

EPISODE 112

[ASK FARNOOSH]

FT: Welcome back to So Money everyone. Happy Sunday. Sunday, May 3rd, 2015. I'm your host Farnoosh Torabi. This is Ask Farnoosh. Lots of questions to get to, starting with Tola.

Tola says:

[00:00:47]

T: "I'm 26 years old. I Live at home in New York City with my parents. I've 3 other siblings - 16, 19, and 25 in a 2 bedroom apartment."

FT: Tola says:

T: "I have \$9,000 in savings, \$25,000 in student loans (paying down the student loans), and I make \$45,000 a year (looking for a higher paying job) and want to move out and get my own apartment - no roommates! At what stage should I move out? I wanna move out as soon as possible. I also plan on pursuing a graduate degree."

[00:01:20]

FT: Well Tola, I can actually relate. Not to the part about living with 3 other siblings and my parents in a two bedroom in New York, but I was also 26, making around \$45,000 a year with about \$25,000 in student loans. And I lived with a married couple. [Laughs] Which actually is a trend now. It was in the New York Times real estate section recently. It was like, "Hey, wanna save money? Find a married couple because chances are they need to save money too, and they're renting and subletting their bedrooms out to young people". So I paid about \$550 a month living on the Upper West Side and in a beautiful building. The catch was that I had to live with a divorced - well I should say, a married couple that was about to get divorced. Little, unbeknownst to me, and also to them. They were happy when I moved in and then things went south. And it wasn't my fault. I was hardly there. But I digress! That was my story. But back to you.

I would say that I think it's time to move out now. You're wondering when to do this? I'd say now. You know, that's 7 people under one roof with two bedrooms. That is chaotic, that is, I would imagine, a very very stressful situation to be in, especially when you're 26 and you wanna, you know, be socializing and come home to maybe some quiet and do work. You say you don't wanna have roommates, but I think you're gonna have to. At the income that you're earning now, to live in the New York City area it would be very difficult to find something like I found, you know, years ago for \$550 a month. That might exist, but it's a diamond in the rough. So realistically, I think what you wanna do is get two friends or two roommates that you meet through friends of friends, and all three of you would wanna go apartment hunting. And I did a little bit of math, given what you earn. So you make say \$45,000, after taxes you're left with about \$35,000 a year. Monthly that's about \$2,900.

Now my rule of thumb is you don't wanna spend more than 30% of your take home pay on housing. And as much as you can squeeze in utilities into that 30% figure, the better. So really you shouldn't be spending more than \$900, \$800 a month in rent. So can you and two roommates with a similar budget find a 3 bedroom in New York City for say under \$2,500 a month? Absolutely you can. Now, you're not gonna live in the West Village, you're not gonna live in some place fancy like Brooklyn Heights or the Upper West Side or the Upper East Side. But I went on to nakedapartments.com which is one of my favourite sites to look for rentals, and there I typed in, you know - \$2,500/month, 3 bedrooms and there are numerous listings. So if you're really serious about this, the apartments are out there. And the fact that you have savings is good, is important. Because landlords will want usually a downpayment and they will check your credit, so make sure your credit's good. But I would say the time to move is now. If you're 26 years old, time to once and for all officially enter the real world.

Now, that said, had you been living in a home where there were 10 bedrooms and, you know, lots of space, free rent - I would say stick with that. But it sounds like where you're living is really, really weighing on you. And it's also probably weighing on your family. It's just too many people under one roof. So if you can move out and give them some extra room and you some extra room, I think it's a win-win. It's gonna cost you money, but you know what, you gotta grow up at some point. [Chuckles] You just gotta get on with your life at some point. So thanks for your question and good luck. And good luck with grad school.

[00:05:06]

Anne writes and she says:

A: "I have a question about saving for retirement when you're a long-term freelancer on payroll at a company that doesn't offer a 401k. My accountant told me I'm ineligible for a SEP IRA because I'm paid through a W2. I'm 41 years old and have a little over \$100k in a combination of Roth, Traditional and Rollover IRA's. My financial advisor would like me to be saving \$10,000 per year for retirement. I think it should be more like \$20,000. I already contribute the maximum to an IRA every year, but how can I be saving more without a 401k or SEP IRA?"

[00:05:46]

FT: Well Anne, this is a very important question that you bring up because I think there are a lot of people in this country in your shoes. And I first, wanna just address this discrepancy between what you think you need to be doing and what your financial advisor thinks you should be doing. And I would really re-visit this with him or her, and just say, "How are you figuring this out? You know, what sort of projections are you using to feel comfortable with me only saving \$10,000 a years? I feel like that's too low. Where's this gonna leave me by the time I'm 65?" And hear him or her out. Maybe they're right. And maybe you don't have to be saving \$20,000. Maybe it's more that you feel you have to because you're worried, but perhaps your financial advisor can ease your concerns. Maybe instead of saving \$20,000 for retirement, you do \$10,000 for retirement and then you do \$10,000 a year for a couple of years to replenish or feed your 'rainy day account' if that's suffering. Now, you're accountant is right. You need to be getting paid through a 10-99, which identifies you as an individual contractor, an independent contractor, to be able to be eligible for a SEP IRA.

In the meantime, diversifying your investments over these different individual retirement accounts is the way to go, but I would just say that it might be worth re-visiting your employment designation with your employer and say, "Can I," - if this is important to you and you wanna get a SEP IRA, because with a SEP IRA - people should know - you can invest a lot more than, you know, I think it's like \$5,500 a year. Which is what a traditional IRA allows you to do currently.

But with a SEP IRA, if you're an individual contractor, independent contractor, small business owner, you can invest, you know, tens of thousands of dollars a year in a SEP IRA. It's a lot more, so it can get you ahead if you need to be more aggressive with retirement. I would just say to your HR manager, say, "Can you pay me through a 10-99? You know, which would then designate me to an independent contractor status, and then I can you know, have more options as it comes to retirement." And frankly, if you are taking on multiple jobs right now as a freelancer and this job isn't your main job, then I would think that you would be close to qualifying as a contractor.

So maybe this is a conversation worth having with your employer at some point if you really wanna make this transition so that you can have more options as far as retirement goes. So try that, and tell me how it goes.

[00:08:27]

Taous writes in and says:

T: "My husband and I make about \$48,000 a year before taxes as actors and teaching artists. We've worked over the past 2 years to save \$8,000 in an emergency fund. I owe \$4,800 in student loans. Is it worth taking money from the emergency fund and getting rid of the student loan debt? And then replenishing each month with the same amount that I was putting towards the student loans, which was about \$123?"

FT: I think that's an okay plan. I do. I like, I am one who did pay off her student loans in one fell swoop and it felt awesome! And you know, some people might say, "Well, you're gonna lose the interest rate deduction, you know, it might fall off your credit report," but honestly it is a great feeling. And if you can do this, you're gonna save a ton of money in interest over the life of this loan which is now gonna be gone in a day. [Chuckles] So I say go for it. And I like your plan, I like your strategy of pretending as though the debt is still there and putting that monthly contribution that you were putting towards the student loans, now towards emergency savings. And if you can, I would be even a little bit more aggressive. Instead of \$123, try \$200. I did a little bit of math for you, and I found out that with paying maybe an extra \$80 a month towards replenishing your emergency reserves, you will be able to get back at \$8,000 in 16 months

versus 26 months. So almost a year sooner with just an extra 80 bucks a month. I, you know, it sounds maybe a little counterintuitive, but I like the idea of taking money out of savings. You're not taking all of savings, right? You're taking like, you know, in this case a little bit more than half and putting it towards your student loans, which will be a nice psychological relief, a nice emotional burden lifted, but also you will be saving money, tons of money, in interest over the life of that loan. And then if you can keep up with that saving, you'll be in a good place. Thanks Taous for your question.

[00:10:34]

Amy writes and she says:

A: "How do I survive a long distance relationship and not go broke or into debt?"

FT: And she puts in parentheses that the relationship is 450 miles apart, this loved one. So Amy, you know, my husband and I we were long distance for a long time before we got married and before we moved in together. It wasn't as distant as you, he was in Philly and I in New York, so it was about a I wanna say 120 mile difference. But it was, you know, over the span of over 2-3 years of commuting to see each other it was an investment. And we trained it, we took the bus. Actually it was really cool, Megabus launched during our relationship and at the time they were promoting like \$1 rides. So couple times we went back n forth for \$1 which was crazy. Now it's like \$20, and that's still good. But I would say that if you have a car, driving would be the cheapest way to get around, often. Unless you find like really, really exceptionally good fares to fly. And sometimes you do find like \$99 flights. I don't know where you're going to and from, but you know look for things like Megabus, Greyhound, or if you don't have a car, like Zipcar. You can rent a car for a weekend, and rather than going the full 450 miles, if the two of you can meet equidistant, that would save money, and it would also save time. If you drove, you know, 3 hours and he drove 3 hours, then you could meet somewhere in the middle. Somewhere that would be kind of like an adventure too. You know, fun, romantic, I am a big fan of that.

Or maybe just keeping an eye out for deals where you might find like a \$99 flight from Southwest to destination X, and you can both score this. So that would be a cheap way to get together and fun too, again. Like kind of think about it as like if you're gonna be long distance

and you're gonna have to take time out to see each other, why don't you make it really fun? And maybe you don't see each other every weekend, but maybe it's every other weekend or once every few weeks, but you go and do something spectacular for a few days. And it's something that you can plan around. And I would say, the cool thing about going to new places is that you can go to sites like Groupon and Giltcity, and find really good deals for all sorts of adventures, events, restaurants, in that town. So you're kind of enjoying each other, but you're also enjoying a new experience as well. So that's what I would do. And then in the meantime, fill all of your correspondences with Skype. Skye's great cause it's free and you can see each other and it's, you know, of course if you have iPhones you can chat, do video chats. That stuff wasn't around really when I was dating my husband. It probably was, but we weren't really in-tune to it. So now this is everywhere and I think you should take advantage of it.

And here's something else that I would encourage you to do with your partner, talk about money. If this is gonna be a big investment and possible burden for you, this spending of this money to go and see him or her every weekend or every so often, talk about, this is really opening up the doors to talk about your finances. And do that earlier than later so that all of the expectations are being met, so that you're managing expectations, and you're being honest too. And I think that's an opportunity here for you actually, to be really communicative about money at an earlier part in your relationship. And do think longer term, you know, what about in a few years? Would either one of you be okay with moving? Either to each other's home destinations, towns, or some place new? You know, worth having those conversations as well because if that's gonna mean a transition of jobs or something else, better to know that sooner than later, right? So just manage each other's expectations. That's the biggest advice I can give you. Congrats on the relationship. I hope it works out, and please let us know how things are going.

And that was a nice way to wrap because it is Sunday. I hope you're all having a great weekend getting out there, enjoying time with your families, your friends, your loved ones. I plan to go out today and really soak up the sun and go to the playground with Evan. So thank you so much for tuning in. I will see you guys right back here tomorrow for a fresh episode of So Money. In the meantime, I hope your day is So Money!

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