BONUS EPISODE

[INTRODUCTION]

[0:00:36.4]

FT: Welcome to a bonus episode of So Money, everybody. I'm your host Farnoosh Torabi. We have an extra episode today. We're in conversation with Justin Sinnott who is a certified financial professional and financial consultant in in Charles Schwab's Seattle branch. We're answering your money questions that have come through on Instagram and the website.

We've got questions about whether or not to pay down a mortgage early, how to tackle family planning and buying a home at the same time and how much is too much to save for retirement? As many of you know, I'm working with Charles Schwab to help spread financial literacy to the masses and it's been a really great collaboration so far, we're doing this extra bonus episodes once a month. I'm a Charles Schwab customer and have been for many years. So before we get started, just want to thank Charles Schwab for helping us get this financial education content to you.

All right, here we go without further ado, hitting the mail bag with Justin Sinnott.

[INTERVIEW]

[0:01:35.2]

FT: Justin Sinnott, welcome to Ask Farnoosh, our special bonus episode. Very grateful to have you sharing the mic with me, welcome.

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JS: Thank you, it's quite a pleasure to be with you.

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FT: All the way from Seattle too. How's it going there in Seattle?

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JS: Seattle's a little rainy and wet which is quite usual for out this way.

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FT: Well, I can't say that it's been dry here on the east coast. I think DC had like a month straight of rain and I don't know, I guess that's a good thing? It's good for the mother earth, but not so fun when you're in it. How did you land in Seattle, have you always been from the Pacific Northwest?

[0:02:14.4]

JS: Well, I actually grew up in the Aleutian Islands of Alaska in the middle of the Bering Sea in a small town called Dutch Harbor. It was most recently made famous by the discovery channel's *Deadliest Catch*. My parents went up there in the 70s for the king crab fishery and the rest is history as they say.

I got my job at Charles Schwab actually by way of internship in 1999 between my junior and senior year of college. I had no idea that I was going to fall in love with the financial services industry. But this internship became available to me, I walked in the door here in Schwab in Seattle and never looked back. It's been a phenomenal career and I'm very proud to say that this is my 19th year here at Charles Schwab, so it's been fantastic for me.

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FT: I'm picking up on a trend now. You're probably my fifth or sixth Charles Schwab consultant who has been on the show and over and over again, I'm hearing you know, "I've been with Schwab for seven years, for 11 years." You said 19 years?

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JS: 19 years this year, yes.

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FT: Wow. What drew you to the space? I mean, you said you love it, but what was like sort of the moment that you realized, this is – I'm a lifer, I'm a financial lifer?

[0:03:35.3]

JS: Well, I learned early that I had a passion for helping others and wanting to figure out what their circumstances were and then providing as much value as possible, regardless of the situation. Charles Schwab has really founded on that. I mean, back in the day it was, " come here and be your own stock broker." But Schwab also has relentlessly continued to improve upon the services that they provide to the folks that we're looking to serve.

We certainly have our foundation and the come here and do it yourself, as our client situations became more complex and their needs became more complicated, we naturally added services to support those needs and so I've been very fortunate that not only has Schwab's services evolved, but that kind of matched right up with my career and what is it that I wanted to do.

So early on, having this passion for helping others led me to want to add some additional professional designations, becoming a Certified Financial Planner and then most recently a Credited Wealth Strategist. These all just help me compliment what it is that we're already doing for our clients and be the best that we can be for those that we're serving.

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FT: I think you're an overachiever, but that's okay. I think it's so nice that you're so dedicated. Well, I'm really, again, so excited to have you on, we have questions from listeners, everything from how to manage your mortgage, how to manage having a baby and wanting to buy a home and a lot of financial planning questions which you're an ace at.

So, the first question comes from Ponny who writes in and she says, I think it's a she. Apologies, I don't know, I guess that's a good thing, let's not put a gender on this, what does it matter? Money knows no gender but the question is, she/he has a mortgage on the house with about $650,000.

This person is able to pay it off at the end of the year, but wondering if it's the best thing to do? Perhaps maybe the better thing to do is to take some of the extra money and invest it in something else. Ponny says that the monthly mortgage payments are manageable and there's no other debt in the picture.

I think really to be able to answer this Justin, at least one of the things that is really helpful to know is what is the interest rate on this mortgage? Because part of this is a math equation. The other part of it is a bit of an emotional situation. Because sometimes, if you just want to do something in your financial life because it's going to be less stressful for you, I think there's merit in that.

[0:06:09.8]

JS: Absolutely. I think the other thing is we're going to need to solve for kind of their greater holistic situation. Is it that they want to be debt free because their financial situation is about to change? It may be a manageable mortgage now, but are they going to have some sort of a job change or an income situation that might be impacting them?

So, I think that not only does it come down to you know, the interest rate on the mortgage or what would be the expected rate of return of what other investment strategy they might enter into. But how does this impact their greater financial situation, what is their overall balance sheet look like?

For example, what is the home worth, you know? Does it make sense to potentially do a little bit of both, pay down some of the mortgage, maybe invest the other portion? So a lot of things I think come down to kind of the pros and cons and how they might complement one another.

[0:07:07.0]

FT: Totally. So, I guess just also to maybe simplified a little bit. If you were just to look at this to the lens of where's your money going to get the most ROI, I think that it may be, let's say they got this mortgage, you know, five, six years ago when rates were really low and they're still pretty low relatively speaking. Let's say the mortgage is like 4%, four and a half percent.

Do you think that it would then be wiser to be a long-term investor with your money in the US stock market? I know we can't give specific stock recommendations on this show, but generally speaking, when is it a smarter idea to put your money in the market if you have the choice, let's say if paying down debt or investing?

[0:07:52.0]

JS: Yeah, so I think the hierarchy is that you know, if your home is well capitalized, meaning, you've got 20 or 25% or more in equity, then you might start checking off the list of other areas with regard to investment. If you're looking at a globally diversified portfolio of stocks and bonds, you're probably expecting a rate of return of say five to six percent on a long term go forward basis.

Now, that could have near term bumps, you know, given the state of the current economy and so on and so forth. But I think it's prudent to be thinking about is this a five-year, 10 year or 20 years plus plan? And then therefore we might want to be looking at a combination of the other investment versus the debt payoff.

The other thing I would say too is, you know, there might be some other uses of this money, you know, for example, is there an emergency fund? Or are we already fully contributing to our 401(k)? Do we have other retirement plans that we should be thinking about or other competing goals? It's necessarily just a black and white I think answer. It's one that many are asking.

[0:09:01.1]

FT: Yeah, it's a good question Ponny, thank you for asking it and we hope we were able to give you some strategies, some things to think about. Sounds like Ponny's in a good place though. I'd love to be able to pay of my mortgage at the end of this year. It's a nice option to have.

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JS: With that number for sure.

[0:09:18.2]

FT: Sara is not a home owner yet but she has a question for us about home ownership, she is just for some background Justin, she's 29, she lives in Marin County, California which first thing that I thought when I read that was expensive, beautiful, but expensive. She's recently married and within the last six months, she's actually gotten married and they've been combining their finances. She is the main bread winner and manages the couple's finances and wanted to have some feedback from us as far as how to do two things at once. Two big things.

One, she wants to purchase a home and then she also wants to plan for a baby within the next year. She's not pregnant yet, but she just kind of wants to know, again, if we're talking about financial planning and hierarchy, how to prioritize these two pretty big life goals?

Just also some background on her. She says that her job has a pretty poor family dependent benefits, a pretty bad maternity plan, but they do have unlimited paid time off, which is great. Wondering how much they should realistically be saving from their salary to prepare for this family planning and is it really just too farfetched to do both at the same time? Also wondering, should I pull money from our Roth for a down payment?

They do have a little bit of student loan debt, about $27,000. They're able to make those minimums, they do have some money in Roth IRA's about 38 grand. They are putting the max in that Roth every year. They also have about $40,000 combined in their 401(k)'s. Emergency fund is three and a half. 3.5 thousand, $3,500. They don't have any other kind of savings though because they just finished paying of their wedding and honeymoon. Their parents are gifting them some money for a down payment though.

Wow, I mean, just off the top of my head and I'd love to hear your thoughts on this Justin too. I'm a mom of two. I do own a home. I did get married and have a wedding and all the things and I was able to accomplish everything. I paced myself, we paced ourselves, you know? We didn't have a kid and buy a home in the same year. I think that's taking on a lot. And so, I would go back to – I mean, I'm not Sara and I'm not her husband so I can't say definitively what should take priority, but I think that's for them to decide.

Is it more important for them to be home owners first and have that settled and out of the way before family planning? Or, you know she's 29, she's not like 39 where maybe the window of having a child likelihood is narrowing. She's got time if she's able to have kids, I would say, maybe you could afford to wait to start trying for the baby.

In the meantime, saving your money, getting out of debt to then be able to purchase that home. I think first thing's first, they got to get out of some of that student loan debt, especially if it's carrying a high interest rate, I'd like to see that come down. I'd love to see their emergency fund shore up. I'd love for them to get to a place where they've got about six months of savings, set aside, separate from the savings for a down payment.

Then they can go for the house and then they can maybe go for the kid but I just feel like we need to certainly understand first, what do they want? What is it that they want and hopefully try to take some of the external pressure of the plate. Maybe their parents are pushing them to have the baby. Every parent wants a baby as soon as you get married. Like, "slow down mom." What do you think Justin?

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JS: Well I think you bring up just about every single point I would make. This particular scenario screams for a conversation and one that allows us to create some form of a plan, a wealth plan, something that would allow us to start to identify what the priorities are. I really like what you brought out there in your points with regard to the debt and the emergency fund. One thing that I have found in the years that I have been doing this is that at times, folks get a little bit in a hurry to get things done.

And they bite off a little bit more than they can chew and then a year or two years later, they look back and go, “ooh gosh I wish I would have slowed down just a little bit and tapped the brakes.”

I think getting that emergency fund taken care of should be priority, especially if you are considering taking some time away from work or because you got a baby on the way or you are planning for that first child. It is important to be in a position of financial strength if you have the ability to plan ahead for that.

[0:14:18.9]

FT: Do you have a family Justin?

[0:14:21.2]

JS: I do. Thank you for asking. I am married, we’ve got two daughters. They’re 11 and eight and so I’ve got a little bit of experience around what it takes to plan for the family and to take care of things.

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FT: That’s awesome. I mean I want to go back to also her point about working for a company that has kind of sub-par maternity leave and dependent benefits. I think that if she loves working there that’s one thing. But I also feel like when you become a parent where you work is of the utmost and you want to work for an employer that really does understand and appreciate that you have another life that may involve taking care of other people.

Whether that is your children, your parents and so working for an employer that is flexible, that has good benefits, that might be something to look into. And now that you got the time you know, as you are looking ahead and thinking, “I do want to become a parent,” these things are important. They’re not just important because they’re going to help you have an easier life but financially too. I mean PTO, unlimited PTO.

Let me just tell you, this is like I don't trust unlimited PTO. I think companies that advertise unlimited PTO, you are not going to get three months off, you know? I just think that's like unlimited is sort of, it's not an accurate word. I think that maybe two weeks, three weeks is one thing, but you want to take four months off to be with your baby and create your own maternity plan around unlimited PTO.

I would be shocked if a company approved that. But you know, look into it. I would say just look further into these benefits. Talk to other colleagues who have maybe had children at your job and how they managed and traversed parenthood as they worked there because you learn a lot that way too. It will be hopefully informative and then you can make a healthier decision as far as whether to stay or go. But good luck to you Sarah.

All right, next stop is Barb and she has a question about, you'll love this Justin, her Roth 401(k). She's got a Roth 401(k) through her place of employment and they, check this out, they're matching up to 50% on the first 6% of her income and she can contribute up to 10% of her income. Should she also sign up for the traditional 401(k) and have both up to the max of the match? "Seems like free money," she says, but I'd like to hear your thoughts.

I mean I think if she could do it she should right? I feel like if you got a match work, please optimize it.

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JS: Yeah, there are a very few guarantees in terms of return so yeah, 100% you need to be putting in at minimum the amount to get your match. And she should be commended if she has the ability to put away up to 10% of her income that's a really great start and can set her up for the future in terms of setting aside that money and paying herself first. The one thing I'd like her to double check though is whether or not she can truly put in the max to both the traditional and the Roth.

My understanding is that you are maxed and aggregate at $19,000 a year for your own personal contributions. So, she should just be careful that she's not double counting that and doesn't get into a situation where she's over contributing.

The other thing to note too is that with regard to Roth 401(k)'s typically you are putting your personal contributions into the Roth and then the company is putting their match into the traditional. So, based on this example here, she's probably getting a little bit of both going into those two places and that can create some diversification of tax liability later. Of course, the Roth 401(k) grows tax-free and you don't get the tax deduction on the front end. If she was to put personal money into the traditional, she would get the tax deduction, but then she would have to pay taxes in the future on the growth when she withdrawals it.

So, some things to think about there in terms of where her tax bracket might be right now, but overall, yes. Absolutely be putting in the amount to get the match.

[0:18:47.7]

FT: All right Barb, looks like you're headed into a nice retirement at this rate. Thanks for your question, thanks for listening to the show. Okay, one last question here from a listener and she says that she wants to become an artist and she wants to make a living from being creative, specifically a musician. So, wondering is it smart to get a job as a stepping stone to pay the bills while building towards being a fulltime artist?

Or should I just take the leap and go for it? In the second scenario where she just goes for it, what would that look like? Any tips and insights are greatly appreciated. First of all, kudos to you for wanting to pursue your passion and I think it is really brave frankly of anybody who decides to make this kind of a move because I think personally, even for me going into a quasi-creative field like journalism as oppose to something more technical, like medicine or law, I mean I am Middle Eastern so my parents thought – they had a different vision for me, let's just put it that way of what my career path would be and I had a pretty hard time convincing them.

It worked out but I can only imagine what it's like for something even more unpredictable like becoming a musician or an actress or someone in the real creative space. So. I just want to commend this listener for being brave and taking the leap.

I mean I am really practical Justin. My risk tolerance is not very high. I think that you want to be strategic about this and you want to be successful and so taking the leap and just going for it, that's diving into the deep end. You are not a swimmer and you forgot your swimmies, you know? It can happen, certainly there are a lot of lightning strikes certainly.

But I would much rather this be a plan that you have and that you take a year or two work to build up your savings, to maybe may be moonlight in the field as a musician. I mean musician typically get gigs at night on the weekends. You could very easily I think work a nine to five and then also do this double shift of practicing your art. But really make it the point and the goal to save as much as you can. We say like, "save 10% of your paycheck."

If you want to become an entrepreneur and buy yourself the time and afford yourself the ability to really focus on that and not have to have a nine to five and income coming in, I think you want to have about a year, nine months to a year's worth of your expenses shored up, saved somewhere so that you can experiment with this and give yourself really the opportunity to try it out and not feel like, "well if it doesn't work out in three weeks or four months, I have to go back to corporate America," you know?

A year is a very generous amount of time for you to really try something for real and get into a groove and build momentum towards this ultimate career of becoming a musician. So, what did you just hear? I said nine to 12 months of savings, get that nine to five now. Just make it your plan that you are going to work hard for that year, build up as much money as you can and then if you feel really good at the end of the year, confident that that money can support you for a good year then I think you might want to maybe not completely quit your day job, have some sort of side hustle bringing in some income, but I think at that point, I would feel better about telling you to go for it then and taking the leap.

What do you think Justin? Do you have a side passion you have something that you? I do standup comedy on the side as my stress release.

[0:22:38.8]

JS: Well I don't have anything near as exciting as that. My sort of side passion is adventure racing. So, I participate in Spartan Race.

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FT: What, are you kidding? That is so exciting. That is so much cooler than standup comedy. Tell me all about this.

[0:22:55.1]

JS: Well, you know it's like going to military boot camp with regard to Spartan Races. You've got to run various lengths depending upon the type of race, some of them are short like three to five miles, some are as long as 13. You complete obstacles throughout the race. You're climbing over walls, crawling under barbed wire, going across the monkey bars, carrying a big Atlas ball. There's various things that you need to do if you don't complete one of the obstacles then you require to do a number of burpees. I was telling my mother about this and she says, "you pay for this?" But –

[0:23:37.1]

FT: Yeah, you pay for this torture?

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JS: Yeah, but you know it is a good time. I usually rope a couple of friends into it. In the middle of the last race that we did, my friend Terry said to me, he says, "I used to like you." So, but you know it's good times. It's fun so.

[0:23:54.7]

FT: Well, I love learning new things about my guests. That is definitely a new thing. I have learned a lot of fun facts about you throughout this interview Justin. I am just going to say, you're a very interesting cool person.

[0:24:04.8]

JS: Oh, thank you.

[0:24:06.3]

FT: Yeah. Well I know you had another point you wanted to bring up and I'm sorry I stole the spotlight here and giving her a lot of ideas about how to transition to artistry, but one thing I didn't mention, which I know you really want to talk about is insurance because if she does make this jump to self-employment as an artist that is something that is going to be on her to manage. So, any advice there?

[0:24:31.6]

JS: Yes, absolutely. Insurance should be high on the priority list because even if this is a young person who is healthy, we have to recognize that insurance is something that you know, if you do not have and you end up in a single hospital stay, you know that could really wipe out your savings. And so, at the very least, they need to be exploring some sort of a high deductible policy to cover some sort of catastrophic health event.

And that is something that you should certainly compare and shop and try to check out what is available based on your state and where you are living and see what might shake out in terms of the most viable option. But you absolutely have to have some sort of a backstop in regard to taking care of your health should something go wrong.

[0:25:19.2]

FT: Yeah, thanks for bringing that up and not to be too boring here, but we really want you to also save for your retirement even though at some point, you are not working for an employer.

You don't have access to a 401(k), don't forget you can still invest in an IRA, traditional or Roth or even a SEP IRA, which is what I have and that is sort of like a traditional IRA, but it allows for higher annual contributions.

So good luck to you. We really wish you all the best. I don't have this person's name. I think that this person wanted to be kept anonymous. So, we will honor that. But do know that we are thinking of you and we support you and let me know how things go and how maybe you ended up, which road, which path you ended up taking. Justin thanks for joining, this has been fun.

[0:26:09.1]

JS: Thank you Farnoosh it's been a pleasure.

[0:26:11.2]

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