EPISODE 238

[ASK FARNOOSH]

[00:00:30]

FT: Welcome back to So Money everyone. Enjoying the long weekend! It is Labor Day Weekend, 2015. Welcome to So Money, I'm your host, Farnoosh Torabi. Thank you for joining me for another Ask Farnoosh session. And of course, if you've been listening to this show, you know that these weekend episodes are soon to go away. Starting on September 14th, that week, that Monday I'm going to a five day per week format, getting rid of the weekends. Monday through Thursdays, interviews with interesting people about money, then Fridays dedicated to answering your money questions, which you can submit to me by going to Somoneypodcast.com and clicking on "Ask Farnoosh". So I just want to give you a reminder about that.

And, let's go to our questions. We've got just a few today. It's a lighter weekend of questions. I didn't get that many questions this week, but you know, some weeks are busier than others. We have a question here from Scott. He says:

S: “My wife and I worked with an “advisor” from 2004 to 2009. I’ve since come to realize that this person is nothing more than an asset collector / insurance product pusher.”

[00:01:37]

FT: Yep! I know what that's like. So Scott says:

S: “Since then, we have done DIY investing and I’d like to transfer those assets into our Vanguard accounts. However, my wife likes this “advisor” and doesn’t want to create conflict, and does not want me to transfer her investments away from this “advisor”; it’s her money and account and I see two options: 1) do nothing or 2) transfer my accounts only with the potential to create conflict between all parties involved. Help!”

[00:02:06]

FT: Yeah Scott, looks like you really need to go back and talk to your wife about this and find out why she wants to stay with this advisor. Maybe she needs to send me some of her own questions as well because it sounds like she's emotionally tied to this financial advisor, and that's no good reason to stay with anyone who's managing your money. Not just cause you like them, but they're actually doing the job they promised to do for you, which was to not necessarily earn you 10% year over year, but to make the moves with your money that are in line with your goals.

Honestly, maybe the best thing is to transfer just your accounts because at least you're shielding some of that money and you're diversifying the management. The other thing you could do is let her keep her money with this advisor for six months, a year, and then you move on and then compare notes along the way. Maybe she just needs to see evidence that there is a better option out there and so that could be another way to tackle this. Alright, good luck!

[00:03:06]

Eric says:

E: “Hey Farnoosh - thank you for delivering amazing content since day 1! I still remember the day you launched the podcast and I have been a subscriber since then.”

[00:03:13]

FT: Wow, thanks Eric!

[00:03:15]

E: “Question: I am a new parent also, and technology seems to be dramatically changing our future landscape. What are your thoughts about the future of education for our little ones?”

[00:03:25]

FT: Yeah well you know Eric, I have a 529 for Evan, which I opened while I was pregnant and I firmly still believe in higher ed. I would love for my son to go and pursue higher ed, if that's what he wants to do. I hope to have more than one child one day, so if he's not going to take advantage of that 529, maybe our second kid will. And I'm not gonna pressure our kids to definitely go to college if they have other viable options that are just as exciting and interesting, and again, viable and fruitful.

Who knows what's gonna happen in 18 years? Or in our kids cases, 17 years. I think that for sure, there has to be some kind of transition, change, shift in how people are affording college. You can't continue to have people taking out 80, 90, $100,000 in student loans to get a basic degree. That's just not viable. We're gonna collapse our economy eventually, I think, with all this debt hanging out there.

So I see that online education is definitely gonna be the wave of the future. It's the way of the current, right now, and I think it's gonna continue. That momentum is gonna continue and we're gonna be seeing a lot more affordable ways to get that degree. Part time, online, community college, parochial schools. I'm not worried that our children are not gonna get good educations, or affordable educations. It's just not gonna maybe look the same way that it does today or it's gonna be just a more hyped up version of what we're seeing now where there are a lot of online course.

And I like the classroom setting. I hope that Evan chooses a more traditional path and that he gets to maybe do some online stuff, but then also gets that one-on-one time with professors and student because I think that is a really enriching experience and kind of what college is all about, right? Meeting people and discovering a little bit about yourself, more about yourself through others.

So I wouldn't worry, Eric, but I would say, "It doesn't hurt to start saving, at the very least, somehow, someway. And the sooner, the better." [Laughs]

[00:05:25]

Next we have a question here from Ben. He says:

B: “Hey Farnoosh! Question for you; My wife recently lost her mom, and will inherit her 401(k). What should a person - non-spouse - do/know when inheriting a 401(k)?”

[00:05:39]

FT: This is a really good question. I've never had to answer this before, so I went online and I did a little Google searching, and I did go to some of my trusted resources for 401(k) help. One's called 401khelpcentre.com, very easy to remember. And what they recommend is that whether you are the spouse or non-spouse, a child, inheriting a 401(k), doesn't matter who you are, all the rules are kind of the same. And the first step is to really understand the 401(k) plan rules for beneficiaries that are withdrawing.

And so it may be that you don't have to do anything right now. You can just leave the money in the 401(k) for years until you're ready to withdraw. In other cases there is a time limit that you have to start making these withdrawals. So just be aware of where that 401(k) stems from, and understand the rules and provisions around a beneficiary's rights.

The most likely scenario is that a beneficiary can withdraw from a 401(k) in a lump sum distribution. So one fell swoop. It will be subject to local state and federal income tax. You may not have to pay the early 10% withdrawal tax, even if you or the person who passed way, in this case your wife's mom, was under the age of 59 and a half. And if you are the spouse, you can roll that money into an IRA. If you're the child, I don't know if that rule applies.

You can also stretch out the payments. So rather than doing a lump sum, which is most common, a beneficiary, whether you're the spouse or not, can also get payments from the account over several years. And that way you can spread out the tax hit. So just a few tips and tidbits on what happens when you inherit a 401(k) from a loved one, in this case, your wife's mom. I'm sorry to hear about her mother's passing.

[00:07:28]

Jon, last question. Jon says:

J: “I'm looking to buy my first house. However, I am having a few struggles on where to start exactly. Should I worry about location, "brand new" or older house, or price range? Help! Thank you.”

[00:07:39]

FT: Wow, this is quite the question! This is like the Mac Daddy of real estate questions; "I wanna buy a house, help!" Okay, so let me go back to when I was house hunting; a few times I've been house hunting, and I think geography is one of the top three things you need to be concerned about. Where do you wanna live? And when you're considering your location you wanna look obviously at home price, what's affordable? What's not? But also, think about taxes and the average utilities and the commute perhaps, from your home to your job.

All those things matter when you're picking a home because it's not just the home that's gonna make you happy, it's the distance of that home to everything that you wanna do and go to. So keep that in mind, geography's very, very important. Locations's very important. As they say, "It's location, location, location," right?

Brand new or older house? Well it just depends on how much of a home improvement person you are. If you like to repair things, if you look forward to renovations, if you don't mind leaky faucets and this and that, and you feel confident that you can go in and make repairs on the cheap and on your own, hey, go for a fixer-upper. You'll save a lot of money up front.

Brand new is for someone more like me who doesn't know a Phillips head from a whatever head. Like I don't [Laughs], I don't know jack squat about renovations. I can change light bulbs, I can sort of put up an IKEA shelf, but don't trust me. So I like brand new. I'm just maybe lazy like that. So, and as far as price range, as I mentioned yesterday someone was asking me about real estate so check out that episode.

Price range; it's all about figuring out first what's your take home pay every month? And then take of 25% of that, and that's really your monthly housing budget. So whether you're gonna rent or buy, try to stick all that into 25% of your budget because more than that, I mean maybe you'll go a little bit higher if you're in like LA or New York or San Francisco, 30% I've seen. But the more you spend on housing beyond that, just the harder it becomes to be able to have all the other things that you want and need.

So try to keep your housing costs, and that includes your monthly mortgage, that includes taxes and utilities, keep it contained to 28, 25% or less of your take home pay. And I think that could be a good starter's checklist for you, and if you need other resources, I've talked about her on the show before and I wanna get her on the show, Ilyce Glink. She's a real estate guru and has got a lot of information out there, advice through various platforms; a radio show, books, online articles. She talks about real estate from A to Z, as well as investment property. So check out Ilyce Glink, good luck on your house hunting, and ask me more questions as you get further into this. I'm really curious to see how this works out for you. Alright, Jon? Thanks!

[00:10:33]

Okay, that was fast, right? I'm not trying to scurry off here. I think after doing all these Ask Farnoosh's since January, I've gotten the hang of it a little bit. Not to say that I'm definitely giving amazing answers here, but I'm getting more comfortable answering your questions, is basically it. And so I tend to talk a little faster. I hope you caught all of that. But of course we'll have the transcripts, right? Check it out at Somoneypodcast.com and there of course you can continue to send me your good questions. Click on "Ask Farnoosh", and that is how we can connect.

Thanks so much for tuning in everyone, and a special thanks to Jon, and Ben, and Eric, and Scott for your questions. Hope you have a wonderful day off tomorrow everyone. It's Labor Day! Unofficial end to summer. Hopefully we'll have many more warm days ahead. Have a great one, and hope it's So Money.

[END]