

EPISODE 494

[SPONSOR MESSAGE]

[00:00:32.9]

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[ASK FARNOOSH]

[00:01:33.5]

FT: Welcome back to So Money everyone. It's Ask Farnoosh, I'm your host, Farnoosh. It is Veterans Day, November 11th, also known as my father's birthday. So happy birthday to my dad and also thank you to all the veterans that we have in this country and abroad who have served our country. I'm recording this, even though the election is over, I am recording this before the election. So I will not be able to comment on the outcome, but you know who I was rooting for.

[00:02:01.0]

FT: Sophia, welcome to the show.

[00:02:02.7]

SY: Thank you for having me.

[00:02:04.7]

FT: It's kind of crazy and surreal to be recording this knowing that it's going to air after the election. I hope our country is still in one piece.

[00:02:12.2]

SY: I do too. I am a little nervous, I'm not going to lie.

[00:02:15.6]

FT: Oh my god, yeah. It's going to be okay. It's going to be okay. I mean one country, "tis avie", right? How does it go?

[00:02:23.6]

SY: Honestly I'm terrible.

[00:02:25.4]

FT: The last time I sang that song I was eight years old.

[00:02:28.4]

SY: I was going to say, probably yeah.

[00:02:30.5]

FT: But, you know, I am feeling more patriotic these days. I was actually at a Jets game recently and they had me on the field. I got to go on the field and be next to the gentleman who was singing the national anthem and it was really touching to be that close to someone singing the national anthem. Everybody was being super chill and respectful and there was actually a little girl next to me who was wearing a hat, and one of the commissioners came over to her and she was like, "You're going to have to take off the hat during the anthem," and I was like, "Whoa that's right." I forgot all about it like how sacred of a moment we're taking here.

So it was nice and I don't know, it was like a throwback to high school and maybe even younger when we would do the pledge of allegiance in school every day and I'm proud to be an American. I don't know about you, I don't know about all of you listening, but it's good to be an American. I mean, we've got some things to improve upon to say the least but ultimately relatively speaking, this is a good place to be. So anyway, how did we get on this? I guess its election week, so what do you expect?

But let's get to your money questions. We've got people talking about how to maximize savings, strategizing money for grad school. So people are in a savings mode, which is not surprising it's towards the end of the year. We have sort of a come to Jesus moment, come November-December because a lot of expenses pop up this time of year so we want to learn how this maximize savings, right?

[00:03:57.6]

SY: Yes, definitely. So our first question is from Sara and she currently has \$94,000 in a money market account that she's been using for six years now and she puts in a \$160 a month into that account as well as any and all bonuses that she's making through her job. So she wants to know what she can do with the money where she doesn't have to engage a financial planner.

[00:04:22.2]

FT: Well, I definitely think with \$94,000, essentially in cash. I mean money market is a little bit more aggressive than putting it in a bank account, but the interest rate is not going to be much to write home about. \$94,000 is a significant amount of money which I think at this point you want to grow as well as you can, as responsibly as you can. So I would say in lieu of working with a financial planner who might charge you 1% to 1.5% of that \$94k, and then some because it's going to grow every year, you could do a robo-advisory. Like a Wealthfront, a Betterment, an Ellevest.

There are a number of platforms that we talk about on the show. Wealthfront, as we know, is a sponsor of this show, Ellevest is a sponsor of this show. I would still recommend them even if they weren't paying me to make this show possible. I actually have my money with a robo-adviser and it's a great way to still benefit from the diverse plans that will help our money grow over the long run with low cost index funds and no traditional adviser fee so you're going to be able to invest this money for a fraction of the price compared to the one to 1.5% that you would pay a traditional financial planner.

So check out those online platforms and maybe don't put all of your money in one place, maybe you could try a few different outlets, read the reviews, get some friend recommendations and that's the smart way to go about it. All right next question.

[00:05:48.6]

SY: All right, so we're going to switch gears now to a question on graduate school. It comes from Rose and she wants to know how she should strategize saving money to go back to school for a nurse anesthesia and she assumes her tuition will cost about \$100,000 and she'll be in school anywhere from two and a half to three years. She's 27, she lives with her boyfriend, and has already \$6,000 in student loan debt but she also has \$45,000 in a cash savings and \$25,000 in retirement. And overall once all is set and done, she's expecting to earn anywhere from \$85 to a \$100,000 a year as an RN and she also wants to make some money on the side by tutoring as well.

[00:06:31.9]

FT: Okay, so she's got a plan.

[00:06:34.3]

SY: She does, she's done her math.

[00:06:35.9]

FT: She's done her math, her loans not super high. \$6,000 is definitely something she could probably pay off before going to nursing school and she's done the salary research, which is important because if you are going to spend a \$100,000 via student loans to go to grad school, you better want to make about \$100,000 when you come out, if not more. Because that is not going to be a small amount to pay back every month.

That sounds to me like almost a \$1,000 a month — \$800 to a \$1,000 a month, depending on the interest rate, that she's going to have to chalk up once she's out of school. So I think that in the meantime, she needs to do some research on the different schools, the different costs to attending these schools. Simultaneous to that, looking at programs that might be able to give her financial aid, not student loans, but scholarships, grants, work study programs.

There are even some hospitals, or in your case as a nurse, facilities where if you agree to work there for a few years after your program ends, they will help to reimburse you. So if now you could even start making relationships with these places understanding what the criteria may be. If you want to maybe work there first before applying to school to get in and get established, that could be something that would help to alleviate that big sticker price for school.

Ultimately, it comes down to your research. It comes down to asking too. A lot of times schools don't advertise the free money that they have to give to their students on the websites. But talking to their financial aid offices, talking to the head of the departments to say, "Hey, I want to go to your school, I've applied. What are some ways that I can qualify for financial aid, beyond of course the traditional aid that is everywhere? But do you have any special grants, special scholarships that are maybe just developing recently?"

Sometimes schools that year will establish a trust or a fund that goes specifically to a specific type of applicant or student that's not yet advertised on the website, but internally it's well-known. You have to be the person to go after it and so that's what I would do. I love that you want to also make some side money from tutoring. If you can start doing that now in fact to start saving for school, that's going to go a long way as well. Of course living at home and going to school, I assume she's not going to move. A lot of people don't really move for grad school especially you are living with your boyfriend. It sounds like you're pretty established.

So hopefully your housing is not going to go up but it never hurts to have more money in savings as you go to grad school. I'd love to see her graduate with minimal student loan debt, not having really used a lot of her savings, but is rather using some of the extra money she's making now to shore that up to put towards the loans as they maybe, but also minimizing those loans and then when she gets out, she can comfortably pay off this debt with the job that she has and start looking for a job or at least start exploring job opportunities as soon as you get into school.

Take an internship, get established in the work force somehow before you really need to get that job because I don't want there to be big lag between school and getting that job and then in the meantime, her loans come due. It could be really hairy. So Rose, I commend you for doing the math. It sounds like you are super organized, maybe try to pay off that student loan before going into more debt in grad school and good luck. Good luck with everything.

[00:10:06.8]

SY: I think that's great advice. I have a couple of friends who actually just passed their bar exams and I know the time they were contemplating, it's a lot of money to spend on an education. But sure enough, they were able to find jobs once they graduated that make a lot of money and they're able to pay off their debt with that. Once you do your research, it's good to know that although it costs a lot of money, you will get a job ultimately that will pay a nice sum of money where you can ultimately pay back your debt.

[00:10:35.5]

FT: And some schools have a better track record of placing their students in the work force than others. So when you are deciding where to go, yeah you want to know where do the graduates end up? Where do they have relationships? There might be some hospitals that use the school as a source for employees. So that's always good to know and that can usually help to make it the decision because it's an investment.

I would hope that anyone who is contemplating grad school is serious about the numbers because I'm all for achieving your goals and pursuing your passion but you also have to be realistic about the financial ramifications. You would not be happy, even though it's your passion, if you're saddled with six figures in debt and making a very small salary or not being able to find a job. That's no fun. So you want to take into consideration all of that.

All right, so next question is from Eileen, which is my mother in law's name and she wants to know a little bit about tracking expenses. She's also in the fence about apps because she's worried about her information being sort of taken advantage of.

[00:11:45.9]

SY: Yeah, she wants to know — she's currently trying to create a budget and work with a budget she typically hasn't done that in the past. But she says that this podcast is totally motivated her to start saving more and spending less. So she wants to know if there are any newer existing apps that you'd recommend and then also, as she mentioned, what are your thoughts on linking personal accounts and keeping that information secure? I think that's a big question that Eileen and many people are struggling with nowadays.

[00:12:14.1]

FT: Yes. So two questions she has. One is, what are some of the savings or budgeting expense tracking apps and websites that I like and recommend? Obviously I like Mint. I am a little biased, a lot biased, but I use Mint. I've been using Mint long before I started blogging for them and I just think it's a great tool. It's free. If you think you want to invest more in your tracking, there's another outlet called YNAB, youneedabudget.com and I believe that they have a free package, but then if you want to up your number of bells and whistles, it's a monthly fee.

A friend of mine was over this weekend talking about how she loves it. She's a single mom and she really needed to start tracking her expenses and what she likes about You Need A Budget, and we've had the CEO actually and the founder on So Money, so you can go back in our archives at somoneypodcast.com and listen to that. Just do a search for You Need A Budget. What my friend really likes about it is that it's extremely goal oriented, and it makes sure that every single dollar is attached to something.

Like their catch phrase is "No dollar goes unmanaged" or whatever it is, I am probably botching it but the idea is that you don't — everything gets budgeted even to the last penny and it's all about your goals. So whenever you move money or spend more, it's all keeping in mind your ability to hit those targets whether your goal is to save an extra \$5,000 this year for college, or pay off your mortgage, it takes that all into consideration and that's really what leads the budget so there's that.

Of course there's Quicken, which is also an online budgeting tool and we actually did, you and I Sophia, we researched a number of new and exciting apps that span budgeting but also paying off debt and also money management for Oprah Magazine that's coming out in January. Can we give them any hints?

[00:14:17.2]

SY: I was going to say that we should shamelessly plug your article.

[00:14:21.6]

FT: Yeah. But then they have to wait until another month to read it, but I think that's probably okay. I need to get people to read that column, but I will say that Mint is solid, Quicken, YNAB, and your concerns about online security are super valid. I think that many people, like Sophia said, share these concerns. What happens if the site gets hacked? Listen, these websites and these apps, it would behoove them to spend a lot of money and resources to create robust security for their products.

If they didn't have trusted security, they would be out of business. They would have virtually no one logging in, and at some point yes, you must take a leap of faith. Nothing is fireproof, but I think that knowing that — having worked with some of these companies or having just spoken to their founders, I know that security is number one priority and they don't take it lightly and of course if anything happens, you have no liability.

They will of course do what they can to make sure that their customers are protected and I have never heard of a breach at one of these budgeting places or apps. I feel like a lot of times the breaches might happen at the retail level or at companies, internally someone gets in and gets everyone's information. But I think that at this day and age especially as the financial technology sector is ever expanding, there's so much money going into it to bring new and better tools for us to better manage our money, track our expenses, pay off our bills that these companies take security very seriously and a lot of the money gets appropriated to this area of their business.

In fact, we had on the founder of Bstow, who's in Israel actually fortifying the technology for Bstow, which is an app that helps you to put money towards your favorite charities on the go. So it takes your expenses, rounds it up to the nearest dollar, takes the change and puts it towards a charity of your choice. So it's cool because then you get to donate on the go and not have it be this line item at the end of the year every year and you're like, "Oh I have no more money left to donate." It's allowing you to be charitable throughout the year.

That app does require you to hook up your bank account or credit card. So there is that level of security that they need to fortify and he's in Israel because apparently there, the technology is so great and the teams that work on these sorts of security issues are the best in class, the best in the world. So he's there. So these are the efforts that these company leaders are making to make sure that when they bring these products out into the marketplace that they can do that with the utmost confidence.

So I hope that rests up or at least it alleviates some of your concerns Eileen but it's important that as consumers, we are also very much on top of this that we're checking our bank statements, we're checking our bank accounts. We want to make sure that we are always aware of any kind of suspicious activity rather than hearing about it later the hard way. There's no way to 100% prevent this stuff from happening. The earlier you catch it, the better off you will

be in terms of repairing the damage, if any damage. Have you ever had your identity stolen or — well, we all have I feel like a credit card hacked or something like that, right?

[00:17:49.9]

SY: Yes, definitely. I actually got a call from Bank of America a couple of weeks ago and they called me immediately saying, “We think your account information has been stolen,” and they were super on top of everything. So I called them back and they’re like, “Okay, we want to verify a few charges with you,” I said, “All right, let’s do it,” and the first one was a \$10 Skype credit and I was like, “Nope, I actually did spend that.” And they said, “Oh well then okay, everything’s all set.”

So I thought that was interesting that something like that would be a red flag for them, but the more and more I thought about it and I shared the story with people they said, “Well it does make sense that perhaps if someone was going ahead to steal your card that they might be interested in spending a small amount through Skype or something like that and then of course going to make larger purchases,” so...

[00:18:40.7]

FT: Yeah, that does happen. You’re right, your bank — that’s so good of them. I mean it’s true that sometimes you will see like a \$1 or \$10, they just want to test it, “Will this pass?” And then they go and buy the \$1,000 bracelet.

[00:18:52.8]

SY: Right.

[00:18:53.4]

FT: Which happened to me once. I think it was Chase that called me and they were like, “Did you make this \$1,000 transaction at this jewelry store on Long Island?” And I’m like, “No, I’m in my office in Manhattan,” and by the way, I’ve never used this card. I just literally got it in the

mail, and I think the other thing was that the red flag was that the transaction was \$1,000 even and it's like, okay, what are the odds of that happening? Because usually with taxes it comes out to weird number so I almost feel like the jewelry store was responsible. Somebody there knew it or was in on it because that's very random.

[SPONSOR BREAK]

[00:19:36.8]

FT: Just about every investment and retirement plan is created by men for men, which is fine, unless you're a woman. Women still earn less than men, for now. We're more aware of risk, we're more likely than men to pause our careers to raise a family and unfortunately, we typically retire with less wealth than men even though statistics show that we live longer. That why there's Ellevest created for women, run by and designed by women.

Ellevest helps women invest based on their specific goals like buying a home, starting a business raising a family or just retiring like a boss. So Money listeners can visit Ellevest.com/somoney and have an investment plan created at no cost customized to your specific goals. Invest like a woman with Ellevest. That's Ellevest.com/somoney.

[EPISODE CONTINUED]

[00:20:35.3]

FT: Next question is from Victoria, right? And she's got a question about where to allocate some nice money they fell into from selling a home.

[00:20:44.8]

SY: Yeah. So both her and her husband just sold their first home and they made \$70,000 profit off of that transaction and they have zero debt, which is great and they also have a one year old son. And so she now wants to know where they should put that money to in the following categories which are retirement, college savings for their son, and an emergency fund, and then

eventually a down payment for their next home. And she gave us a little bit of additional information, which is they've already have \$30,000, each of them, saved in retirement and no emergency savings or college savings for their son.

[00:21:22.1]

FT: Well definitely need an emergency savings that is I think number one on the to-do list, especially if you want to eventually buy another home. I think that you need to improve your saving situation and great that you have money in retirement. I think that it's really time to now address emergency fund and we always say a good ballpark amount to have an emergency is anywhere from six to nine months of your necessary living expenses, add it up, times six to nine in that account.

So if you are bare bones necessities to keep the lights on, the mortgage paid, food on the table for one month is let's say three grand, then you want to have anywhere from 18 to \$27,000 in savings. That's a good safe place to be in. And then from there, you have \$70,000 so you have a little bit more money left. I would put some more maybe starting towards the college savings. Your son is only one, but in the next 17 years, one thing is sure college will only get more expensive.

You can actually run the numbers online. There are calculators at fastweb.com and finaid.com and a bunch of other websites to help you figure out the cost of college, maybe, down the road whether your son goes to private school or public education. And the thing about college fund like a 529 is that even if your son doesn't go to college, you can still use that money for, let's say, another child or you can give it to another person in your family or yourself can use it for higher education, and so definitely look into something saved aside for college.

I wouldn't maybe put all of the remaining, if you have \$70,000 minus let's say you put \$25,000 in an emergency fund, I wouldn't put \$45,000 in college savings. I would probably get on a savings maybe system where you are putting aside \$500 a month for college and then I would also start to put more towards retirement. Because \$30,000 each, I don't know how old you are, but if you have a kid already and you have a house, I'm guessing you're not in your early 20's. If you are

in your early 30's you want to make sure you have more than 30,000 in retirement. That's good, it's not great.

So increasing your allocation towards retirement either by putting more of a percentage of your income towards the 401(k) or opening up an individual retirement account. But with all of these savings that you want accomplished, except for the emergency, I would say lump sum payment right away. Put a good \$25,000 chunk in that and just put it in an online account or just a good old plain vanilla account. Don't worry about interest. This is just money that's going to come and rescue you in the event of a leak or you have to be out of work for a little bit.

But for the savings for college and the savings for retirement, do that incrementally and pull from this remaining amount of money. Don't put a lump sum in, just do it gradually and then I think if you have savings, emergency savings, and you continue to save after you're doing all these other stuff for your next home, that's okay. I think saving for your next home should be the last thing on the bucket. I don't know where you are living right now because you've sold your house. Maybe you're renting, did she say what's going on with their living situation?

[00:24:38.8]

SY: I believe that she said that they're renting, yes.

[00:24:41.1]

FT: They're renting, okay. I just would like to see some of the boring stuff taken care of first. Just make sure that you have — because also, when you go to buy again the bank is going to want to see that you have savings. So if that's not fulfilled, you are not going to be the best candidate for mortgage come your next home purchase. So doing that and also improving your retirement, getting some college savings I think you have a lot of money to work with here, so do that. And it's okay to rent for the next three years if you have to, to make this possible. There's no shame in renting if it means you are prioritizing your finances to get some other foundational things taken care of.

So Victoria congrats, it's a nice chunk of change you got there but I think now it's just time to take advantage of this and allocate it towards the weaker areas that you've got, namely emergency and retirement. All right, I think I have enough voice in me for one more question. As you can tell, my volume is getting a little wispier and weaker, but let me take a sip of water, you read off the question in the meantime.

[00:25:43.6]

SY: All right, so our last question is from Joanna and she says she and her husband got married in April of 2016. They live in California and she makes less than her husband and usually gets a return on her taxes and he makes more, but always owes money. And so now, they're at a point where they're unsure how they should best file their taxes for this upcoming year.

They want to know if they should file a jointly or separate and she also has to consider that she has a son and her husband is the stepfather. So how do they file that they breakeven or get a small return? And then she also wants to know if there are any tax breaks that maybe she should keep in mind?

[00:26:24.6]

FT: Okay. Well, it sounds like you guys are a prime candidates for hiring a certified public accountant or at least working with someone to help you file these taxes. The first step is to figure out what your taxes may be, as both joint and separate filers. Now the chances are, if you file jointly, this maybe the best scenario. In some cases married filing separately, it does limit the kinds of deductions or credits that a married couple can take. Namely, and this applies you as a parent, the dependent, the child and dependent care credit.

So this is something that if you're married but filing separately, you may not be exposed to and that could be a nice credit, money back in your pocket. At the same time though if one of you wants to itemize a cost like say medical expenses that in that case, the expenses need to add up to meet a certain percentage of your income in order to be a qualified itemization. Filing jointly could disqualify you because now your joint income is so high that even though your medical expenses were let's say \$10,000, it's still not at least, in this case, 10% of your adjusted

gross income. Which if you want to deduct medical expenses, they have to add up to at least 10% of your adjusted gross income.

So that's another thing to keep in mind. There are a couple of expenses like that that could work against you when you're filing jointly because together your income is higher and so it's going to be harder to qualify for some of these itemized cost. Again, I'm not the best person to give you a definitive answer. The best person is someone who is a qualified certified public accountant who is experiences specifically in people like you where maybe this is like a second marriage or one is a stepfather or a stepparent.

If you have any unusually high expenses that you might be able to itemize, like child care, good things to point out to this person that you would ultimately hire a good place to look for a CPA first just ask around. I think sometimes referrals from friends and family are the best and then fellow colleagues, people that maybe work with you who have a similar income structure or expense structure and then you're from California, so if you want to find a good CPA in California, you can go to calcpa.org.

Also for everyone else listening, if they want to find a CPA anywhere in the country, you can go to cpafinder.com and you want to make sure that they are actually certified, ask for credentials, you can go online and search for credentials and it's important. I think ultimately, this is where your money can be well invested and can ensure that you have someone that's triple checking your tax return that's also able to point out credits and deductions and ultimately give you the best path.

I think for Tim and I, we initially did not file jointly but ultimately when we started working with a new certified public accountant, he was like, "Actually, it is good. It's better for you guys to file jointly because now you're parents and this is going to expose you to more of a tax break together when you file jointly than separately." So as your life changes too, you may find that some years it's better to file jointly versus separately. It can change. So it's always good to have someone on your team to give you that ongoing advice. All right, excellent question. Sophia, thank you so much.

[00:30:04.0]

SY: Thank you.

[00:30:04.8]

FT: Happy birthday again to my dad. Happy Veterans Day. I hope you all have a phenomenal weekend. See you back here on Monday and I hope your day is So Money.

[END]