which will give you some basics to look at. Give you a foundation level of knowledge that when you go and speak to somebody, you'll understand the language that they're talking about, and be able to pick the best option for you. Or, either, your girlfriend, based on her current financial situation, what her employment is, the size of the loans, how long she plans on taking to pay those off, as well as in conjunction with the private loans, so that you're paying down the higher interest rate ones first, preferably, and then you take all that into consideration, make a long term plan to get that debt knocked out.

Thanks, Nicholas for the question.

Katie: Stu says, on one show, I think you mentioned a free identity theft check we can do for our children. I'm having trouble coming up with the right search term to find it on your website. Can you please send me a link to that website?

Scott A. T.: Yes, yes, yes, we did talk about that on the show awhile back. The company is called AllClear, one word, AllClear. Their product is called Child Scan. They, however, have revamped the website, changed things around, so it's not as easy to find anymore. I do know it is still out there because I get the monthly emails that say, "Hey, we've done your scan, everything is good to go." The link in the old show notes is bad. I've got a new link that will be in this show notes. The old link, it doesn't even work anymore.

You'll go to their website, you sign up for this. You've got to watch out, you gotta watch out, because they change stuff around, and by default they want you to sign up for a fifteen dollar a month pro plan. That's the default. There's a basic plan and that's free. You sign up, so you are going to be asked to fill in your social security information, your personal information, that's okay, it's legit. It's secure. It's a legitimate site. Once you sign up, I believe that you can still enroll in that child scan service. Again, I'm still getting notifications, so I'm assuming they're still offering that. It's not real clear on their website, how you go about doing that anymore, but you sign up for that basic, free monitoring service, and you should still have that option to do child scan, where you can monitor your kids, and make sure nobody's up to any funny business on their account.

Thanks, Stu, for the question.

Katie: Casi, I read through your review of the budgeting tools Mint and Every Dollar. My husband and I are making a valiant effort to reduce our debt, and budget ourselves more effectively. We are both teachers and get paid once a month, so it's tough to budget well. If we are willing to pay the $99 per year, would you recommend Every Dollar? I recently downloaded both, but I like the idea of being able to follow Dave Ramsey's baby steps with Every Dollar. What would you suggest?

Scott A. T: All right. Good for you guys. Getting on the spending plan. Personally I find, if you get paid once a month, budgeting is actually once a month, budgeting is actually a lot easier, because then you don't have to worry about the money coming in mid-month, every two weeks, every once a week, whatever it happens to be. Whereas once a month, it's on the first, or at the very end of the month, not sure when US teachers get paid, but then you do all your monthly planning, ahead of time, you do it one time. I just think it's easier, so I wouldn't let that discourage you, even though you're getting paid once a month.

You're going to find as you do this over time, and they'll become a point where you get ahead of your finances, meaning you have enough money so that your living one paycheck, I don't want to say behind or ahead, I'm not sure I'm getting that right, but you'll have a little buffer, we'll call it. One month buffer, one month emergency fund, whatever you want to call it, in your checking account, so the money will already be there for the upcoming month even before your paycheck hits. That's when things get really cool, because then it's just, whoo, take a load off. Take a load off, money's already there, we don't have to worry about when the money comes in, then you're set.

Between the two, I'm going to recommend you start with Every Dollar, for free, don't spend the $99, just use the manual transactions, do everything manually. Do that for thirty days, and just see how you like it, and commit to doing it maybe sixty days, ninety days, that's going to be easiest to see how it goes. It's an easier piece of software to use than Mint. If you're both teachers, you can get by with Every Dollar. I ended up switching back to Mint because it's just got the reporting features I need, and I use those reporting features for doing taxes, because I have business expenses that I need to look at and quantify for the entire year. You're not in that case, so those reports may not be as interesting to you.

Also, I'm just kind of cheap, I've got vouchers I could use for Every Dollar and not have to pay the $99 a year, so I could use it for free, but I decided no. I mean, it doesn't have the features that I would prefer it to have. I'm not willing to spend the $99, and I'm not willing to even use it for free, because it lacks those features, but that's just because of my situation. You're in a different situation, start with that, see how it goes, use it for free, don't pay the $99, just keep it for free, use it for a little while, see how you like it. What the 99 bucks gets you, the auto import of the transactions, if you're running a couple hundred charges through the debit cards, and the credit cards, bills every month, that time savings can be of value, but if you're not, you're on the cash budget, you use that for primarily everything, you don't have all these transactions coming through, doing it manually, it's not a big time killer.

Then, maybe after whatever period of time you decide to use, thirty, sixty, ninety days, try Mint for a month. It will take you twice as long to get the budget set up, twice as long to get everything working in there, and you could try it for a couple weeks, a month, you can keep up with Every Dollar at the same time or just let it lapse, and come back to it, and update if you decide, no, Mint's not for me, we don't like it that much, Every Dollar's way easier, you can go back, spend an afternoon getting Every Dollar all caught up for the month that you missed. Or, if you do them in conjunction at the same time, you won't have to worry about that issue.

There's pros and cons to each, so you really got to try each one, see which one works for you. The biggest knock against Every Dollar, 99 bucks a year, no reporting features. Biggest knock against Mint, not as easy to use, and they don't ever update it. Oh, and the other thing with Every Dollar is I've heard from other people that it does not connect to every account out there. If you do pay the 99 bucks, it may not connect to the bank, credit card, whatever, that you're trying to connect it to.

Thanks for the question.

Back after these amazing words. You're listening to Scott Alan Turner.

Agent Scott Alan Turner here. Now, for those of you that are my long time listeners, all two of you, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy pencils, because who needs to learn how to write anymore, or recommending you listening to Yanni to pump up your workouts. No! I have a name to uphold to you, the Rockstar Nation.

If I were, if I were to recommend something to you, I would tell you about Sweet Potato Skin Cleanser. Never will your skin look so fresh and smell so scenty. It's illegal in nine countries, yep, it's made with real bits of sweet potato, so you know it's good. They've done studies and sixty percent of the time, it works every time. Available everywhere. Tell them, Scott Alan Turner sent you.

Did that guy just say "potata?" Potata? Are we in the south? Potato! Smash em, squash em, put em in a stew. Paul writes I have a 2012 Chevy and a 2015 Honda Civic. 2015 is leased for $384 a month, between the two cars, we've got payments of $710 a month going out. I'd like to free up some cash, so I can pay down my credit card debt. How can I get rid of one of the vehicles and downgrade to a cheaper vehicle without it reflecting negatively on my credit report. Joined a credit union for the purpose of refinancing the Chevy, they want me to get the balance down two grand before they even refinance it. It's excellent condition, valued at ninety-four hundred, I owe eleven seven on the vehicle. I'm involved in upside down loan, work two jobs and my wife works, we bring in decent money, I'd like to tackle the things that are robbing my money.

That is a perfect description. Your cars are robbing you. Most of our cars, robbing us of financial freedom, robbing us of this $710 a month in your case. What would you do with a extra $700 a month? You could do just about anything. You could do just about anything. Well, not anything, but that's a lot of extra money to have on hand. All right, so you got to come up with two grand, we got to get out with that one car, so you got to come up with two grand to get out from under it. What's the quickest way to do that? Sell stuff. Sell lots of stuff. If you haven't sold stuff already, just sell. Dining room table, we don't need a dining room table. We can sit on the floor. You know, whatever, you can do, just sell, sell, sell.

You're working two jobs already, and your wife's working, so you're bringing in some good coin, and you said you were, I got to ask if you're under a written spending plan so you know where that money's going. Probably you're getting there, because if you know where you're car money's going out per month, but take a real hard look at that, a critical look at it, and see if you can just start cutting stuff, and just go crazy for a couple three months. Trim, trim, trim, live to the bone, sell a bunch of stuff, come up with that two grand, so you can get out from that first vehicle.

If it were me, I wouldn't refinance it, I would just unload it. I'd unload it, and take out a loan for something that's cheaper. At that point, you go from having a $11,700 vehicle that you owe money on. Come up with the two grand, pay the difference, unload it, then you go out and take a loan for a couple three grand, and just buy a beater for a while. Then you trade almost $12,000 in debt, for $3,000 in debt, and you've still got a vehicle. That's a good swap. In fact, that's a great swap because that frees up a lot of cash, and that cash, like you said, it can go towards credit card debt. It can get rid of that debt too. Work towards financial freedom, if you can get there.

What about the car lease? You've got a 2015. You can check out getting out of the lease, again, if I were in your shoes, that's what I'd consider. A couple sites you can look at do that. One's called Swap A Lease. Swapalease.com. The other one's called Leasetrader.com. Same deal, you got to get somebody to take over that lease for you, you free up $384 a month, you go to the credit union, say, "I want to borrow another $3,000, for a junker." Remember this is all just temporary. We're fixing the leaks, in the bucket so we can collect some water over the long term.

Then with that $384 a month, you get a $3,000 car, you own the car within ten months. Depending how crazy, aggressive you want to get, you're talking six to twelve months, you don't have a car payment any more. You got two paid for cars. Then if you want a nicer car, later on, you take that $710 a month, once the credit cards get paid off, and you save that up for what, ten months, then you go out and buy a $7,000 car. Actually, it'd be less than that, because you'd trade in your $3,000 car, maybe get two for it, you can go save up five grand, real quick, and you end up paying cash for a good, reliable used vehicle for seven, eight grand. You're not getting robbed anymore. You're not paying money to the bank any more. You don't have a car payment anymore. You start stockpiling cash, and more cash, and more cash, and more cash. Suddenly you're rich, more richer than you've ever been.

That's the plan I'd follow. Thanks for the question, Paul.

Got a note from Taylor. Says, I never mentioned how truly grateful I am for the podcast that you started. I've been listening to your show since last December. My wife and I were close to $100,000 in debt. We are currently sitting at $18,000 left to go, and we hope to be completed by the end of the year. We had a target data of November but we are expecting our first child, so there have been a few large expenses for things we need to buy that sidetracked us for a bit. We used to throw over $1600 a month at debt, it will be so nice to have that burden off our backs.

Way to go. Way to go Taylor and family. That is a huge win. Congratulations on the new baby. That is awesome. Awesome inspiring words for everyone to hear. Thank you for the kind words. Glad to help out and be of assistance.

Those are the words. Man I had to pull my hair out in this show today. Lots of technical difficulties. This one is done. That's it for this episode. I'm your host Scott Alan Turner, Rockstar Katie is my producer, all the links mentioned in the show are available in the show notes on scottalanturner.com. If you have a question that you would like answered, visit goaskscott.com. Thank you so much for listening.