Out & Proud: 3 steps for financial wellness

TRANSCRIPT

SPEAKERS:

Joe Shaw   Alexandra Roca   Karen Berdugo

Joe Shaw: Welcome to Out and Proud, a Fidelity Investments production. This podcast allows members of the LGBTQ+ community and those practicing active allyship to hear stories that support and empower folks being out and proud in the workplace and the world at large. I'm your host, Joe Shaw. My pronouns are he, him and his. And on today's episode, I have the absolute pleasure of speaking to two of my fabulous friends about financial wellness and what that means to the LGBTQ+ community. So I have brought, as I said, two of my fabulous friends here with me today, Karen Berdugo, Alexandra Rocha. Karen, how are you doing today?

Karen Berdugo: I'm fantastic. How are you, Joe?

JOE: I'm doing great. Alex, how are you doing today?

KAREN: I'm doing fantastic as well.

JOE: Great. So I know we don't have a whole lot of time and we've got a lot to cover. So let me go ahead and dive right on in by asking us the first question around what financial wellness means to both of you. So Karen, let me come to you first and say, when you think of financial wellness, what does that mean to you individually?

KAREN: So for me, when I was thinking about this question, it's evolved. So financial wellness, when I was younger, my family was a big family of immigrants where we just came to this country and we're trying to work. For us, it was just save, save, save, and don't spend a dime unless you're trying to buy a house or a car. But now it's evolved. So working at Fidelity, I've learned so much, and right now, the way that I define it for myself, it's more of having the means to do the things I want to do and live the life that I want to live. And the components of that are retirement savings, regular savings, investment, managing my debt. So all of those things go into it. And now personally, as I now have my small family, my fiance and I, we are looking to have a different type of life. We want to be able to travel, to move to different places, have experiences, and all those things can only happen if we have good financial wellness. So that's what it means to me, Joe.

JOE: Karen, thank you so much for that response. Alex, what does financial wellness look like to you?

Alex Roca: I actually love Karen's answer, so I'm going to steal that throwback as well. So when I was younger, I think I would've said that financial wellness meant one of my paychecks hitting and then still having money left over from the paycheck before, so that moment where I was no longer living paycheck to paycheck. Today, I think I would say that financial wellness is having a plan to live within your means. Now, I know that's boring, so I'm going to say it a little different. One of my favorite quotes is, "You can have anything you want in life. You just can't have everything." And so to me today, financial wellness means having a plan so that you can actually get to your anything.

JOE: I love that, Alex. So thank you for sharing that. And I think there's something that you said that I picked up on that I want to want go back to. So you talked about having a plan or some idea around how to really develop that financial wellness. So when people come to you and are meeting with you and want to develop a plan, what does that typically look like in that conversation?

ALEX: So that's a great question because I think people assume that a conversation with me, a one-on-one, is this super complicated conversation and often that's not the case. Often when I meet with my customers, one of the first questions I ask is, "Hey, how much do you make and how much do you spend?" And oftentimes, we stay there because nobody can answer that question. So I would say before being able to build a plan for what you want out of life, you need to figure out what you have right now. And I know people have an aversion to this word, but that's the budget. That's the budget. Creating a budget. And this is true, no matter how much money you make, it doesn't matter how old you are. I'll share with you that I used to work in banking before I came to this side of the industry, and I worked with some professional athletes that still came in to have their overdraft fees refunded.

And what that teaches us is that it doesn't matter how much money we make, if we don't have a plan for it, we run the risk of overspending. Even if I make a million dollars, if I spend 1.1, I'm in debt. So creating a plan to be able to stay within your means is super important. But you probably heard a thousand different ways to do this, and they're one more complicated than the other, so today we're going to simplify. We're going to simplify to the umpth degree. We're going to call these steps one, two, and three. Step one is how much income are you bringing in? If you're by yourself, it's how much income you are bringing in for that month. If you're married or if you have somebody that you plan with financially, how much do you two bring into the household on a monthly basis?

That's step one. Step two, what are your expenses? What are you spending on on a monthly basis? These are going to be your bills, like your mortgage, your electric, your water, those kinds of things. You're also going to do the minimums on any kind of debt that you're paying, whether it's credit cards or student debt, your mortgage. You're going to include all of that at the minimum payment. And then step three is simple. We're going to take one and we're going to subtract two from it, and three is going to show us how much we have left over every month. And this is going to be the wiggle room. This is the money that's left over where we now get to choose, "Hey, what do I want to save for? Or what kind of debt do I want to pay? Or even, what kind of fun do I want to get into?" So step three is really important because that's the money that we have to play with.

JOE: And then when you say wiggle room, I can't help but shift a little bit because I'm like, "Ooh, are we playing sardines or do we actually have some room to move?" So I appreciate you breaking it down in such an easy to follow way, the steps one, two, and three. Karen, I want to ask you on is there a specific financial goal, if you're comfortable sharing, that you are wanting to achieve or that you've already started mental mapping out for how you would get to that goal?

KAREN: Well, first of all, we're all friends here, so I'm always happy to share. The biggest goal we have right now is moving from Texas to North Carolina. And that is layered, because it's not just the moving expenses. We want to buy a home, either a town home or an actual house, whatever that looks like and we have a timeline of about two years where we want to execute on this. After that, once we have all of that set and done, then it'll be saving for our wedding, which is going to happen at some point in the future, but our priority is to make sure we move there. So that is our current goal and we need to set up a plan for that.

JOE: And Alex, how would you start to have that conversation with Karen based on the knowledge that you have on how she can set up that savings hierarchy to achieve that specific financial goal she's after?

ALEX: I love that, and I think it's fantastic because it sounds like you and your partner have really gotten on the same page as to what is important and what you are prioritizing as a family, which is fantastic. It's a great way to start a relationship or a great way to start a marriage. But here is something that I want to share with you, there is a different way to save depending on what it is you're saving for. So I'd like to pause here for just a moment, Karen, I'm going to take a step back and I want to explain what the savings hierarchy is just a little bit, so then we can tackle what's important to you. Is that okay?

KAREN: Yeah, that works.

ALEX: Awesome. The reason I want to do this is because often when I meet with customers, they'll share that there is some type of anxiety because they don't have enough accounts or they're not saving into enough accounts, and I want to take that anxiety away from you because that does not exist. I want you to think of accounts as steps. If you're not on step one, two, and three, we don't have to be thinking about steps 4, 5, 6, and 7. Okay? And so what I want to share with you is the savings hierarchy or the order in which we should prioritize our savings. Now, the first three are universal. It wouldn't matter if I'm talking to a 20-year-old or a 90-year-old, the information I'd be giving them is the exact same. Your number one most important account is your emergency savings account. That's the account that's going to come and cover you if you get in a jam, whether it's your dog has an emergency vet bill, whether it's you need to relocate because of an emergency, whether it's whatever it is, car troubles, that emergency savings account is going to cover you so that whatever else you're saving on continues on track.

We don't have to interrupt that just because life was interrupted. So that emergency savings account is super, super important. And if you're wondering how much you should have saved in there, we're going to go back to that budget. We're going to look at step two, those expenses, whatever that came out to be, you're going to multiply by six. That is the amount that you should be trying to put into your emergency savings account. And I'm not saying that has to happen overnight. I'm not even saying that has to happen in a year, but little by little, maybe a hundred dollars per paycheck, maybe $20 a paycheck, you're going to do it consistently and maybe three years from now, four years from now, you will have the balance that you need in that emergency account, and that's going to give you peace of mind like nothing else.

Step two is your workplace retirement account. If you have a 401(k) or a 403(b) or any kind of plan that your employer offers and they give you free money for you to put money into this account, do it. That is free money going towards your account. Or if your employer matches up to 5%, make sure that you're doing 5% or more, never less, or you're giving up free money that could be yours. The third thing is going to be a health savings account, also known as an HSA. This is an account that is specific towards saving for medical expenses. This can include acupuncture, it can include glasses, it can include medical premiums, it can include a lot of different things. So if you're in a high deductible healthcare plan, having an HSA is definitely going to be step number three. Why do I say this? Because if you're not in a high deductible healthcare plan, you cannot put money into an HSA. So something to think about. Now, thank you, Karen, for letting me take that step back because those are the universal steps. And so even for you, when you're thinking about all of the, what else am I saving for, those three are still going to be important. So before I tackle those, as much as you feel comfortable sharing, how do you feel about those first three steps?

KAREN: I actually feel really solid. I have a really good emergency fund. I actually max out and do a couple of percentages above my matching for my 401(k), and I'm used to it now, so it doesn't even... I can't feel it. But I will have to work on my HSA and setting that up in the future.

ALEX: I love that. And it's okay, as long as you're putting money into the HSA, that's still a great step. If that's not your priority right now, that's okay. As long as we're putting money into the HSA, even if it's like I said, $20 a paycheck, that is still a step in the right direction. Now, once we have those three universal steps, and by the way, congratulations because having an emergency savings account and putting money into your 401(k) is an accomplishment. So congratulations.

KAREN: It really is, so thank you.

ALEX: Yes. Now, the next steps, that's where we get to customize. That's where we make the plan our own, and there's no right or wrong answer. In fact, I love, Karen, that you and your fiance are on the same page because that can sometimes be hard, I'll share with you guys best practice in a minute. But now that you do have an idea for what you're saving for, correct me if I'm wrong, that's going to be relocation, a new house and a wedding. If those are the three main priorities that you're saving for, then now you have an idea of what you're going to do. So you said that you're wanting to relocate and buy a house within the next two years?

KAREN: Correct.

ALEX: What about that wedding? Pressure?

KAREN: That can wait until we have... No, that can wait until we move and feel comfortable where we are, and we are aligned with that as well.

ALEX: And this is like three plus years?

KAREN: Yeah.

ALEX: I love it. So let's talk about it. For your strategy, what you should be doing is you should actually be implementing an account for each goal. So not just having one big account that grows and grows and grows over time, and then you don't want to spend, but actually having a bucket or a savings account for each one of your goals. So let's start with the first two, which are the relocation and then the down payment for the new home, because those are two very separate expenses. So you can start a savings account for the money that you're going to use for the relocation, the moving expenses, the movers, the truck, whatever those costs are going to look like. And then you're going to open a second savings account specifically for the down payment of that home, and we're going to name them. The first one is called Moving Expenses. The second one is called North Carolina New Home. We're going to give it a first name and a last name because that's going to make it more exciting to save into them, and it's also going to make it that much harder to pull from them. If you're wanting to go out to lunch with your girls and you don't have enough money, do you really want to take it from the North Carolina future home?

KAREN: No.

ALEX: Not at all.

KAREN: Not at all.

ALEX: Not at all. I'm missing that lunch. And so giving it that first name and last name is going to be huge. The second thing, why a savings account? Because your goal is in the next two years. So the goal is to relocate. The goal is to buy a house. So we're not going to put that money at risk. We're not going to open any kind of investment account because the goal isn't to invest. The goal is to save and have that money two years from now to be able to relocate, to be able to buy that house. It doesn't matter what the stock market is doing two years from now, Karen is buying that house in North Carolina.

JOE: That is awesome. Alex, thank you so much for that advice and that perspective. So Alex, you shared quite a bit of wonderful things about how to have a saving strategy mindset, and I'll even speak from my own experience. I think it's one thing to have a strategy in mind for how to save, it's another thing when you start seeing the debt piling up and trying to determine, well, how do I prioritize what debt I have? Because I don't want to be in this situation forever but I also understand that there's a certain necessary part of the debt as you're trying to build what you're wanting to build. So how do you advise people when they come in to your one-on-ones and they say, "How do I prioritize that?" What are some of the strategies or some of the determinations you give them to tackle that debt?

ALEX: It's such a good question because when I'm meeting with people one-on-one, the topic of debt comes up often, and so when you're thinking about your priorities, not only are you thinking about what you want to buy and what you want to save for, you also have to think about what you want to pay off. So for some of you, that may be credit cards, that may be student loans, that could be a mortgage, that could be any number of debt that you have accumulated over time. And so when you think about that budget steps one, two, and three, and you think about where step three, that money left over, is going to go, well, some of it can go towards a savings, but part of it can also go towards paying off your debt. Now, sometimes I think what happens is people think they'll have to do one or the other.

And my encouragement is try to do both. Keep saving for retirement, keep saving for that emergency savings account, for that house in North Carolina. Keep saving for those things, but also earmark a part of what's left over to also pay on that debt. Now, there are two different strategies that I'm going to share with you. One is based on balance and the other is on interest rate. So the first one, the snowball method, basically has you list all of your debt by balance. So the smallest balance first, all the way to the biggest balance. And the idea is that you pay the minimum on all of that debt except for that smallest debt, that one on the top. Whatever you have decided to overpay on your debt is going to go to just that one account. So if you have the five accounts, this is the smallest and so on and so forth, we're paying the minimum on all four of these.

And that extra $100, that extra $200, that extra whatever you want, that's going to go towards the smallest, and that's how you're going to get to pay that off. Oftentimes, people share that they'll put a hundred here, a hundred here, a hundred everywhere, and they just feel like they're treading water. That's exactly what it's going to feel like until you put a strategy in place, and that's what that snowball method is going to help you with. I'm doing the minimum so I'm not messing up my credit, but now I'm really tackling this one account, and once it's paid off, now I'm going to focus on this next one and then I'm going to pay this off, and so on and so forth. Now I want to stop here and ask a quick question if you're comfortable sharing. Do you remember what your highest interest rate credit card was, now or when you were younger?

JOE: So I think the highest interest rate I had was in college, and it was 27%.

ALEX: What about you, Karen?

KAREN: Same. Mid-twenties, probably 28% I think was the highest I saw.

ALEX: Oh my gosh, I beat you both. I was at 29.99% for my first credit card, and it was awful. It was awful.

KAREN: Sorry. No judgment.

ALEX: No judgment, no. But it definitely is what we would call expensive debt. And so if you are somebody who has a lot of credit cards, maybe you have a lot of high interest debt, what you're going to want to do is try to tackle those first. And this is what we call the avalanche method. So you're going to list out your debt just like you did before, but instead of doing it by balance, you're going to do it by interest rate. So that car note that I have for 2%, that's going to go on the bottom, that credit card for 29.99, that's going to go towards the top. I'm going to do the minimum on everything, and I'm going to focus on paying that high interest debt first. These are two strategies that you can implement immediately, and I'll share an extra one just for fun. Freeze your credit cards. For those of you that are bad with your credit cards, freeze them. Once you pay them... You don't even have to wait to pay them off. Take them right now, put them in a glass of water and put it in the freezer. Thaw in case of emergencies. Don't close them because that's going to hurt your credit, but put them away in a place where they're easy to access if you need them, but they don't go away. Does that help?

JOE: It does. I think often about that college credit card and how if I hadn't learned some of those strategies and lessons, it would have been detrimental, for sure. Karen, what are some personal anecdotes that you've picked up from this conversation that you're excited to start implementing today?

KAREN: Honestly, I have two pages full of notes from just listening to Alex, and we probably will need a one-on-one just to keep going on some of these plans because there is such great advice. But the things I'm taking away are the things that really stuck with me through this conversation. It's just the 1, 2, 3, you mentioned earlier, looking at our income, then our expenses, and then having a plan for what do you do with that money? How do you want to use that money? I think in the past I've looked at budgeting in such complex, stressful way. It's very emotional to the point that I sometimes just don't want to do it, and I don't. And then you get yourself into a bad place, and then you have to dig out. So this structure helps me not just only look at it, but also have that conversation with my partner and say, "Hey, Megan, we need to sit down. We need to talk about this. Let's make a list of the things that we want to do. How do those things align and how do we use that money to achieve those things?" So thank you again, Alex. This has been really amazing and I appreciate all the tips.

JOE: I love that. Alex, what are some final call to actions you would like to roll out for people to start thinking of how to make sure that they're thinking about their financial wellness?

ALEX: Absolutely. I would say the biggest call to actions is work on your 1, 2, 3. Work on that budget so that you know where you stand today, because that's going to help you figure out what you need to do to get to where you want to be. So just start with that budget. And the other thing I was going to say, not anything that we talked about, but super important, all the same, make sure your beneficiaries are set up, whether you're looking at your checking account or savings account, whether you're looking at your 401(k), make sure that if you're no longer around, the people you love are going to receive these funds. So making sure that your beneficiaries are set up is also a big action item for me.

JOE: I can echo that. When I had my second kid, I was on parental leave, and it took me a bit to remember to update my beneficiaries. I'm so grateful I did because I have two children, and that could have been a discussion between the two of them at a later point in life. Alex and Karen, thank you both so much for being on the show today, and I want to thank you both for being out and proud.

ALEX: Thank you so much for having us today.

KAREN: Joe, it's been a pleasure.

JOE: For more information about our LGBTQ+ efforts, go to fidelity.com/LGBTQplus. That's fidelity.com/L-G-B-T-Q-P-L-U-S today.