I Will Teach You To Be Rich Episode 43: Kasey and Vince

Vince: [00:00:04] Every other weekend when we visit with my mom, we were middle-upper class. And then, during the week, we'd go back to our trailer. So, I feel like my carefree attitude with money comes from my dad being such a rock, and we'll figure it out.

Kasey: [00:00:24] I don't know how to enjoy spending the money that we earn without categorizing everything and always feeling like if I don't save more and more and more and more and more, the next month, we're not going to eat. I know logically that's not the case, but it can feel that way at times. It feels stressful. It feels like we're in debt even though we're not really in debt.

Ramit Sethi: [00:01:00] Yeah. You're not in debt. You have hundreds of thousands of dollars.

Kasey: [00:01:04] We had to go to a church to get food in high school. I'm afraid of that happening again.

[Narration]
Ramit Sethi: [00:01:14] Have you ever wondered how to handle an irregular income? You know, one of those incomes where it goes up one month and down another month?

Well, today I'd like to introduce you to Vince and Kasey. Vince earns about $300,000 a year working in the mortgage industry. While his wife, Kasey, focuses on raising their two children at home. Here's the issue, Vince's income is variable. Really variable. Some months, he's earned $25,000. Other months, $2,000. And when they earn less than Kasey's expecting, it sends her into a panic spiral. And recently she's had a good reason to be worried because Vince's income has consistently dropped over many months.

What do you do when your earnings swing from $25,000 a month to $2,000 a month? How do you plan for it? How should you change your lifestyle? And what do you do if it starts to affect your relationship?

You're going to hear their story today. Plus, at the end of the episode, you'll hear their follow up. You can download the full follow up at iwt/followups. I'm Ramit Sethi, and this is the I Will Teach You to Be Rich podcast.

[Interview]
Kasey: [00:02:40] The income that Vince brings in is highly variable, so we do have that much in savings. But the income ranges from $2,000 coming in next month to several months in a row of $25,000, $20,000, $17,000. And that variance is stressful to me. And I don't know how to handle it in such a way that allows us to make any kind of budget or plan.

Ramit Sethi: [00:03:15] And when you get stressed out, how does it show up?

Kasey: [00:03:20] Vince will say I become very tight on money. We don't have money to pay for a family vacation, or go visit our extended family out of state, and things like that.

Ramit Sethi: [00:03:35] And when you say "we don't have money," is that true?

Kasey: [00:03:43] Not in the moment. It's the fear of a few months from now not having the money.

Ramit Sethi: [00:03:50] I see. So, you're projecting out "If we keep doing this, we won't have money." And just to shorten all that up you just go, "We don't have money to do that."

Kasey: [00:04:00] Right.

Vince: [00:04:01] It gets frustrating only because, and I think part of it, is Kasey has done a great job of running our family accounting, if you will. She is the money. I make it, it goes in the account, and she budgets it, plans it, pays the bills, does all of this. If you ask me what we pay for the electric bill, I couldn't tell you. I couldn't tell you for the last year what we pay for electric, not that I don't care, I just don't do it. That's her job and I think she likes it. Maybe that is an assumption of mine, but I feel like she likes being in control of where the money goes.

And at the end of the day, I don't necessarily care. I make it, give it to her, let her budget and plan, and then we're good. But then, when she says we don't have money, I think, "I know what I made last year, how was it gone?" Like, how was the money that we made, like, to the point where we're stressed, or budgeting, or something like that. And that part frustrates me because if I work this hard to just not be able to enjoy it, it is frustrating.

Kasey: [00:05:20] We've had this conversation. He works very hard and sometimes makes a lot of money. And sometimes works hard and doesn't.

Ramit Sethi: [00:05:28] Have either of you worked with an irregular income like this before?

Kasey: [00:05:34] He's had this job since 2017, so I'm inclined to say yes, but it's never been as irregular as it has been in the last six months.

Ramit Sethi: [00:05:44] But what changes, whether it's $2,000 or $4,000, or $2000 or $25,000? What changes for you?

Kasey: [00:05:53] We cannot put money aside for future ones.

Ramit Sethi: [00:06:01] Like?

Kasey: [00:06:03] Like, vacations. I want to go on more vacations, but I feel like we need that savings for a buffer for the bad months for bills. So, I feel like I can't continuously allocate more money for travel, more money for travel. Or probably more importantly, early retirement is what I'd like to be more serious about.

Ramit Sethi: [00:06:30] Kasey, do you enjoy the role of managing the money in the household?

Kasey: [00:06:36] When we make a lot of it, yeah. I do.

Ramit Sethi: [00:06:38] It's fun when there's extra money, right?

Kasey: [00:06:43] Yes.

Ramit Sethi: [00:06:45] And then, what happens in the months where there's not?

Kasey: [00:06:49] I feel like I'm shuffling things around and watching our little emergency fund dwindle. For example, last month, we found out that Vince's grandma was very sick so we went over budget. And then, I felt like I can't do this. I'm bad at this. Kind of a negative narrative. It feels stressful. It feels like we're in debt even though we're not really in debt.

Ramit Sethi: [00:07:26] Yeah. You're not in debt. You have hundreds of thousands of dollars.

Kasey: [00:07:30] It feels like a weight on my shoulders, though, when we have to dip into savings.

Ramit Sethi: [00:07:35] What is savings for?

Kasey: [00:07:37] To me, emergencies. Sorry.

Ramit Sethi: [00:07:44] It's okay.

Kasey: [00:07:44] To me, savings is for emergencies. Like, Vince loses his job and he has to find one, and we need to pay the mortgage.

Ramit Sethi: [00:07:55] Where did you pull the money for the emergency travel? Where did that come out of?

Kasey: [00:08:04] In my mind, the emergency fund.

Ramit Sethi: [00:08:07] Well, I'm not asking in your mind. I'm asking, did it actually come out of a specific account?

Kasey: [00:08:14] No. It's all -

Ramit Sethi: [00:08:15] It's all co-mingled.

Kasey: [00:08:18] I know.

Ramit Sethi: [00:08:20] That's okay. Now, I'm starting to understand what's going on.

[Narration]
Ramit Sethi: [00:08:22] Here's what we know, they have $42,000 in savings and considerably more in their retirement. But of the savings, $30,000 is their emergency fund. And they'd already mentally bucketed the remaining $12,000. So, when they suddenly had to find $4,000 for flights to visit Vince's mom, they went over their budget.

This is exactly how someone can have tens of thousands of dollars in the bank, but still panic over not having enough. I've noticed that a lot of people have this reaction with money. But if you had it with something else, something tangible in your house, for example, it would just seem so absurd. Let's say that you'd mentally plan to use five Ziploc bags for your kid's project, but then you had to use those bags to store some takeout and you still had 200 left, I doubt you would panic, "Oh, my God. I ran out of Ziploc bags," even though I have 200 left.

Yet with money, our mind plays tricks on us. To many of us, money is not as real as a Ziploc bag. It's just numbers on a spreadsheet. Or more commonly, it's just a feeling. That's exactly why I spend more time talking about how people feel about their money, not just what's in their checking account.

[Interview]
Ramit Sethi: [00:09:47] How did you grow up with money, Kasey?

Kasey: [00:09:48] My father followed the Dave Ramsey cassette tapes, and I grew up listening to that. I think it made me responsible compared to my peers. But, now, it makes me kind of paranoid about money, and I feel like it doesn't apply to our situation.

At some point when I was in high school, my dad lost his job and we were, like, broke. Sorry. Sorry. We had to go to a church to get food. I'm in high school. It felt a little bit embarrassing and it felt kind of scary that my dad was all of a sudden selling our cabin, and selling our snowmobiles, and selling the Corvette. And all of those fun things got taken from us to the point where we had to go get a laundry basket full of food from a church. And that wasn't our lifestyle prior to that.

Ramit Sethi: [00:11:04] Wow. I'm sorry you had to go through that. That seems to have still hit you really emotionally, even though it was so many years ago.

Kasey: [00:11:13] Because I'm afraid of that happening again. I don't want to get to that point of, like, loading up the kids in our nice cars and going to the church to get food. That doesn't make sense.

Ramit Sethi: [00:11:28] Yeah. Do you think that you've carried any of that experience with you into today and the way you manage money?

Kasey: [00:11:41] Absolutely. I don't know how to enjoy spending the money that we earn without categorizing everything. And always feeling like if I don't save more and more and more and more and more, the next month, we're not going to eat. I know logically that's not the case, but it can feel that way at times.

Ramit Sethi: [00:12:12] What do you tell yourself about what you would need to feel safe?

Kasey: [00:12:17] Stability for the most part.

Vince: [00:12:20] When I was making 25, 27, 22, 30, whatever it was, when it was really good, maybe we didn't take advantage of those times. Maybe we took too much advantage of those times to where now when we're making eight, seven, ten, whatever, less than 15, now, here we are. It's frustrating to work as much as I do and then feel like we're broke in our minds.

Ramit Sethi: [00:12:43] Are you broke?

Vince: [00:12:45] No.

[Narration]

Ramit Sethi: [00:12:46] One of the reasons that Kasey is scared they might go broke is their spending habits. Whenever they have a good month, they spend it. Then, the next month, they're worried about having money to pay the bills. They told me about a recent purchase they made when times were good. They'd saved up $20,000 to pay for a deck in their backyard. Listen in as they describe it.

[Interview]
Ramit Sethi: [00:13:10] So, you go out and you get the deck and all the backyard stuff. And then, what happened the next month?

Kasey: [00:13:16] Vince had a "bad month" and the paycheck wasn't as big. And then, I felt stressed. Vince felt stressed because I was stressed. And then, we didn't have the money he wanted for his hobbies, and it created a lot of tension and frustration in the household.

Vince: [00:13:45] So, again, multiple great months. Great months coming in, I pulled in probably $25,000 for three months in a row. Allowed us to put money away, put money away, put money away to other things other than just what we want to do outside. And then, we hit that number and then, poof, all of the extra "savings" that we have is gone for the backyard. And then, the next month's not great. And, now, we're "broke" or back to, "Hey, it's tight. We can't do this, we can't do that because we just spent $20,000 on the backyard." And it was a little frustrating.

[Narration]
Ramit Sethi: [00:14:30] That was absolutely fascinating. Have you ever heard the phrase cluttered desk, cluttered mind? In Vince's case, I want to use the phrase inexact language, inexact finances. All right. That's not as smooth. But let's just notice how loosely he uses words. He says that they put money away, and when they hit that number, poof, all of the savings are gone. Those were his words.

Let me analyze. First of all, they saved up for a deck. But when they actually decide to spend the money, he uses the word poof, as if it just disappeared. The money didn't disappear, man. You chose to spend it. And then, he says we are "broke." No, you are not "broke," even if you use quote unquote around the words. You can notice there's a lot of inexact language that's leading to problems.

It's like you telling your partner, "I'd really like it if you clean the bathroom a little more." They think you mean put the toothpaste away. That's a little more. But what you really mean is you want them to get on their hands and knees and use Lysol and a toothbrush to clean every last tile. We need clarity.

Also, I just want to point out that the $20,000 for a fucking backyard deck is exactly the type of phantom costs I tell all of you about when it comes to buying a house. Count these. Run the numbers. Of course, none of you ever listened. And then, you all come back to me and tell me housing is a great investment.

All right. I don't want to get in a fight with all of you today. We can save that for another day on Twitter. Let's get back to this.

[Interview]
Ramit Sethi: [00:16:13] How did the two of you make financial decisions about the big stuff?

Kasey: [00:16:16] I say I want something or I want to do something and I make it happen. And he's generally onboard with it. Vince is the type of person to say, "Yeah. Buy it. Let's do it. Sounds great." And then, I do the savings or figure out if we can afford it or whatever.

Ramit Sethi: [00:16:44] Let's take an example. I see that somebody has a Porsche. Who has the Porsche?

Vince: [00:16:50] I do.

Ramit Sethi: [00:16:50] You do? So, was that your decision to buy, Vince?

Vince: [00:16:55] Ironically, I would say no, in case you might agree. That's been my dream car. But if you remember the first one, I was completely fine. You said, "Hey, why don't we go get it?" So, we went and got it.

Ramit Sethi: [00:17:09] How do you decide if you can afford this kind of Porsche?

Vince: [00:17:13] I think that just goes into the monthly budget. There's an Excel spreadsheet that I know that we have that incoming and outgoing, and if it fits in the budget, let's make it happen. That might be wrong.

Kasey: [00:17:25] But this particular one, we did decide he could get the larger SUV and the monthly payment would stay the same.

Ramit Sethi: [00:17:33] You heard me talk about the monthly payment on a previous episode, didn't you? I can tell because you look like you're cringing, you know what's about to come your way.

Kasey: [00:17:41] I don't want to admit it. Let's hear it. Go ahead.

Ramit Sethi: [00:17:43] Kasey, why don't you just do my job for me? Make it easy. It's a Friday. Let me sit back with my sparkling water. Go ahead. Tell Vince what I'm about to tell you anyway.

Kasey: [00:17:54] He is about to say you don't buy a car based on the monthly payment.

Ramit Sethi: [00:18:00] Who buys cars based on monthly payments?

Kasey: [00:18:05] Not people who make 300,000 a year.

Ramit Sethi: [00:18:09] People who are not savvy with money. Okay. And then, why should you not buy it based on the monthly payment? I mean, after all, that friendly car dealer, Bob, asked you, "What do you want to pay for this car every month?" So, why shouldn't you listen to Bob?

Vince: [00:18:25] In my defense -

Ramit Sethi: [00:18:27] I want to hear the answer to my question, please. Kasey.

Kasey: [00:18:31] I can't remember. If I'm being honest, I can't remember your full explanation on that one.

Ramit Sethi: [00:18:35] What's your monthly payment on this Porsche?

Kasey: [00:18:40] $762, I think.

Ramit Sethi: [00:18:43] Okay. Did you buy it or lease it?

Kasey: [00:18:48] Bought.

Ramit Sethi: [00:18:48] Bought. How many months?

Vince: [00:18:51] I don't even remember.

Kasey: [00:18:51] I don't remember.

Vince: [00:18:51] Maybe six years. Six years, I think.

Ramit Sethi: [00:18:53] What the fuck? How do you not remember the most - oh, my God.

Vince: [00:18:57] That's what I'm saying.

Ramit Sethi: [00:18:58] I'm actually really surprised for a couple of reasons. First of all, just in general, how do you not know how many months of a loan it is? That is one of the biggest factors in the entire price. But, second, I'm actually surprised, Kasey, because you know your numbers really well. Every question I've asked you today, you know your numbers.

[Narration]
Ramit Sethi: [00:19:17] Let me explain what's going on here since that all happened really fast. First, stop buying things based on monthly payments. That's like a child eating crayons. It's fine when you're six years old. But you stop that when you get older. Buying based on a monthly payment is what unsavvy people do. They only focus on the

monthly payment when you should actually be focusing on the total cost of ownership.

Let me show you what I mean. They know that their monthly payment is $762. But what they don't know is how long their loan is for. So, how much does that car actually cost? Well, if the loan is for five years, they'll pay $45,720. If it's for six years, they'll pay $54,864. That's almost $10,000 more. And they don't even know how long their loan is for.

And, yes, you finance nerds, I'm not counting the down payment. I'm not even going to get into the phantom costs here. I'm just showing you the point that you have to know the total cost of ownership.

Remember, my car payment used to be $350 a month. But when I factored in all of my expenses, it actually costs over $1,000 a month. Now, if I ever hear that any of you have made a major purchase by letting some scammy salesperson focus on the monthly cost only, I'm going to find a picture of you. And then, I'm going to get my designers to Photoshop a picture of you with a crayon in your mouth like some stupid baby that doesn't know what it is and decided to eat it.

Stop this shit. The lesson here, my friends, is to zoom out of thinking about your expenses as monthly expenses and start thinking on an annual basis. Once you get even more advanced, you can start thinking at the five year level, the ten year level, even the 30 year level. That's the kind of stuff I talk about in my Advanced Personal Finance Program, but that's for another day. For, now, I want to get into some specific numbers with them.

[Interview]
Ramit Sethi: [00:21:18] So, you all owe about $75,000 on your cars. How do you feel about that in terms of your income?

Kasey: [00:21:25] When we have a $25,000 month, I feel fine about it. I don't think about it. I don't care. I fall back into some of my Dave Ramsey ways and put extra money down onto those cars. But then, on the months where the income is like a quarter of our monthly budget, then I'm thinking, "Oh, my gosh. Why do we have these cars? What were we thinking? We can't afford this. We need to sell them tomorrow." Maybe not that extreme, but that's kind of the spiral that I go down.

Ramit Sethi: [00:22:07] Good word, spiral. I can hear that a lot, Kasey. A lot. You know, when things are good, you're riding high. And then, $4,000 of surprise flights and you start to spiral, "Oh, my God. We're in a deficit." It's a very apt word.

[Narration]
Ramit Sethi: [00:22:30] You can see exactly what's going on here. They are thinking monthly. It's like those rat mazes where the rat just goes through the maze. But the camera zooms up and you can see the right way out. But the rat can't see it yet. By the way, I don't mean to compare my guests to a rat, but you get the point.

So many of us make the financial decisions that are in front of us. Should I buy this TV? Should we upgrade our hotel room? Should I buy this shirt or this cheesecake? But we have no idea how to actually build a system that lets us think bigger.

For example, if you want to splurge on a vacation, how do you do it? You should be able to say, "Okay. I'm going to push this lever. I'm going to do more of this and less of that. And in exactly eight months, we can go and pay for it 100 percent guilt free." If you have debt, you should know exactly when your debt will be paid off down to the month. You should know exactly when you're going to have $50,000 in your bank account or even $1,000,000. Yes, down to the month or certainly the quarter.

But the way that they are going and how most people treat money, they never will. You can't go from making monthly decisions to a rich life. You need a system.

[Interview]
Ramit Sethi: [00:23:54] Growing up, my parents split when I was five or six. My mom moved to Chicago and she made probably $90,000 or 100,000 by herself. And then, my father ended up with custody of my sister and myself, and he made maybe $35,000. We lived at a trailer. So, we grew up, I don't want to say poor, but definitely paycheck to paycheck.

And the one thing that my dad instilled in me is that we will be okay no matter what it is.

We'll figure it out no matter what happens. And there's never been a time, no matter how little money my dad made, where I felt we were poor, even though we lived in a trailer. And there were times where we were almost homeless. Like, before we got in the trailer when they got divorced, we were living with my uncle in his basement while my mom had made $100,000. It was a weird upbringing, right?

Every other weekend when we'd visit with my mom, we were middle-upper class, I would say, $100,000 in the early 2000s, late '90s. And then, during the week, we'd go back to our trailer. So, I feel like my carefree attitude with money comes from my dad being such a rock, and we'll figure it out. There's never a point in life where we won't be okay.

So, I don't think we deserve everything that we have, but I work my ass off for it to be able to provide that for the family that we have and so we can do the things we want.

Ramit Sethi: [00:25:22] I can't imagine what that was like going from the trailer to a middle class or upper-middle class life and then back, that's got to have been a weird experience.

Vince: [00:25:34] It's weird. Yeah.

Ramit Sethi: [00:25:36] Wow. Okay. So, you mentioned interest rates, and interest rates are going up, is that going to affect your job?

Vince: [00:25:47] A hundred percent.

Ramit Sethi: [00:25:49] Okay. In a worse way, correct?

Vince: [00:25:52] Yes.

Ramit Sethi: [00:25:52] All right. So, for the foreseeable future, things are likely to get worse for you or your industry, how is that going to affect your pay?

Vince: [00:26:02] I have faith in the company that I work for that will take care of us. So, they make adjustments to pay based on what the market does. We're not going to have the same goals that we would have mid-pandemic when rates were in the low threes, high twos. So, I have faith in the company that I work for that they will take care of us still to allow us to live the same lifestyle. It's more of an adjustment period now to figure out what this market does and how we can help clients where the market is now. When we're talking to people that have 2.75 interest rates, we have to sell them a 5 percent interest rate.

Ramit Sethi: [00:26:40] That seems unlikely.

Vince: [00:26:42] There's times where it works. Because a lot of people have debt and that's why we're talking - not we're talking to you - but that's why I bet a lot of people talk to you.

[Narration]
Ramit Sethi: [00:26:50] I can't help but feel like Vince is being naïve here. He works in the mortgage industry, which is extremely sensitive to interest rates. Interest rates have gone up dramatically in just the last couple of months. And when they go up, people in Vince's line of work, get laid off. I'm sure your job loves you, but it is a job. And history suggests that this industry is going to dramatically and rapidly contract. In fact, it's already started to do so. But for the sake of discussion right now, let me give him the benefit of the doubt.

[Interview]
Ramit Sethi: [00:27:26] Let's assume that your company tries to help you out. And at a certain point, it's just not working. What happens to your lifestyle if the job can't pay what you used to make or, if worse, there's layoffs?

Vince: [00:27:43] Obviously, lifestyle would have to change. And maybe we do sell the cars. I don't know why the cars end up being the thing, because it's higher payment, maybe. But there are things we could trim from our lifestyle that we live. Like, man, the amount of subscription services that we have we could get rid of. We can get rid of the person who takes care of the pool. We can get rid of whatever it is the services that we have. The lifestyle we live, we could definitely trim the fat if worse came to worse.

Ramit Sethi: [00:28:14] How do you feel about that, Kasey?

Kasey: [00:28:18] I think trading out the cars would be the faster option. And the cars that we have, that wouldn't make up the difference for the subscription. That's not even close to being even. Any subscriptions or services we have -

Ramit Sethi: [00:28:36] Put aside what Vince said. Forget what Vince said. I want to hear from you. If the industry got tougher for Vince and he could never equal what he used to make or, worst case, he got laid off, what would that mean for you?

Kasey: [00:28:51] I'm sorry. I hate to think about that.

Ramit Sethi: [00:29:00] Why do you hate to think about that?

Kasey: [00:29:04] Because it would mean - excuse me. Let me gather myself real quick. If that happened, it would mean I would have to probably start working again, which I'm not against working. But it would mean I'd have to put the kids in daycare and not be with them all day. I would hate to do that. That would be the worst. And I hope Vince would find a different job, if he had to, of course.

Ramit Sethi: [00:29:42] Okay. Okay. Have you both talked about the possibility of that happening?

Vince: [00:29:51] No.

Ramit Sethi: [00:29:53] What is it? Is it that it's too dark or is it just that, "Hey, we can figure out a way that that won't happen"?

Vince: [00:30:03] Again, I am very confident that it wouldn't happen.

[Narration]
Ramit Sethi: [00:30:10] This moment right here is why I love doing what I do. Vince's variable income has been going down for a long time. It's putting them at risk, but they cannot seem to make a change. They can't even seem to acknowledge it or talk about it. But they did one thing, which is amazing, they reached out to get help.

So, by talking to me, they get a third party who's helping them talk about the elephant in the room. And that's my job, to help them confront the elephant and question their assumptions. Like, will this job actually take care of you? And then, let them come up with their own answers. Sometimes I have to push people a little bit because part of living a rich life is being honest, honest with yourself and honest with the people around you.

They'll tell me something and I'll say, "Really?" And suddenly, this belief they've had for 20 years will just crumble just with me asking a simple question. Do you really believe that? In this case, Vince can say things are going to be okay over and over. But if we look at the objective clues, I'm not sure I believe he's earning less than a few years ago. His industry is contracting and his wife is worried.

And you hear a lot of this false optimism often. Since most people don't actually understand how money works, they adopt an almost religious belief that things will always be okay. Sure, things might be okay. But shouldn't we actually get real about how bad things could get?

[Interview]
Vince: [00:31:55] It sucks to be working harder for less money because, obviously, as the market gets harder, we're not doing the same thing we were in the pandemic. But I think it is a little bit on the - I don't want to say the scary side because, again, I'm confident that we'll just get back. We'll figure out what the difference is with where this market is now, and then the money will just come back. Because it always has. I've been here for five years and it's up and down. It's a little bit of a roller coaster.

Ramit Sethi: [00:32:25] Well, five years of the biggest bull market in history. Kasey, what do you think?

Kasey: [00:32:32] It makes me nervous to see income going down, down, down.

Ramit Sethi: [00:32:40] What percentage of gross income do you save and invest?

Kasey: [00:32:46] Invest? Definitely not as much as we should.

Vince: [00:32:50] We max out the 401K. We do have a stock purchase program that we have that I contribute, I think, 10 percent to as well. But I also agree, making as much as I did, say, last year and the year before that, we could have invested more, or had put away more, or what have you. But I feel because of the surplus we would have in months, there's always a big purchase that we do per month, whether it's an emergency flight like this, or a backyard, or painting the house, or getting the roof, or getting a car. Like, something comes up on a monthly basis where the surplus goes to that.

Ramit Sethi: [00:33:33] Kasey, why did you just look like that?

Kasey: [00:33:37] It's not stuff comes up like an emergency. We didn't need an emergency Porsche or an emergency Volvo.

Ramit Sethi: [00:33:47] Those things don't just come up. It's interesting how your language reflects this passivity, "Oh, something comes up." The Porsche, that didn't come up. You chose to buy it. The flight, that came up. I think we can all agree on that. But funny enough, of all the expenses you mentioned, that is the most inconsequential of all. It's pretty interesting. So, can we rephrase that? Instead of when we were making a lot of money, things came up, what might you say instead?

Vince: [00:34:20] We spent it.

Kasey: [00:34:22] We decided to enjoy it. Go big or go home.

Ramit Sethi: [00:34:26] Yeah. You're living the high life. And, hey, you were earning a lot of money. And I hope you continue to earn that kind of money. But it's really hard to adjust when you're not earning that kind of money, isn't it? It's not just about, "Oh, my gosh. We might have to stop with the pool guy. And we might even have to sell our cars." I think it actually reflects a lot, Kasey, for you most certainly, with what happened with your dad having to sell the fun car, those kind of things. You can see that this kind of stuff goes a lot deeper than some monthly payment.

[Narration]
Ramit Sethi: [00:35:05] There are a lot of reasons to ignore a big problem, like Vince's declining income. There's always a hope that things will turn around. And it's

overwhelming to make a plan. But the deepest reason of all is that losing his high income would challenge their identity. Their identity is very strong. It's made up of a beautiful house with this travertine patio, and a Porsche, and Kasey taking care of the children at home.

Identity changes are the most difficult of all to change. And that's one reason you should be very careful about what you allow to define you.

I truly hope that the two of them go back to making what they used to make. But in the face of their income slipping away and, therefore, their identity, we can start to understand why they prefer to ignore the possibility and just hope that everything works out. I understand it. But that's not a plan.

[Interview]
Ramit Sethi: [00:36:14] Your cars are really expensive. If you were making $300,000 a year consistently and safely, and you had more in savings and investments, I'll be like, "That's cool. I get it. It's your splurge. You like it. Fine." You know, in the short term, it might be a little expensive. But over the course of several years, it's fine.

However, if your income continues dropping on the trends it has been for the last six months, those cars turn from joyful to something really bad really quickly. Nobody can tell you how quickly that happens. Nobody. Only you two can decide.

But I will say, Vince, you seem to be very positive. I like talking to positive people. You seem to be very positive about your job. I hope you're right. I can tell you that the mortgage industry is very cutthroat. The real estate industry, the banking industry, the minute it's not going to serve them, they're going to lay everybody off.

Well, there's a company that just announced it recently, better.com. They did two rounds. You probably heard of them. You probably have friends who work there. Boom, 4,000 people gone. So, I'm not trying to scare you. You know the industry better than I do.

But I think what I would like to do with the two of you is to start talking about a plan that represents, first, how do you handle variable income. And two, how do you start planning in case things do not go well from an income perspective. I think if the two of you did that, you'd both feel a lot safer. You'd both feel a lot less stress. Hopefully, you don't have to pull out this doomsday plan. Hopefully, everything goes well. You're just like, "Oh, we're making great money. Now, we know what to do with it." But if you need to, you've got it in your back pocket. How does that sound?

Vince: [00:38:18] Great.

Kasey: [00:38:20] Great. Ideal.

Ramit Sethi: [00:38:22] Good.

[Narration]
Ramit Sethi: [00:38:24] You know, here I am editing this podcast and I was listening to that last section, and I was reflecting that in my 20s. I would have verbally eviscerated them in that last comment. I would have told them how bad they are with money, and I would have point blank said, "You're probably going to lose your job." And I, in fact, would have calculated out exactly when they're going to run out of money.

And looking back, I could tell you exactly what would have happened. In fact, I could even see their faces if I told them that. And it makes me cringe because I actually did that. I was so convinced early on that people needed to hear why I was right. That I completely disregarded the emotional side of money. "You know, you need to open up a Roth IRA. Here's how much money you're losing. Oh, my God. It's such a waste."

Now, I'm not going to lie. I still love being right. Just go look at my Twitter account where I dunk on Trump supporters and tax kooks and crypto scammers. But over time, over the last 20 years, I learned. That you can be right and still not connect with someone. And that's the entire reason that I think this podcast works. It's why I started it. Because I want to show you the beautiful intricacies of actually reaching people around the topic of love and money. It's really hard. I know that because I've had to work my ass off for the last 20 years to figure this out and I'm still learning.

In my last comments to them, I think I reached them. And I reached them because I explained the severity of the situation but in a way they understand. My job isn't to scare them. It's to gently nudge them so that they can take ownership of their decisions. I can't do it for them. Only they can. And by the end of this episode, you'll hear if it worked.

[Interview]
Ramit Sethi: [00:40:27] So, Vince characterizes himself as the one who makes the money. And you characterize yourself as the one who manages the money. So, I want to talk now about the management of the money. You've been doing it. You know your numbers. You know every number except for the term of your car loan, which is fine. I'm sure you'll figure that out. So, when Vince gets his paycheck every month, how do you think about where the money should go?

Kasey: [00:40:57] First and foremost, what bills need to be paid. And then, depending on what's left over, lately we've been focusing more on savings because of what's been going on with paychecks.

Ramit Sethi: [00:41:12] Meaning that the lower the paychecks are, you're now starting to get nervous and starting to try to save more.

Kasey: [00:41:17] Yeah.

Ramit Sethi: [00:41:18] Do you notice that both of the things you already just said are reactive?

Kasey: [00:41:23] It's not proactive.

Ramit Sethi: [00:41:25] Yeah. We pay our bills. Whatever's left over, then we do something with it. And then, secondly, we are saving more now that his income is less. Do you see the pattern?

Kasey: [00:41:37] Absolutely.

Ramit Sethi: [00:41:38] Can we flip that to make it more proactive?

Kasey: [00:41:43] Sure.

Ramit Sethi: [00:41:43] All right. So, I make a variable income. My income can be up or down. How do you think I do it?

Kasey: [00:41:52] I imagine that you pay yourself first, invest, save, pay your bills, and then fund money - I don't know.

Ramit Sethi: [00:42:02] Yeah. That's basically it. That is what I do. I will pay myself first. How would I decide how much to pay myself first?

Kasey: [00:42:12] I wish I knew.

Vince: [00:42:14] Ten percent or something.

Ramit Sethi: [00:42:15] Yeah. That's exactly right. So, I have a rough percentage - well, it's not a rough percentage. I know the percentage down to the decimal place and I pay myself that much every month. So, some months it's more, some months it's less. I'm simplifying my situation so that it makes sense for you. But that's exactly right. That is a great rule to use 10 percent of gross income I would be saving every single month. Okay? Now, let's talk about how much I would be investing every single month. What percentage do you think I would pick?

Kasey: [00:42:54] Five percent.

Ramit Sethi: [00:42:56] Maybe a little more.

Kasey: [00:42:59] Vince?

Vince: [00:43:00] Ten.

Ramit Sethi: [00:43:02] Yeah. I would pick ten. Again, I'm just giving you really simple rules. Ten percent for savings of gross income. Ten percent of gross income for investments. Nice. That's solid. If you did that for your income, how much would you have in one year based on a $300,000 income in your savings?

Kasey: [00:43:26] Thirty thousand?

Ramit Sethi: [00:43:27] Yeah. And how much would you have invested?

Vince: [00:43:29] Thirty.

Ramit Sethi: [00:43:30] Yeah. Now, that's pretty good. I'm guessing - how much do you think you save per year?

Vince: [00:43:44] I feel like we do a very good job of maintaining the emergency fund. And then, the rest goes to planning vacations, backyards, things we want to do. So, we maintain the investments or maintain the emergency fund. And then, the rest is like, "Hey. We got 20 grand, let's get a backyard."

Ramit Sethi: [00:44:07] And then, the next month, you feel stressed out.

Kasey: [00:44:11] Yeah.

Ramit Sethi: [00:44:12] There's something missing from that formula, right? Because you make such a high income, it has afforded you the ability to not really pay attention to the mechanics underneath it. So, let's get those mechanics dialed in. And then, if your income goes down, you're still going to be saving money. You're still going to be investing. You might have to cut that down, though. Your expenses, we'll talk about that.

But overall, at least you have a plan. And then, best of all, when your income goes back up, you're still going to be investing and saving and it's going to grow a lot faster. When I look at your numbers, I think you're low on savings. For the income you have, your savings should be a lot higher.

Kasey: [00:45:04] Yeah.

Ramit Sethi: [00:45:04] And how long have you been earning this kind of income?

Vince: [00:45:08] Probably the last two years in a row, I had $300,000. The year before that it was probably -

Kasey: [00:45:14] 250 or so.

Vince: [00:45:15] Yeah. And then, maybe 190. It just kind of went up. As you stay with the company, you get promoted and then your bonuses and commissions are more.

Ramit Sethi: [00:45:26] Look, I'm not here to judge anybody. I've been in a Porsche once. It was pretty cool. It's not my thing, but I think it's cool. As I told you, if you had a consistent job, I'd be like, "Yeah. That makes sense. I get it."

Let me say this, when I look at your finances and you tell me, "You know, I've been earning a high income for the last four years or so." I go, "Okay. Cool." So, what do they have to show for it? Now, some people have a large portfolio. Sometimes it's too big, I go, "You've been saving 70 percent of your income, can you get a life? You actually got to spend some of this." Other people are in total debt. They have nothing to show for it.

You have a little bit of both. It's kind of interesting. You've got $225,000 in your 401K. You've got about $35,000 in two different IRAs. That stuff is fine. It could and should be higher. But, hey, at least you've got hundreds of thousands of dollars. That's really great. That shows me you can invest aggressively. That's awesome. The savings is low. And do you both know why your savings is low? It's not just that you bought the travertine thing. Why is it low?

Kasey: [00:46:45] We don't save consistently. We take what's left over and probably mostly spend it, than save it.

Ramit Sethi: [00:46:53] Exactly. You spend it when times are good. And you save it when times are bad.

Kasey: [00:47:01] It's a little backwards.

Ramit Sethi: [00:47:02] It's backwards. Yeah. Exactly. And so, when you put savings last, like you do everything else before savings, it's no surprise that it won't get prioritized. I mean, imagine reading to your kids when the time is right, would you be like, "Oh, we'll read to our kids if everything else gets done." No. You're going to find a way to read to them. It is a core part of your day. That's how they learn. Same thing with savings.

Vince, you made this offhand comment that if it went on for a long time, it might start to affect your relationship. What does that mean for the two of you if this kind of money stress goes on for a long time? What would happen?

Kasey: [00:47:51] Instead of a one off conversation every few months, it would become an every week, every day conversation.

Ramit Sethi: [00:48:01] What about the kids?

Kasey: [00:48:03] I like to think that we wouldn't discuss it in front of them.

Ramit Sethi: [00:48:07] How old is your oldest?

Kasey: [00:48:12] She's two.

Ramit Sethi: [00:48:14] Okay. Still a little young, but they pick up on things at a surprisingly young age.

Kasey: [00:48:18] Yeah.

Ramit Sethi: [00:48:20] I had another couple and one of them said he would become very lovey dovey when he knew there was stress. He would start to hug his mom or things like that. And so, they pick up on things at a very young age.

[Narration]
Ramit Sethi: [00:48:35] The stakes are getting higher. They've been downplaying how bad the situation is, but it's getting worse. And the worse it gets, the harder it is to deny. Remember that Kasey started crying when she was discussing money. And, of course, there are the children.

I'm hearing a combination of three things. Vince is being naïve about his job. Kasey is not being precise about how she sets money aside, including not involving Vince in the money management. And both of them are being impulsive about their spending. Now, honestly, none of this is really that bad if they're consistently making $300,000 a year. But the minute that stops, the house of cards falls apart.

[Interview]
Ramit Sethi: [00:49:24] The way I see it just from the outside is, if interest rates affect your career prospects and interest rates are going up multiple times over the next year, then I would start planning for some tough times. You two need to discuss whether you believe that's true or not. And you also need to discuss what if you're right or what if you're wrong.

Personally, I'd rather be a little bit conservative if there's career risk. Worst case, you know, I don't go out to eat a couple of times a month, or whatever, I don't have a certain car, and I end up with a big fat amount in the bank. Fine. I'll spend it next year. But the other alternative is if I get it wrong and I get laid off, boy, I'm in a real tough position with my family.

Again, that's up to you to decide. If it were me, what I would say is, okay, six months is what Ramit's baseline recommendation is for emergency savings account. You know what? I think we should go higher. I think we should target nine months. Now, it might take us a year to fill that nine months of emergency savings up, but we should prioritize putting a little bit more in there. That would be how I would approach it. It's totally up to you if you agree with that.

And even if you agree, how long you want to take to fill that thing up. I'm not saying that you need to take every single dollar you earn, put it in your emergency savings. That's not the case. But you do want to start getting a little bit more proactive about your money. Okay. That's number one. Number two, what are you currently saving for, for the fun stuff? I know you've both got something you're putting some money aside for. You're ready to get it. What is it?

Kasey: [00:51:13] I think the only fun thing we're saving for right now is just future family vacations. We want to do Disney with the kids, of course. And I don't want to do it the budget way. I want to go big and get all the extras.

Ramit Sethi: [00:51:28] The kids are so young. When are you going to do this?

Kasey: [00:51:31] Probably two years from now.

Ramit Sethi: [00:51:32] Okay. Fine. Two years. So, you're saving a little bit each month towards that?

Kasey: [00:51:37] Yeah.

Ramit Sethi: [00:51:38] Great. Okay. No comment on that. Sounds good. I love that you're being proactive about that. It's funny, you're proactive about Disney two years in advance. That's awesome. So, that tells me you can do the same thing with your investments and your savings as well. All right.

Let's just take that same energy and redirect it to savings. I don't like to just have a general savings. I like to have purpose-built savings accounts. So, usually I keep it around six. One will be vacation for the year. One will be something called stupid mistakes. I created this when I started getting traffic tickets. You can see that I'm being proactive. What are some other major categories of things that you would save for?

Kasey: [00:52:27] Definitely family visiting?

Ramit Sethi: [00:52:30] Yeah. Visiting family. Great. How old are you?

Vince: [00:52:35] Thirty-four.

Ramit Sethi: [00:52:36] And how much do you think you would need to retire? Do you have any idea?

Vince: [00:52:40] To live our same lifestyle, I would say maybe $4 to 5 million sitting in an account, multiple accounts. I'm not going to get any kind of a pension or annuity or anything like that from where I work, so it's going to be 401K investments and things like that.

Ramit Sethi: [00:52:57] How much do you think you need to contribute each year to investments alone to hit that number by 50? Just guess.

Vince: [00:53:08] Forty thousand.

Ramit Sethi: [00:53:09] A hundred thousand.

Vince: [00:53:11] Eye opening.

Ramit Sethi: [00:53:12] Yeah. Now, what do you think about all the expenses that you've been spending money on?

Vince: [00:53:19] It goes against the goal.

Ramit Sethi: [00:53:22] Beautifully put. It's like someone's trying to run down the field and their teammate is literally holding them back from getting to the end. It's not just that they're being slowed down. It's actively pushing them in the opposite direction.

Again, if you told me my money dial is cars, I love cars, or I love my house, or playing in the backyard, fine. I'm not Dave Ramsey. I'm not going to come in here and tell you everything you're doing is wrong. I don't like that. I want you to spend on the stuff you love. In fact, I want you to spend more on that. But you both mentioned to me retiring early was really important to you.

Kasey: [00:54:02] I think that we should have a plan.

Ramit Sethi: [00:54:04] Well, let's make it right now. We're all here together. Let's do it. If the income stayed low for the next six months, what would it mean for the household? What would you need to do?

Vince: [00:54:17] It would be cuts, cut back.

Ramit Sethi: [00:54:19] Yeah.

Kasey: [00:54:20] I think the fastest way would be get rid of the cars, trade in the cars. That would be easy fast money, if we get to that point.

Ramit Sethi: [00:54:31] I feel like there's no vision. If you were to go trade in the cars, here's how I bet it would go. The income would stay low for several months. You two would have increasingly stressful discussions. You want the income to go back up because you both got used to it and you both like it. And I don't blame you, that's a really good income.

But at the same time, Kasey, you're mentioning, "Hey, I don't want him to overwork himself. I want him to have work-life balance, time with the family." But that may be incompatible with him earning that kind of money in his industry. Then, if things keep getting worse, you start getting these really drastic your back is against the wall type of decisions. "Let's go trade in the cars and just get rid of them. That'll do something." And then, two months later, you're going to look at your bank accounts and be like, "Oh, shit. We're still in trouble."

Why? Because there's no vision. There's no actual running of numbers here. It's just one reaction after another. Things are bad, work harder. Things are still bad, take a step down and run your own money. Things are still bad, sell the car. "Uh-oh. Now, we're really in trouble." Does that sound realistic? Does it sound like something that could conceivably happen?

Vince: [00:55:50] Maybe because I'm so positive, like you mentioned, I don't think so. I really don't.

Ramit Sethi: [00:55:54] Why?

Vince: [00:55:55] I do trust in the company I work for. And I do trust that maybe, like I said earlier, my dad kind of instilled in me. We will figure it out and everything will be all right at the end of the day. Like, we were not going to get to the point where once we sell everything, then what? I don't see that.

I mean, your question was, do you conceivably think that could happen? I mean, it could. World War III and then housing definitely isn't going to be on the forefront of anyone's mind. They're going to be thinking about a lot of other things other than refinancing or purchasing a home.

Ramit Sethi: [00:56:35] Do you have one of those things in your kitchen, you know, those things that says, like, Home Sweet Home? Or one of those signs everybody gets at Ross. You know the ones I'm talking about?

Vince: [00:56:46] I know what you're talking about. I don't think we have one. Do we?

Kasey: [00:56:47] We don't. But, yes, I know what you're talking about.

Ramit Sethi: [00:56:51] Thank God. I'm sure all of our moms had it in their house. So, my mom had one with a list of, like, 20 different sayings and they're really positive. And one of them was "Trust in God, but lock your car." And I think that might be relevant here. Trust in your company. Sure. That's great. But make a plan if everything goes dark.

It would have been best had you made the plan at your 300K peak. That would have been best, but we can't turn back time. So, let's do it right now. And then, best case, you never have to pull this plan out. Great. But the worst financial situation in the world is to have your back against the wall, to have no options and only bad choices.

I want you to be saving. I want you to have at least six months of an emergency fund. You have five months, you're really close. You could basically get there in a couple of months. Your investments, they should go up, but they're currently fine. You probably cannot afford to do much more at this stage with the income where it is. That also means that you're not on track to retire early. Not even close. But that's a problem that can be dealt with later. When your income goes way higher - I mean, your income has gone up so dramatically in the past - you could catch up, like, in a matter of a few months or even a couple of years.

Your expenses are a massive risk to you. I'm not just talking about the cars. I'm talking about how you both spend money on something really expensive, basically, every single month. And both of you just kind of shook your head and, like, bit your lip, because deep down you know it's true. You like nice things. I don't blame you. I like nice things. You both are very loving to each other. You encourage each other. "Yeah. Honey, get the Porsche. Let's get the thing for the backyard." Right now, each thing you buy increases your one time expense and your ongoing expense.

So, what would I do? I'm going to minimize expenses in a couple of ways. It's actually a great time to get rid of cars. That Porsche is a big one. And if your income stays the way it is, that's going to become something around your neck. Now, you're making a bet here because what if you sell the Porsche and then two months from now, your income goes way back up to $350,000? You're going to say, "I hate that guy, Ramit." That's why it's up to you. The point is, where could you get $30,000 that you could put in your savings and give you a cushion for what might come?

Finally, there are other expenses that I think the two of you mentioned. I'm not talking about the pool guy. That's not the level we're at right now. You two are not in that kind of financial precarity that you need to start cutting $50 here and there. I'm just thinking, what could you do to get ahead? Anything where you're like, "We're spending $500 to $1,000" when you were making 300K, it's irrelevant. Who cares? Now, it's actually pretty important.

So, I think that if you were to do that, number one, you're going to create a lot more discipline. That's going to help you get back to your early retirement goals. Second, Kasey, it's going to help you become a lot more calm about money. Right now, there's just a lot of uncertainty. I get why you're stressed out. Kids, incomes going down, every time you pull out of the savings you feel like there's a deficit. Even though I'm looking at your numbers and I'm like, "Okay. You got money here." But I understand the trend is not promising.

Kasey: [01:00:48] It feels good to have somebody say out loud what I've been thinking and what I know needs to happen.

Ramit Sethi: [01:00:56] Yeah.

Kasey: [01:00:58] Somebody whose financial advice I trust.

Ramit Sethi: [01:01:02] What else? You feel nervous?

Kasey: [01:01:06] Sure. It's a change. But it's been a change anyway going from 25 grand a month to even ten has already been a change. So, we have to do something.

Ramit Sethi: [01:01:19] That's right. And the difference is, you can take control of this instead of letting outside factors control you. You know, sometimes you have to make tough decisions. I think it's better to just at least make them yourself. The worst thing in the world is to have to make tough decisions, but someone else is forcing you to do it. You just then feel totally out of control.

Kasey: [01:01:45] Right.

Ramit Sethi: [01:01:46] So, if the two of you can make that decision together, hey, I think we should just get out ahead of this. Let's actually create a plan. This is all in the book, by the way. You know, let's talk about how long do we need to tighten up for, and then when will we know that we feel safe that we can actually loosen up a bit. So, it's not that you have to do this forever. Again, if the income goes up to 150, 200, 250, 300, you should spend on stuff you love. I don't mind it at all. I think it's great. But you probably need to adjust where you are today based on the income.

Vince: [01:02:26] I know that we need to change. I do think frustrating is, again, not the right word because it's just like, "Man, maybe the mistakes of our past are in the behind right now." We were loose with it because it was coming in hand over fist. And it was - I won't say easy - but it was easy and now it's not. So, it's just a change that we have to make and you just do it.

Ramit Sethi: [01:02:58] When I'm looking at these numbers, I go, "If they get out ahead of this, then even if things get worse, they're going to feel good. They've created a buffer for themselves." And then, Vince, you're going, "I make a lot of money. I have faith. I have trust. And even though things are a little tough right now, I think that things are going to go great." So, isn't it interesting that we all look at these numbers in three different ways and nobody's right, nobody's wrong. Time will tell. And, also, you all will tell what kind of life you want to live for yourself.

I don't want you to be stressed. I don't want you to spend money on stuff that's not a core part of your rich life. But I also do want you to spend on stuff that makes you happy.

<u>I Will Teach You To Be Rich Episode 43:</u>
<u>Kasey and Vince</u>

[Narration]
Ramit Sethi: [01:03:43] We started off today's episode by talking about irregular income, but Vince and Kasey's story goes a lot deeper than that. Remember that Kasey saw her dad lose his money. That's still affects her. And Vince grew up believing that things always work themselves out. So, he's passive and, at times, naïve. Both of them are impulsive spenders. At $300,000, they've masked it. But now that their income is going lower, it's like the paint is chipping away and they can see what's actually underneath.

My suggestion to them was to get aggressive, and ideally really aggressive. If they can sell these expensive items, start being disciplined about savings, they set themselves up for success no matter what income they're making. But if they don't make these big changes, they're betting that they'll keep making $300,000, which is a very big gamble. And they need to do this together. No more delegating money to one person. In a relationship, a rich life is built together, not by yourself.

Now, I promised you a follow up, and here it is. After talking to them, I encouraged them to keep in touch. About a month after we spoke, I received a follow up letter from them. You can read the full letter when you sign up at itw.com/followups.

But here's what Kasey wrote as an excerpt, "Immediately after talking with Ramit, we started working on our finances as a team. A few weeks later, Vince took a higher paying role. And the biggest changes of all - happening as we speak - we are turning in the Porsche Cayenne to get a less fancy SUV that we'll own free and clear."

That's not the only big change they made in the last month. You can read their full follow-up at iwt.com/followups, as well as follow- ups from past episodes. Thanks for listening to I Will Teach You to Be Rich.

Thanks for listening to I Will Teach You To Be Rich. I'm Ramit Sethi. Please follow the show on Apple, Spotify, or wherever you listen to podcasts. If you haven't read I Will Teach You To Be Rich, my book, pick up a copy. You can get it at any bookstore or any library. And it will show you the specific tactics for how to build the I Will Teach You To Be Rich system into your personal finances.