

EPISODE 518

[ASK FARNOOSH]

[0:00:32.7]

FT: Welcome back to So Money everyone. 2017, our first Ask Farnoosh of the New Year. Welcome to the show. I'm your host, Farnoosh Torabi. Joining me as always is my lovely and trusted assistant/ringmaster, Sophia, welcome. Sophia, Happy New Year.

[0:00:49.8]

SY: Thank you, happy New Year to you.

[0:00:52.0]

FT: It's been a really — I feel like we jumped out of the gates in 2017, we kicked off Monday on The Today Show and we have this huge Mint campaign that we're doing on Instagram. If you're not following us there, please join us, it's a lot of fun. Basically, I've been given the keys to the Mint Instagram kingdom. I don't know what they were thinking but they let me basically take over their handle, or I should say their Instagram, for the entire month.

The goal is to encourage myself and everybody else to basically start and finish a new year goal, a new year financial goal. I'm not going to say the R word, but basically like a goal, something to pursue, something to implement in your life, whether it's to pay off debt, save more, earn more, start a business, all of the above. Personally for me, I think given that it's countdown to baby number two, it's really go time for getting the financial ducks figured out for her.

Not to say that we haven't done anything financially sound around parenting yet, but it's just that we actually are going to open up a 529 for her this month, we're going to start savings account for unexpected things that could happen after she's born because there's a lot of unknowns when you have a baby. You don't know what will come your way. Then of course you know,

some splurges like for her room, little decorative things we want to do just to make her homecoming feel really special.

So anyway, that's me but we want to hear from you. So follow mint @mintapp on Instagram where you can see me taking over, I'll be doing some Insta stories as well, videos, all that jazz. Yeah, it's been a busy January kick off and looking like we have no shortage of questions either at this Friday, don't we?

[0:02:39.8]

SY: No we don't. These are actually from 2016. We're a couple of weeks behind just because so many people have been writing in, which is great but...

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FT: There's a lot of reflection over the holidays.

[0:02:51.0]

SY: Yes, yes.

[0:02:52.7]

FT: A lot of pontificating. I'm excited to say that we are on pace, we have been encouraging all of our listeners, all of you guys/gals, to voice mail us. Like leave a message on somonypodcast.com, you can do that now, just click on SpeakPipe and a little widget that I have gotten on the home page, it's really easy to just record using your phone or your laptop microphone.

This week, we have yet another thoughtful question, this time from Nicole and I'll have you take a listen. But overall, she's curious I think it sounds like how to manage this car loan that she's got. Here's Nicole.

[0:03:28.7]

N: Hi Farnoosh, my name is Nicole. I am saving for my retirement, I am almost hitting my goal for my emergency fund, and now I'm ready to start paying a little extra on my car payment. So do I pay the extra on the car payment that is a 5% interest rate — that's my highest interest rate — should I just pay like a little bit extra on the principle each month, or should I pay a little extra just in general? Yeah, we owe \$20,000 on the car.

Anyway, yeah, it's a big loan and I'm afraid we're never going to get out in front of it. So my gut tells me to just pay an extra payment each month, almost like a double payment hitting just the principle. I just wondered your opinion on that. Thanks a lot Farnoosh.

[0:04:22.1]

FT: All right, thank you Nicole for your question and \$20,000 car loan, that's a serious amount of money. So good to know that you're looking to prioritize that. I think that you are right Nicole that it's better to pay the lump sum or the extra payment towards just the principle. That's going to knock down your balance a lot faster than if you were to make just another payment, which would include interest and principle.

So effectively when you — and this is true for any loan you have, your mortgage, your car loan, your student loan, your credit card even. If you have extra money to put towards the debt and you want to be aggressive, as aggressive as possible, make sure that you're assigning those extra dollars to the principle not principle plus interest. That's because when you do just principle, all the money goes towards principle, that extra payment. Versus principle plus interest, it's going to be divvied up somehow.

Of course, the smaller your principle becomes, the less interest you pay over time, it's a win/win. So that is what I would recommend. Nicole, it sounds like you know what you're doing because guess what? You listen to this show and I think whether it's osmosis or just picking up things randomly here and there, people are learning. It's really nice to see that we have new reviews Sophia, have you checked them out on iTunes? We got some nice reviews in the past few days. Unsolicited.

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SY: Yeah, it's been great.

[0:05:48.4]

FT: I think it's great because it's unsolicited. I do sometimes just shamelessly ask for reviews, and I'm doing that now, please leave a review, that would be great. But it's just nice to wake up to people who are just honestly and, you know, inspired enough to go on iTunes. It's not easy to leave a review on iTunes, I'll be the first to admit, they don't make it super straight forward. But we have like this review here from Lindsay who says, "The show is my motivation."

She says:

L: "I'm currently working all day every day trying to make the transition to full-time employee to full-time freelancer. So Money helps me get through my long days of designing and illustrating and gives me inspiration to keep going."

Thank you, thank you Lindsey. You will get there, this is going to be your year. Then Payra says, "I listen to the show to help me realign my mind to welcome money in my life." Cool!

[0:06:39.9]

SY: I like that.

[0:06:41.7]

FT: Yeah, right? I mean, it's not just about dollars and cents in this show, it's really about mindset shifts and behavior and attitude. So thank you to everybody who has been supporting the show and I can't believe at a new year already. All right, thank you again to our SpeakPipe Ask Farnoosh question asker, Nicole. And again, easy to do, just go on the somonypodcast.com, click on the little SpeakPipe widget and you are pretty much there. We're

also relaunching the site soon so we're going to make it even easier for you to leave a voicemail for us in the future.

Okay, what else do we have Sophia? Let's go to the mail bag.

[0:07:15.9]

SY: Our first question from Tansy. Her boyfriend has never had a credit card and he uses his debit card for all of his purchases and in a few months they'll be moving in together and she worries about this since he doesn't really have a credit score or much to go off of. So she wants to know if this is going to hurt their odds of renting an apartment together?

[0:07:37.2]

FT: It very well could. As we know, your credit score not only plays an important role when you're applying for a loan, mortgage, student loan, credit card, car loan, but sometimes landlords will want to check your credit profile. Because after all, they're going to be entrusting you as someone who is going to be renting the apartment to pay every month, on time every month.

So if they're going to go in on a lease together and co-apply for an apartment, which is helpful because then combining their incomes, they can better qualify for perhaps a bigger place, but she's on to something. I think that it's a valid concern. If he doesn't have credit that could potentially put him and her in a position to risk getting some of these places that they want.

I think that you know, what she could do to circumvent this if — in the meantime I would say, try to talk to your boyfriend, try to get him to understand the importance of establishing credit. Sometimes people are afraid of using credit cards and I think that at some point you have to, if you really want to be — if you're adulting, you've got to like learn how to manage a credit card responsibly. It's good, it's good practice.

Having a good credit score is a great thing. It can help you in life. Encourage him to do that, maybe open up a credit card and start working his way towards building a credit. In the

meantime, the reality is, if you want to move in to an apartment quickly, you might have to lower your expectations, Tanya, and maybe go with a smaller place where you're simply the person that's applying for the lease and therefore, only your credit gets examined and then between you and your boyfriend, you have an agreement that you're both going to split the rent.

That's still a potential risk because he's not technically on the lease, he doesn't technically owe you or anybody any money. But that could be one way to get the wheels turning here and get the apartment that you want. I think that if he doesn't have any credit, it's time for a conversation around that. If you're serious, you're moving in together, this is a good time to really have that conversation. It's things you have to consider, right? When you're moving in with somebody.

[0:09:52.0]

SY: Yeah, no, she's smart to think about this a couple of months in advance too.

[0:09:55.8]

FT: Yeah, the other thing too is like, if you find a place you love, you want to co-apply for a lease and they ask you for a credit report or they want to pull your credit, each of yours, you can say upfront, you know, "Well, he does not have a credit card in there for his credit report might come back nonexistent."

But maybe there are other ways that he can prove to the landlord that he is a responsible person financially responsible person. Maybe a letter from his employer that he has always been showing up for work, he's a good worker, he — maybe a letter from the utilities company that he's always paid his bills on time. There are other ways to show that you are financially responsible and also just a worthy applicant.

So that could be something that you could suggest to a perspective landlord and just get ahead of it instead of them discovering on their own, this guy has no credit and then making their own assumptions, maybe it's bad credit? Just get ahead of it if you fill that's necessary.

All right, Abigail, she's been offered a job with a big raise.

[0:10:59.1]

SY: Yeah, but there's a catch. So along with the raise comes paid housing and paid education expenses for her child, but the catch is that the job is in Asia and her husband either has to quit his job or stay behind and he currently has a great job with great benefits and he's making about 25% more than she is and she doesn't know what to do because this is an amazing opportunity for her and this is her dream job, but she doesn't know if it will be worth it?

[0:11:27.9]

FT: This is not a money question at all.

[0:11:31.7]

SY: No.

[0:11:31.8]

FT: This is completely a serious conversation or series of conversations that you, Abigail, want to have with your husband. Because it sounds like there are tradeoffs to taking this job and then there are tradeoffs to not taking this job. What you have to decide, and I'm probably not going to be able to answer this for you honestly, but here's how I would assess the situation. I would kind of make a list — pros, cons — looking at what would be the positive outcome if you went to Asia, and what would be the trade off if you went to Asia that you've kind of laid it all out for us here.

Then you just have to really designate your own value to these things, your emotional value to this. How is this going to make you feel and a good question to ask yourself is, "In five years from now, will you regret not having taken this job?" Some things to consider with your husband and the questions to ask each other is, "If we were to be separated for a year," maybe not entirely for the year, but you definitely see him a lot less because you'd be on two different continents, "how would that impact the relationship?"

You have a child too. It's not as simple as like, "just a long distance relationship". I can't even go a day without seeing my son, it hurts, there's a pain. I do it but I don't know about going to Asia and leaving him behind. It's something that it's not just about the two of you, it's also about your child. What kind of education and experience will your child have in Asia? Is it better or worse and the one you'll have in America? I mean, money isn't everything, I guess is what I'm saying, right?

You have to also put a value to the life that you've created for yourselves here in America and also the potential, the value of the potential of staying in America. I know this is your dream job and it's never good though to make a decision just solely based on emotions, right? You have to kind of look at the outcomes and the rational decisions that you must make concerning your child, concerning the relationship, concerning just also the cost of moving, and I guess they're paying for housing but there's a lot to consider.

I'm sorry, I didn't give you a very clear, crisp answer. I hope you weren't expecting one, because I'm in the wrong occupation. If I could answer this question in two seconds, well, maybe I should have been a therapist or something? Or like a career strategist. But I appreciate the question, I think that it's definitely a So Money-esque Ask Farnoosh question. But it does require a lot of analysis. Just start with talking to your husband, I would love to hear what he has to say about all this.

Maybe write back in and say, "Here's where we're on the same page but here's where we're looking at things differently." I would love some more context and I would love to continue to help you through this opportunity, really, it's a nice opportunity but, like Sophia said, it's got some catches and you want to be sure that you're making the right decision not just for now and not just because you're working off your passion but that it does make sense for you in the long run. And hey, maybe your husband can find a job in Asia and that would just solve your problems, right? I know, it would.

[0:14:48.9]

SY: That would be ideal.

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FT: Maybe they can help him. I mean, sometimes, when families are presented with opportunities like this, employers that are asking for one spouse to come overseas, they've probably done this before. Maybe they can help to place your husband somewhere overseas too? Could he ask his employer if he could work remotely at least a few weeks per month and maybe he just has to travel back to the states once a month?

There are ways to kind of keep the status quo that you've got, by you still taking on this job and your husband keeping his job, but just maybe rearranging how you're working and your travel so it's not like you have to spend all this time apart and you could technically still be in the same continent for most of the year.

All right, that was a really long answer to her relatively short question.

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SY: It's a complicated one, though.

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FT: It's complicated, yeah. But I'll keep thinking about this. So, Abigail, keep giving us some details because I think this is something that ultimately we'd love to help you with.

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SY: Yes, I would love to know the outcome of this.

[0:15:55.2]

FT: All right, John. He's got an irresponsible son?

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SY: Yes. So his son is not very financially responsible, but he does want to get him set up with a debit or credit card that has a monthly limit. So he will have to get cut off at some point and he does not want him to have an ATM or cash access. He wants to know if anything like this even exists?

[0:16:19.2]

FT: I think the best solution, John, is to add your son as an authorized user on one of your credit cards, but in order to make sure he doesn't just run up all this debt is to call your credit card company and let them know that while you're adding your son on as an authorized user, you want also to create a spending limit for him.

So perhaps, even though your credit card has \$10,000 or \$20,000 worth of a credit line on it, maybe he just gets a fraction of that accessible to him every month. The thing about being an authorized user that could be helpful to your son is that one, he does get his own credit card so he gets to have that independence. But also, whatever activity occurs on this card, good and bad, does impact his credit.

So he's establishing credit and managing his credit through the use of this authorized relationship on your credit card. He won't have ATM access, he will have a limit as to how much he can spend and you can watch him. You can monitor this just like he can monitor this online at your bank's or credit card company's website. Let us know if that works. Good luck and I hope — you know, you're a good dad, I think that it's a good question and hopefully your son will be So Money one day.

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SY: Definitely, but I hope he takes the opportunity to educate his son on some of the financial do's and don'ts so that he can be less financially irresponsible and more financially responsible.

[0:17:56.5]

FT: Yes. That's a great point. Have a monthly check in. Every time you get the bill, make sure that you're walking through that bill with your son and then at that moment too, you can be talking about interest rates and the importance of paying your bills on time and et cetera. So you really create a teachable moment every time that bill comes in the mail, or in your inbox, or however you're doing it this days. Hopefully you're paperless. My husband still gets his credit card statements in the mail and you know what? He never opens them up.

[0:18:29.7]

SY: It's so funny, my dad still gets them in the mail but he does open them up, and then mine used to come in the mail and he would give them to me and he would be like, "See, don't you want to go through it?" I was like, "I already do that online."

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FT: Yeah.

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SY: He's like, "Oh." I was like, "Com one, you have to get with the times. Everything's online now."

[0:18:46.1]

FT: I don't know what psychological force is keeping him form just not going green. He checks his statement online, on his app even, but somehow he just feels more secure getting a statement in the mail because — it's just more work for me because I end up just cleaning it all up and shredding. Because I can't, I hate piles and piles of mail.

All right, Cecile is next and she has a question about technology?

[0:19:16.3]

SY: Yeah, she wants to know what the most compelling apps that are out there for helping everyday people to get a handle on their money. She knows that you've mentioned a few of the investing apps but she says, "What about for consumers who don't have or think they have enough money to invest and are just struggling to figure out their paychecks and savings?"

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FT: So she specifically wants to know about investing with very little money?

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SY: It sounds like investing with little money but also just trying to figure out how to get to sort out the money that she's getting from her paychecks and maybe start creating some savings buckets as well.

[0:19:53.5]

FT: So managing her money? Okay. You're in luck Cecile, because this month in Oprah magazine, my column's all about apps that help you pay down debt faster, manage money better, save more and let's talk about saving and investing. There's this new app, in fact I've had Dan Arieli on the show who is a behavioral psychologist who is a partner in this company. I think I've also had the founder of the company on the show, Qapital.

This is an app that helps define your financial goals and automate savings. It works in tandem with other platforms that you may already be using, like banking or fitness apps, and what it does is it puts aside money based on rules that you've set for yourself. So for example if I go to the gym, I'm going to pay myself \$5. If I walk 10,000 steps, I get \$10.

You can just basically set these rules up for yourself and based on your behavior, you basically start rewarding yourself and then you save towards goals, which is really important because our money is meaningless without goals. It's a free app, so that's something that I would encourage you to check out. Acorns is another app that is great for investing especially when you don't

have a lot of money and how it works is it hooks up with one of your checking or banking accounts or credit card account.

Every time you spend, it rounds up that expense to the nearest dollar so if you spend \$4.50 on a slice of pizza and a soda then it takes 50 cents, because it rounds up the \$5, takes that 50 cents and puts it in a diversified portfolio for you, which is great because you are essentially investing on the go and investing very nominally so it's pain less but at the end of the month, you get hundreds of dollars that you wouldn't have been able to save on your own.

Other great tools that we've talked about on the show. Digit. Actually there was a huge New York Times feature earlier I guess it was December not too long ago about fin tech and how there are all this great tools that are helping us to basically manage all — basically financial advisers but not like, it's just automated financial advice, essentially. And what Digit does is it takes your bank account, checking account, it takes a look at that, keeps an eye on that, sees how much you earn, how much you're spending, and has an algorithm and is able to figure out every so many days, every week, how much you could safely and painlessly — again, key words, "painlessly" — put aside some money, some change?

It may recommend, "Hey, this week, the steal, "why don't you put aside three bucks?" You've got it, and it wouldn't hurt you. You say okay, little by little, this nudges happen and this allocations happen and by the end of the month you've got again hundreds of bucks saved. I like this apps and tools, I think you should check them out and it's I think ideal for people like you who say that they don't really have a ton of money to put towards savings or investing but this tools can get you started, really fast and really simply.

All right, we have time for probably one more question, right?

[0:23:14.8]

SY: Yeah, we're at our last question. It comes from Abi and she says as tax season approaches, she's wondering how does an independent contractor or freelancer calculate tax deductibles on car mileage? She doesn't know if it's more cost effective to write off her gas or the mileage because right now she's a speech language pathologist and she's traveling between several

patients a day as a side hustle, and she wants to know about this because it will be her first year filing as an independent contractor.

[0:23:47.1]

FT: All right. So, Abi, I live in New York and even though I have a car, I don't really use it for work. I use it for groceries and day trips and personal things. So I've never actually deducted car mileage for my own business because again, living in the city, I either will use an Uber or I'll be traveling out of the city and so those are separate kinds of deductible expenses. But I will say that I've done stories on this in the past and just be careful, because this isn't like a public service announcement to everybody.

The IRS, while most people don't get audited but they do tend to zero in on mileage for some reason, it's a potential red flag because in the past I think many people have exaggerated or over stated their mileage for travel. Whatever you end up doing, it's important that you know the rules and that you also keep a lot of records as far as the actual mileage, what was the purpose of the trip, where were you going, the date, the time, all of that. Keep a really good record of when you drove your car for business purposes.

Now, to your question, whether to calculate the car mileage or to write off the gas. There's two paths you can take, you can do the standard mileage rate and you can go to IRS.gov and figure that out. I think this year, the standard mileage rate is 54 cents. Well, that was for 2016. So if you're filing for 2016, it's 54 cents. If you want amount instead of that, deduct the expenses related to your car, like your gas, your payments, your depreciation, insurance, registration, all of that then you would really going to need to keep a daily, weekly or monthly log to really be able to substantiate this and record keeping is so key.

So whatever path you take, just make sure that you have the write ups to support that. Maybe take a photograph of your meter, make sure that you're keeping a log of where you're going, have it in your calendar. I mean, you just never know. It would be a shame that if this is the one thing that the IRS is like, "Wait a second," and then they audit you and it's like a waste of time right? Just take the time now to do the right thing, to do the paper work.

But some resources that I would recommend you check out is IRS.gov, “Topic 510”. If you go to the IRS website, search “Topic 510, Business use of car”. It’s got it all laid out there as far as how to record keep, the standard mileage rate and that does change every year. So if you’re looking for 2017 mileage rate, keep checking the website or do a new search because that may go up or down, just depending on how the IRS feels.

[0:26:39.4]

SY: I think I also read somewhere that you have to be very careful because you have to make sure that it only counts if you’re going from one business appointment to the next. If you’re then driving home, that doesn’t count.

[0:26:54.6]

FT: Okay, thanks for that intel. Yeah, there’s a lot to consider here. I will say Abi though, when I started to have a side hustle and that side hustle revenue became substantial, I hired a tax person. I mean, I didn’t go to a huge firm, but I did go to — I think I went to just H&R Block and worked with somebody. Because this is not something that I really felt was — because I just didn’t want to be spending my evenings on the IRS website, you know? I wanted to just work with somebody who is, that was their job.

It may be worth it to work this year with somebody, if you have this deductibles that you want to account for, that you work with somebody who is well versed in them and pay the few hundred dollars even if it takes to do, to have an expert do your taxes. At this point in your career, I think it’s appropriate.

All right, that’s a wrap everybody. Happy New Year. Thank you for your questions Abi and John and Abigail and Tanya and also from our lovely voicemail leaver, Nicole. Good luck with your car payments and have a great weekend everybody, see you right back here on Monday when our guest is going to be Cindy Whitehead.

She is a female entrepreneur trail blazer. She sold her company for a billion dollars. What? Yep, she's got all the details and you'll be actually curious to know the kind of company that she sold. It was Viagra for the ladies. Did you even know there was a Viagra for ladies, Sophia?

[0:28:31.3]

SY: I did not. Actually, I didn't know until I met Cindy.

[0:28:35.4]

FT: Yeah, she's amazing. Don't miss out on that interview Monday, January 9th. In the meantime, hope your weekend is So Money.

[END]