

EPISODE 563

[ASK FARNOOSH]

[0:00:32.9]

FT: You're listening to So Money everyone. It's Friday, April 21st, 2017. Welcome to the show. I'm your host, Farnoosh Torabi. It's Ask Farnoosh time, when we answer your biggest money questions. We've got question from Elliot, Kate, Heather, Karina, Sarah. If this is you, perk up, because we got some answers.

Joining us as always is our lovely assistant, Sophia. Welcome to the show.

[0:00:57.7]

SY: Thanks, Farnoosh.

[0:00:58.9]

FT: Hey, Sophia. Did you do anything for Easter? That was last Friday, right? Or last weekend.

[0:01:04.2]

SY: Yeah. Actually, I was very happy because this year, the Greek Easter, and the normal Easter were on the same weekend. It was really nice we got to celebrate with our family. We paid a little homage to the Greek Easter and had lamb and spent some time with some of our Greek neighbors, so it was a lot of fun. How was your Easter?

[0:01:26.2]

FT: Pretty uneventful this year, because we had a little baby and she hasn't gotten her shots yet. We're just sort of — We're not that keen on taking her out to public — We've taken her out, but

we're not, "Let's go to an Easter egg hunt with a bunch of three-year-olds that have runny noses."

It's cute. We stayed in Brooklyn and we went to the park, and our building had a little Easter egg hunt for the little kids as they always do in the courtyard in the back. That was cute and quiet and nothing crazy.

Speaking of Greek churches though, there's a beautiful Greek church up the street from my apartment and I guess a couple of months ago they were filming Homeland on the street where that church is.

[0:02:12.8]

SY: Oh my goodness!

[0:02:14.1]

FT: Yeah, and then I watched Homeland and I could see the church in one of the shots. It was a pretty intense scene; there were some cars that had — Basically, it was like a bomb scene. I don't know if anybody watched Homeland, if I'm spoiling it I think for you, but there's an explosion in the last episode as there are in almost every Homeland episode. There's a car explosion and it actually — We were there to see it. We were watching it and we're just happening to be strolling around the neighborhood and we caught them — all the extras. We actually got a glimpse of Rupert Friend who plays Peter Quinn on the show. That was our New York moment, as we have many of those New York moments in Brooklyn. There's so much filming going on in this neighborhood. It's pretty cool. We get to see, sometimes, celebrities.

I think it's so cool to see all the behind the scenes, just to film that — Whatever it lasted, like 18 seconds, that shot, the hundreds of extras, the number of — The carnage vehicles that they had. Of course, the staff, the producers, the directors. So much money goes into making a movie, and it was a Sunday too, so that's cool that they're all working on a Sunday. Show business is not sleep on Sundays I suppose.

[0:03:27.8]

SY: No.

[0:03:29.1]

FT: There's no business like show business. Anyway, that's my little tangent from the Greek church, to Rupert Friend, to cars exploding on Homeland. By the way, if anybody watched Homeland this season, pretty dark I would say. Did you watch it, Sophia?

[0:03:42.8]

SY: I didn't, but I saw the headline today. I watched the first two seasons and I saw the headline and then I opened the article and I was like, "Do not read spoilers that had any of those." Let me just read it, and I read what happened and it's pretty sad.

[0:03:57.1]

FT: Yes. It is always a sad ending, and sometimes a scary ending, and sometimes a hopeful ending. They do an incredible job writing on that show, but I heard that they were editing the last scene, the last episode up to the week before it aired because they tried to kind of play to what's happening politically in real life, which is probably why they had a female president in this season. They probably booked before they really saw what was coming. They really thought we were going to have a female president — Wait.

That didn't end up shaking out correctly, but a couple of other sort of themes this season were very similar to what we're hearing now about like "fake news" and just a president that is — How shall I say is very blurred and hard to figure out sometimes. Anyway it's a really good season and it's a great show. If anyone is looking for something to binge on, definitely Homeland. We're Homeland fans here.

I watch a lot of TV in the last six weeks, or I guess, now, it's been two months since Colette was born. If you need any picks, just email me, but Homeland definitely tops it. Billions is great,

obviously, because I love anything that's behind the scenes Wall Street, or hedge funds, or money, but also Damian Lewis steals my heart. I love him. Then, I've also been watching Transparent and Catastrophe on Amazon, all really fun and good.

Okay. Let's get to business. Elliot has got a question for us and it's about retirement. Tell us what's on his mind.

[0:05:28.9]

SY: Yes. He's wondering if he should put money towards more savings, a Roth IRA, or a different retirement fund, or his student loans. Right now, he's 33 making \$55,000 a year with \$5,000 in savings and 1,000 in his checking.

[0:05:45.8]

FT: So often, people really have to decide either or, right? It's not like I could say, "Elliot, just do it all," and he'd be like, "Oh, yeah. Why didn't I think of that?" Tell me a little bit more about — Did he share anything else about his student loans in terms of what the interest rates are on those loans?

[0:06:02.0]

SY: Yes. Right now, his student loan debt is at 76,000, many of them are small federal loans with 6 to 7.9% interest rates.

[0:06:11.6]

FT: Okay. I see he's living in Brooklyn with his fiancé and they want to buy — I'm looking ahead. I'm sneaking a peek at his question. He also wants to buy a home in the next three to five years in Brooklyn. Oh, Lordy! That's going to cost a nice chunk of change depending on the neighborhood.

Okay. Elliot, I think that you're 33, you've got \$76,000 in student loans and you want to buy a home in the next three to five years. On top of that, your savings is not something to really write home about. 5,000 is not bad, it's just not really going to cover you for several months if you lose your job.

I think the priority is savings and the reason is because, hopefully with the salary that you're making, you can just put a little bit more towards savings. I would love to get to 10,000, or a place where you feel you could support yourself for four to six months in the event of you losing your job. You can at least cover your rent. You can at least pay for your food. You can at least maintain healthcare. That may be more than 10,000. I'm ball parking, but something where you feel you have enough in and that you just check off that box.

Then, you work on being more aggressive with student loans. Love hearing that they're federal loans, because that to me says that perhaps there's more flexibility there if you need more help. There's income-based repayment. You might be able to qualify for that. You could just call and maybe see about refinancing perhaps. I don't know. Maybe you can consolidate, get a smaller interest rate. Who knows? There's just, as we know, private loans can be really a bit more rigid than public loans. Look into talking to your lender there and saying what kind of modifications are available to you to maybe reduce that monthly payment a little bit, maybe extend the term. That may even be paying more interest over the life of that loan, or loans, but it could give you that breathing room month to month.

Then, your next big hurdle is buying that home in Brooklyn. I was just reading an article about how first-time buyers can really prepare themselves for a volatile real estate market. I know in New York, it's very emotionally tolling because they're like hash buyers. People see dozens and dozens of homes before they end up even getting their bids to get through. They might love all of those homes, but there's always something that falls through if there's a catch.

Most import thing that you can do as a first-time buyer in Brooklyn and anywhere is to have a lot in savings. Again, that's why savings is important. From an underwriter's perspective, having student loan debt, especially federal loans and the fact that you're on time and you haven't been delinquent is not going to hurt you. When they see that you don't have any savings or much to

really combat that, that's when that could potentially hurt your chance of qualifying for a really good loan for your first home.

Make sure that you have really built up your savings. Not just your rainy day savings, but the savings that you will need to pay for the down payment. Think about your price range of homes and then take 20% of that and start to save that much, you and your finance together. Hopefully you can both put your savings forces together and make it happen. I think savings first, student loans next, and then once you've sort of maybe gotten to a happier place with savings, look to compartmentalizing savings to siphon more for the home, the down payment.

Yeah, buying a house is no small feat, it's going to require a lot of savings. Cash is king when you're buying a home. That's my advice for you, Elliot. Good luck, and let me know if you have any more questions about buying Brooklyn. I'm obsessed with real estate. I purchased in Brooklyn — It's going to be our six year anniversary coming up and I always — I'm curious about how prices are doing and the new developments that are going up. Send us a follow up questions if you have anything specific about buying in Brooklyn.

All right, Kate has a question here also about retirement. Last week it employment was the theme. This week, it seems to be retirement.

[0:10:13.5]

SY: All right. Kate has a question about IRAs. Basically, can she invest in multiple IRAs at the same time? She has a traditional IRA already, but she's at a new job with offers a simple IRA. She's also thinking of opening a Roth IRA.

[0:10:29.6]

FT: As far as I understand, the IRS does allow you to have multiple IRAs. However, the maximum contribution total amongst all the IRAs is the \$5,500. Whether you do 5,500 in one IRA or across three, it can't be more than 5,500 this year at least as December sometimes changes. If you're over 50, or 50 plus, it's 6,500, you get an extra thousand dollars in catch up contributions. I believe that is the rule. You can't do more than that across the different IRAs.

If you wanted to maybe diversify your tax exposure, have a Roth, have a tradition, that could be cool. That could be helpful, but just keep in mind you don't want to exceed 5,500 in the first year or in any year, but just check the IRS requirements every year, because sometimes that contribution limit does change. It does go up occasionally. She's also 25, so this is great to hear from Kate, the 25, that she wants to get really aggressive with the IRAs.

Heather also has a question about IRAs. My goodness! It's like IRA month.

[0:11:36.1]

SY: I know. Right now she's in the process of opening up a Roth IRA online.

[0:11:40.3]

FT: It's tax season. That's what it is. I think people are like, "Oh shoot! I got my taxes back. I owed a lot, or whatever. How can I reduce my taxable income?" Maybe? I don't know. I'm guessing. This is about Roth IRAs, which is not helping you reduce your taxable income, but it has the other tax benefit of being able to withdraw tax free. Anyway, sorry to interrupt.

[0:11:59.9]

SY: Oh, no. It's fine. She's in the process of opening a Roth IRA online and she currently contributes the max to her company's Roth 401 (k). She wondering what your thoughts are on traditional versus Roth IRAs. Would one be better over the other for her? What about 401 (k)s? Do you like the traditional 401 (k) or the Roth 401 (k)?

[0:12:21.3]

FT: All right. Let's tackle her first question which is; which do I prefer, a Roth or a traditional IRA? Heather, I did a whole article on the Mint blog. Go to blog.mint.com and look up Farnoosh and IRAs, and I did basically did a whole piece on the difference between Roth and traditional. Which one might be better for you?

The bottom line with the question about whether you should do a Roth, or a traditional, which is best for you? There are a few considerations, but I think the biggest consideration is your tax bracket in retirement. Where do you expect to land? Do you think it will have a higher tax rate, or a lower tax rate? If you think your tax rate is going to go up, then a Roth IRA may be best, because with a Roth IRA, although contributions do not lower your taxable income today, the withdrawals in retirement are made tax free. You're not subject to taxes in retirement. That's where a Roth could really benefit you.

Her other question about traditional 401 (k) versus a Roth 401 (k). Here is the thing. Again, with a traditional 401 (k), you're talking about making contributions and then those contributions reducing your taxable income today. If you'd rather have that benefit, then allowing yourself to withdraw money from the account tax free, which is what a Roth 401 (k) allows you to do, then you have your answer.

This is hard to really gauge. I get it, because who knows what their tax bracket is going to be in retirement? I think that if you're young and you're arguably making a smaller salary, chances are your tax bracket is lower now. It's going to go up later on down the road. That's why a lot of young people are encouraged to open up the Roth IRA. Does that answer her question? I think that's about it, right? Traditional versus Roth, 401 (k) versus Roth 401 (k).

Hopefully, her 401 (k) at work, whether it's the Roth or the traditional offers a match. If it does, and that would be the first thing I would invest in. Of all the different things that you have available to you, if whatever is matching, go there, because that's where you have the free money. Check out the article on Mint again. It's blog.mint.com, and the article is called *Everything You Ever Wanted or Needed to Know About IRAs*. That's a doozy to write.

[0:14:39.7]

SY: All right. We have a question here from Karina, and it's a work related question. She wants to change departments at work because there's an opening and she was even offered the position, but she doesn't know how to talk to her current boss without making things too awkward or dramatic. She's wondering if you have any advice.

[0:14:59.1]

FT: This is interesting. I just had a friend tell me about something similar happened to her where she's at a company and she's not super thrilled in her current role, and just through virtue of being at the company and talking to her coworkers discovered an opening in another team that seems more exciting to her, and the manager of that team actually said to her, "You know? We'd love to talk to you more about this."

The manager of that team, the cooler team, was like, "Let me talk to your current manager. Just so, it doesn't look like I'm poaching you, or that you kind of came to me in secrecy." This conversation between them kind of happened very organically as water cooler talk happens around the office. It wasn't as if there was any kind of secret medalling.

I think that kind of helps. My friend, in this case, kind of come off as sort of the innocent party. She just happened to find out about this opening, the manager thinks she'd be great for it. Out of courtesy, out of respect, let's talk to her manager about the opening and make sure that if this is something my friend actually does want to do, that the transition can be done smoothly.

Karina, this is what I would suggest you, is to talk to the person who is running that department to maybe schedule a talk with your current boss and talk about how this is something that you're interested in, that the team would love to have you join. We want to also make sure that your current boss is sort of in the know from the beginning and that doesn't — He or she doesn't feel blindsided, as sometimes could be the case.

Of course, if you're still working under the same roof with these people and you run into the bathroom together, that could be awkward, or in the elevator together, that could be awkward. You want to make sure that you're just keeping things pleasant.

I think the next step is to have this boss talk to your boss, and maybe you're in on that meeting as well just so you are aware of what is being said and that you're being represented fairly. What do you think, Sophia? We don't have different departments here at Farnoosh Inc., so if

you wanted to “switch departments”, I don’t know. That doesn’t really apply here, but has that ever happened to you in your previous jobs?

[0:17:10.5]

SY: It hasn’t. However, I did have a few — There was definitely an opportunity to move to different departments, but I was very happy with the group that I had been working with, so it was a bit different. I did have some coworkers and colleagues who — Actually, one in particular, who had been on my team and had thought that he wanted to be on another team and moved to that team and was not very happy and wanted to move back.

[0:17:37.4]

FT: Oh.

[0:17:37.9]

SY: I know. It was a little bit of jumping around. I do remember talking to him about it and saying, “You know, I think the best thing to do is to just sit down and be honest with your colleague and say, “I really do enjoy the opportunity that I have working with you. However, there are some opportunities that maybe this position isn’t allowing me to pursue that I wanted to try out and test out in this other opportunity —

[0:18:07.8]

FT: Team, yeah.

[0:18:08.5]

SY: “This other team might allow me to try that and it’s nothing against you. It’s nothing personal. It’s just something that I would be interested in doing.” That also allows your colleague and your supervisor to maybe say, “Well, I didn’t know you were interested in that. Maybe there’s some room on this team for that,” or “I totally understand. At least I’ll see you around the

office. We can still hangout and work together on other projects. Now, you're also getting some new opportunities as well." I think, yeah, just being and honest, but just being nice about it too.

[0:18:44.6]

FT: Remember too, this is business. Karina may be new at the company or she's on the younger side, and I think when we're young and we're starting out in a company, or we're kind of — We're not senior. We feel like we have to tiptoe around subjects, or we have to be super nice and happy and smiley. Certainly, be yourself if that's who you are.

Remember too that people switch in and out of teams a lot. That's how people end up staying at companies for a very long time. You think you're going to stay in the job at the same company for 15 years. If a company doesn't want to retain its employees, then they have to keep keeping them inspired and moving up and moving around. Otherwise, they're going to move out.

It's to the benefit of this company — Kind of taking a step back. If her current boss is sort of aware of what's happening in the world and also realizes that this is common place in companies, I think that should be understood. Don't worry about offending them based on your desire to do this, because I think it happens a lot, and it is a great way to retain employees.

Otherwise, if you weren't able to do this, Karina will probably move on, and then the company is suffering an even bigger loss at that point. Just keep that in mind too. I think it's always important when you're in a workplace environment that you keep a broader perspective, and that hopefully will give you the confidence to do what you want to do and not feel like you're being inconsiderate or you're taking things too personally.

Business is business, and yes you want to respect your colleagues, and certainly do that, but also keep the context in mind too if what you're actually proposing. It's like, "I'm proposing staying with the company. I'm continuing to be an asset to the company. I just to find a happier place," and that should hopefully be respected.

Room for one more question, and this from Sarah, and she is curious about student loan debt and how to manage her debt as she goes to a graduate program, right?

[0:20:50.9]

SY: Yeah. She has a couple of questions. She'll be going to grad school in the fall for a two-year master's program where she'd take on student loan debt. She will have an assistantship that should be almost enough to live off for the duration of the program. She's wondering how should she prepare financially right now while she's working full-time.

[0:21:11.8]

FT: Okie dokie. She is working full-time right now. Has she saved up anything?

[0:21:17.6]

SY: Yeah. She said she's been saving up. She doesn't say how much, but she's also been doing some dog sitting on the side and she's not really sure what else she can do. She's wondering, should she start reducing her retirement contributions?

[0:21:31.4]

FT: Okay. She will have that dog sitting job, which I recommend keeping during the program and even now, just keeping at it. Any additional side income that you can make would be fantastic, because it's going to help you be able to pay off those student loans right away when you graduate, maybe even during the program, you can start paying the interest on those loans.

It's important that you have money when you graduate, and that may seem difficult because you're going to school. Having a side gig, and thanks to the virtual economy and the side gig economy, we can do that now. Finding something simple to do virtually on the weekends, when you're not studying, to shore up a chunk of change that you're going to need, not just to pay off those student loans, but let's say you don't find a job right away. You're going to have to maintain your living cost and your expenses while you are looking for work.

Having a cushion, I would say, like a three to four month cushion will be essential. Maybe you won't end up using it, so it won't be essential, but it will be extremely helpful. No one ever complains about having savings. Like, "Ugh! I wish I didn't save for this thing that I no longer need to pay money for." Now, you can do something else with that money. Keep at the side gig. Do something to build up savings.

As far as retirement contributions, maybe those will have to go on the back-burner for a while and I think most important is that you don't fall behind on the student loans, you have some money to help you pay for your living expenses when you graduate. As you find that next job, and hopefully it's soon, you can get back to being aggressive with retirement, maybe even playing a little bit of catch up. If you were doing 10%, and before the first two years that you're getting back to retirement contributions, you do 12%, 15%, just to kind of make up for lost time.

All right. That's a wrap. Sophia, thank you so much.

[0:23:22.3]

SY: Of course.

[0:23:23.1]

FT: Thank you to Sarah, and Karina, and Heather, and Kate, and Elliot for all your great questions. We have a new farnoosh.tv and a new somoneypodcast.com, so let us know what you think of the sites, if you've discovered any bugs, any kinks, we want to know. This is kind of between now and the foreseeable future, we'll be ironing out some of the issues, but hopefully nothing too crazy.

If you, of course, have a question for us, it's always simple to do that, just go to somoneypodcast.com and then click on Ask Farnoosh. You can voice in your question, leave a voicemail, or type it in, and we will hopefully get it in the queue ready for an upcoming episode of Ask Farnoosh, and hope your weekend is So Money.

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