

EPISODE 506

[ASK FARNOOSH]

[0:00:32.9]

FT: What's on your money mind? Welcome to So Money everyone, it's Ask Farnoosh time where we tackle your biggest financial questions. We have a lot to get through, it's been a pretty busy week. The end of the year is summoning and with that comes a lot of last minute to-do's on my list, I'm sure yours as well. We've been keeping busy this month. We had to get a new car, we had a renovation in our house — another one, yes. What is wrong with us? It was much more minor than the one that I went through last year which was like a combination of two apartments.

Somehow I'm still married, but Evan's room was transitioned this week. He went from his bigger room to a smaller room, sorry little guy. But we have to make room for his sibling who is coming in March and it just made more sense to move him into the slightly smaller room but in order to make him feel like he wasn't going without or with less, we did it up. We did it up. Evan loves firemen and fire trucks and everything fire engine related. We have a really cool room inspired by that and we had this really fun couple come in and helped us kind of rethink the space and it was all very on a budget and we'll have the pictures ready soon going online. Stay tuned for that before and after, pretty excited to unveil that for him this week.

What else? We're getting ready for the end of the year, so stay tuned on the show because we've got a really cool recaps coming your way. We started this tradition last year and where we decided that the last two weeks of the year, we're going to really dedicate this to reflection, looking back down memory lane on the podcast and doing these thematic episodes where we look at some of the guest who have talked on similar subjects, ranging from health and wellness, to earning more, women empowerment. So I'm really excited to introduce those to you and kind of you know, do a shout out to all those great interviews that we've had all year long.

I'd like to now welcome my Vanna White of the episode — way more than Vanna White. I mean, you're my side kick, who am I kidding? Sophia, welcome to the show.

[0:02:41.8]

SY: Thank you so much Farnoosh.

[0:02:43.4]

FT: Does it feel like when you're doing Ask Farnoosh that you're just like the revealer?

[0:02:48.6]

SY: Yeah.

[0:02:49.4]

FT: Just revealing the letters.

[0:02:50.6]

SY: No it is, it's fun though.

[0:02:52.7]

FT: It's fun. We have a lot of really good questions this week and we want to make sure that you guys know too that when you go to somoneypodcast.com, you can now leave a voice mail for us. It's not that visible, I'm sorry. The site's going to go through a total, really fantastic revamp in the new year but in the meantime, we're trying to fit in a lot on the So Money podcast home page.

So where you go on the site, you go to the right hand side on the side and there's a little widget that says, "leave a message" or "record here" and that's where you just easily can record with your laptop or a phone, an audio question. We'd love to start doing that to kind of mix it up a

little bit and get us to hear your voices, you hear our voices all the time, we like to hear your voice for a change. So if you want to take advantage of that, we encourage you to.

In the meantime, we just have some written in questions, which is totally still fine. Starting Leah right? Who wants to know about like the differences in the IRA's?

[0:03:53.8]

SY: Yeah, she wants to know if there are any tax benefits to having both a traditional and a Roth IRA?

[0:04:00.6]

FT: Certainly. Well, as we know, this is kind of a 101 question, but I think that it's good to remind people that individual retirement accounts, there's two types, right? There's the traditional and a Roth. Each are fantastic if you can take advantage of this maybe in addition to a 401(k) at work. They each have tax benefits that work differently. You can have one, you can have two — as in both — and still benefit from each of their tax advantages. A traditional IRA, you get the tax benefit today. So you pay money into the IRA and then that contribution is deducted from your taxable income. Then you pay taxes on the withdrawals in retirement.

With the Roth IRA, you get the tax benefit later. Your contributions are not deductible today but the qualified distributions are made tax free and I like maybe dabbling in both because if you can, I think it's great to diversify your tax exposure in retirement. We don't really know what our tax bracket is going to be at that point. Some of us could guess it could go up, but in some cases it could go down. In either case, if you have both a traditional and a Roth, you've sort of leveled the playing field.

One thing to note though is that if you do open up both an IRA and a Roth, a traditional and a Roth and you contribute to both of them, the most you can contribute to all of your traditional and Roth IRA's combined is either the smaller of \$5,500 or your taxable compensations for the year. So just keep that in mind, you can't do \$5,500 in the IRA, in the Roth and \$5,500 in the traditional, you have to make sure that only the combination comes up to that. If you're aged 50

or older by the end of the year then you can do \$6,500 an additional \$1,000 in catch up but that's the good news that you can, to Leah's point, you can take advantage of both of their tax benefits but you just have to be mindful of that limit.

Sophia, you have a Roth, right?

[0:06:02.4]

SY: I do and I maxed it out for 2016 and hopefully will be doing the same in 2017.

[0:06:09.2]

FT: Awesome. Wonderful, wonderful. Yeah, a Roth is great, especially because when you're younger, this is the time to really get involved. We know that Roth IRA's have an income limit so far as once you hit it, you start phase out of your eligibility for the Roth. I forget the exact amount, it's something in the — I think it's like, don't quote me, but it's in the low \$100,000's but once you hit that then you start to phase out of your eligibility for the Roth. So take advantage of it now while you can and you're young, and maybe you're not excited about your low pay but at least you can take advantage of this financial instruments.

All right. Tiffany's next. She's 24, she's from California, she's making a good decent salary.

[0:06:52.1]

SY: Yeah, so she's making \$60,000 a year but she currently has \$23,000 in student loans and that's her only debt but she has two goals: one is to buy a new car and the other is to become debt free. But the problem is that she is going to have to go back to school at some point to finish her degree, which means more student loans and a pay cut. At that point, she'll just only be earning \$32,000 a year. So she's wondering if she should focus on paying off the debt or saving for a car?

[0:07:23.3]

FT: Well, that's a really good question. I think she's going to need to drive, right? I mean, I don't know what her car situation is right now, if you have no car? If you can just run this car into the ground while you're in grad school, great. If you can just skip getting a new car for the time being, great. Because that is going to be an added expense and you know, \$23,000 in student loans is not terrible and you are making a good salary now, so I assume that this is a comfortable monthly payment for you, but it sounds like it's going to get a little more difficult with added loans and the cut in salary.

I just don't think it's the right time to be taking on a huge expense. That said, a car doesn't have to be a huge expense. If you have something like eight to \$10,000, which is a lot of money, I get that but if this is something that we'll be able to afford you a decent car to get you from point A to point B, to get you to your job, to get you to your classes and then you can somehow still manage those loans then that's kind of the strike of — that's the happy medium balance. This idea that you're going to have to take out a car loan on top of student loans, I would first rater look at alternatives to buying that car.

Perhaps you could take public transportation? Can you hitch a ride with classmates? Can you just stay with the car that you have? Could you borrow a car. There's maybe other ways to make this more tenable for you but I think that knowing that you're going to have more debt coming in, it's just not the right time to make a huge purchase like that. Sorry. I know that's kind of like a sad answer. Cars are important, they get us from point A to point B like, I think that she has to do the math. This is a situation where she gets the car and gets a loan for it and then she just digs herself further into debt. What's that going to look like? How is that going to feel?

[0:09:15.8]

SY: Well, I was going to say it really depends too on the type of person Tiffany is because especially if there are some people out there who just the thought of debt is completely debilitating to them, you know? Just so overwhelming and terrible which that's probably how I would be but then there are some people who think, "Okay, well in a couple of years," you know, it depends on what type of degree she'll be getting, but maybe if she knows down the road she'll be making a certain amount of money. It goes back to like what you said, just really doing the

math and figuring out how much will you be earning down the road Is it smart to take out the money to buy a car now? Et cetera.

[0:09:54.0]

FT: Yeah, I mean I don't know how far her school is from her house, how far her job is from her house. Maybe she could rely on public transportation or maybe an occasional lift or taxi where — I know in California it's a lot more affordable there to get car service than in New York City. I'm not saying this is going to be something that you can do every day, but maybe a combination of those two things will prove more affordable for her than clunking down \$10,000 for a car, which I know cars can be a lot more money but I don't really think she's in the market. She shouldn't be in the market right now for like a 20,000 plus vehicle, I just don't. Maybe after you graduate and you've got back to making like 60k or more a year then that's a different situation.

So she had a follow up, right?

[0:10:44.0]

SY: No, actually, you're always telling people to write in and this is a follow up from Regina and she said that...

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FT: Oh, Regina.

[0:10:50.7]

SY: ...a few weeks ago, we answered one of her questions on robo advising. She was really excited to hear your answer and she wanted to share an update with you.

[0:10:59.1]

FT: Cool, okay. I love this.

[0:11:02.4]

SY: Wait till you hear the rest of it. So she lives in New York City and she opened a Roth IRA, she maxed out her contribution for 2016 and then she opened another account with Betterment and she's embarrassed to admit it but she actually just only read your book, *Psych Yourself Rich*, even though she's been following the podcast for a long time and she loves it so much that that's going to be the Christmas gift for all of her siblings this year.

[0:11:28.2]

FT: Oh, that's nice.

[0:11:29.8]

SY: She says, "So all of us will be So Money and no time."

[0:11:33.5]

FT: All right! What a thoughtful sibling you are Regina and thank you so much for sharing that update with us. I'm glad that the advice was helpful, I'm glad that you're really diversifying your retirement assets here. You got a Roth, you got a Betterment account, and it's never too late to pick up *Psych Yourself Rich*. It's a timeless book. Talks about how to get the discipline and the mindset for managing your financial — what is the sub title anyway? It's like, *How to get the mindset and discipline for mastering your financial life*. It's been a while since I wrote the book so I'm a little rusty on the subtitle, apologies.

But I love hearing that you have found the book, a lot of times, people tell me Sophia that they find the books in the library which is great, I love that. I'm so honored that our public library system is choosing to include this in their archives. So, if you don't want to pay for it, totally cool, go to your library, check it out. Thank you again Regina. Love getting updates, that made my day.

[0:12:35.4]

SY: Our next question is from Marley, she's not engaged but she and her boyfriend have talked about getting married in two to four years' time and they're the ones who will be paying for their wedding. They say a small one is not an option because they both have larger families. So they want to know of a short term account that you might recommend where they can start saving up some money.

Ultimately they want to save anywhere from like \$40 to \$50,000 and as of February of this coming year, she'll be debt free and she has to make that she can probably contribute anywhere from \$1,500 to \$2,000 each month.

[0:13:12.2]

FT: Wow. All right, so a lot of things going through my head. I just got married four years ago, it wasn't inexpensive. We paid for it ourselves, but we only did that because we could. We had retirement all tucked away, we were saving for a rainy day, we didn't have any debt. So just, Marley, make sure that if you're going to be contributing all this money towards your wedding that you have all your other financial bases covered. Because this, while it is an emotional moment and it's like a really important day in your life, it should not be something that sets you back financially.

It should never be something that compromises your ability to retire well, to have enough of an emergency account, et cetera. So just be sure that you're being smart and \$40 to \$50,000 sounds like a lot of money, but you know what? These days, the average cost of a wedding in America is like \$35 grand I think? Last I checked, and if you're getting married in a big city like New York or Boston, double that. That's not even getting like the swan iced, you know? Or whatever people get. People go crazy with weddings.

[0:14:20.0]

SY: That's an understatement.

[0:14:21.7]

FT: Swan ice sculpture, sorry. Swan ice sculpture To this day though, *Father of the Bride* is my definite, one of my favorite...

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SY: My god, I love that movie, it's so great.

[0:14:32.4]

FT: All I wanted was Hans to do my wedding just because he was so entertaining. So that's the first thing Marley, is just make sure that this isn't going to be tipping the scale for you and your partner. Where to save? So that's really the question. I mean, short term accounts are all over the place, you could just save in your bank account, you could save online where you might get a little bit more interest. I've talked about this on the show before, it's called smartypig.com

This is a site that is setup to encourage people to save for goals. A lot of people who are saving up for a wedding, college, a car, et cetera or just like a trip, something even maybe more affordable, go there to setup their accounts. You can get a slightly higher interest rate. I think, let me see, going on smarty pig right now. It fluctuates and so this isn't like the end all interest rate, but right now you can get 0.9%, which is better than a plain vanilla bank account, traditional brick and mortar bank account.

So online banks typically have higher yields and the other cool thing about Smarty Pig is that while it's encouraging you to save up for this goal, two things are cool: you can redeem your cash once you've achieved your goal with Amazon and get a discount or other vendors that they have partnerships with, which may or may not be applicable to you. Then you can also send the link to family and friends over the next two to three years that she's going to be maybe saving up for this wedding, to get them to maybe donate/contribute to your wedding fund. Just something that you know, they give you the option to do so they provide this kind of like this social tool to get people to help you achieve your savings goal.

So that's what I would say about that. Most importantly, just make sure that you're not going to go in over your head and talk to your family about the guest list. I think it's really unfair and Sophia, chime in because you've were like a bridesmaid recently...

[0:16:37.1]

SY: I was.

[0:16:38.3]

FT: ...and a lot of your friends are getting married and you're kind of like — you're at that age where you're going to be collecting a lot of brides maids dresses. Sorry.

[0:16:44.5]

SY: I know, it's starting already. No it's true.

[0:16:47.4]

FT: The fact is, I've seen this, it's like parents put a lot of pressure on their kids to invite like the third cousin twice removed. I'm just like, "Listen, unless they're paying for it, that's not cool."

[0:17:01.2]

SY: No, I'm with you.

[0:17:03.6]

FT: Yeah, go ahead.

[0:17:04.4]

SY: I was just going to say, I think too, I mean, I understand that both of them have big families but you know, obviously it's really responsible. They want to make sure everyone 's included in they're paying for their wedding but as you said, I mean, I would definitely go to both sets of parents and say, "Listen, we're totally fine to pay our way for our wedding or we are excited to do this, but let's sit down and have a conversation about the guest list because at the same time, we do have a budget, we're going to stick to it and this is the max that we're going to spend. And with that, this is where we're going to have to make cut off at some point."

[0:17:38.4]

FT: Right. I think that's a great away to introduce it to your family. Like, you know, I wrote about this before, "how to ask your parents for money for your wedding". Sometimes parents are just like, it's understood, we're paying. In other cases, it's not because you're getting married later in life or it just wasn't something your parents budgeted for, you don't want their help. There are a myriad of reasons, but if it such a situation where you have this obligation, you feel you have this obligation to invite all these people and your parents are nudging you to do that then I think it's fair to go to them and say, "Look, we are prepared as a couple to put down this much money for our own wedding, this is a cash. We've estimated that this will roughly mean we can have X many of guests."

Our family is bigger than that, our extended family is bigger than that, our friends on top of that, it's going to make it really impossible to budget accordingly. So we want to see if you would like to participate in helping us fund this so that we can make room for more family members? Otherwise we are going to have to make the unfortunate cuts that we have to just because of budgets, and it's not because we're going overboard, we're not getting, we're not doing a sushi bar. Like we're really just trying to have a good fun time, reasonably but people, the guest list adds up and every head is money that we have to spend on."

So just being open and honest and giving them time to kind of come up with strategy is a good idea. Sometimes one way to reduce the guest list is to say "no kids". Just kind of make this blanket rules; no kids, maybe you don't do significant others for people who like are just dating. Maybe it's just people who are in serious relationships.

[0:19:29.1]

SY: I was going to say I've heard the rule, "no ring, no bring".

[0:19:33.0]

FT: "No ring no bring".

[0:19:35.2]

SY: Yeah.

[0:19:35.8]

FT: I should have — you know, for my wedding, I felt bad for some of my single friends who were going to come and they didn't know anybody so I was like, "You know, you can bring a date." But honestly, that is your call. I don't know if I would — I wouldn't have done if it was a lot of my friends who were single but I had one or two. I just said to them, "Of it would make you feel more comfortable and you could enjoy your night more, you can bring a date."

All right, I love wedding questions, there's so many nuances in weddings.

[0:20:04.7]

SY: I do too. I know, like you said earlier, it's just becoming more and more expensive, more over the top. I'm speaking from experience having been a bridesmaid so far and I have a couple coming up, it's like, the bachelorette weekend alone is just so much money and, you know, I love my friends, I'm so willing to do it but at the same time it's like, that's precious money that could be spent going towards my savings or retirement. But then again, it is a wonderful experience so you have to look at it that way too. So there are pros and cons.

[0:20:37.8]

FT: I do think though, as the bride and groom, you need to be really respectful and cognizant of the fact that your peers, your friends, you've invited to be in your wedding party aren't making bank, you know? You're getting married at a time in your life where it's really crucial to be saving and you're not making a ton of money, a lot of us in your 20's.

So it's really ridiculous to expect us to fork over hundreds and hundreds of dollars for every event leading up to the wedding. Plus then there's the wedding gift. It's like, "I just hope you guys stay married."

[0:21:06.7]

SY: I know, it's never ending.

[0:21:08.0]

FT: Please just stay married.

[0:21:09.1]

SY: Then there's the accommodations, the travel. I told my dad I was like, "Honestly, I'm eloping. I'll let you know so you can be there but I'll be at city hall or something like that." Keep it very simple.

[0:21:23.2]

FT: Well, when you come back, we'll throw a big party for you.

[0:21:25.2]

SY: Sounds good. I think that would be more fun.

[0:21:28.9]

FT: People do that, it's actually a lot of fun. I'm a big fan of that.

[0:21:33.3]

SY: My parents eloped and it ended up working out very well for them.

[0:21:37.8]

FT: There you go. Wise advice from Sophia.

[0:21:44.2]

SY: Well, we're finally on to our last question and it comes from Chris. He wants to know if you're planning to split savings three ways between retirement, a cash reserve and a home down payment, what percentage can you allocate to rent from your income for the time being?

[0:22:01.2]

FT: As little as possible. You know, the rule of thumb, regardless of what your other things you have going on, is to not spend more than 28-30% of your take home pay on housing; that's rent or mortgage. If you are someone like Chris who also has this other goals going on including saving up for an emergency, retirement, a home down payment. I think that you want to maybe go even lower to 20%, 15%? Maybe move back in with a parent or find very, very affordable digs to be able to accomplish this goals.

Again it depends on your timeline too. If this is something you want to accomplish in one year then you're going to have to be extremely aggressive and save a lot on rent, because Chris will probably know more than I. Chris, I will say, no more than 28% on rent. If you're living in a big city like New York that can feel very challenging. It is literally very challenging. There is sometimes no way around it, so you have to move someplace else. So that's the rule of thumb.

I was actually reading this article, it was in a Refinery29 recently and it was about all this young singletons who live all over the country, all making the same salary. I think it was \$44,000 a year and the woman who live in New York was spending more than one, two week paycheck on rent.

[0:23:31.9]

SY: Oh my goodness. Those are my favorite stories but they are a little depressing. It's like, "I make X amount of money and live in X city, state. This is what I can afford where we barely afford where I live," and you're like, "Oh my goodness." It makes me look at it and think, "Well, maybe I shouldn't be living in New York City if you can get a much bigger place with much less rent and like you know, middle of America." But then again you know, it's not as exciting.

[0:24:01.4]

FT: Yeah, there are tradeoffs to living in the middle of America. Just as there are tradeoffs to living in the coastal cities. But I think that what was also interesting, like a pattern I found wherever these ladies lived, a lot of their money was going toward personal care and grooming and gyms and manicures and I was like, "Where's your Roth IRA? Where's your emergency fund?"

They would rather not eat instead they wanted to get to their Soul Cycle class. That's the state of America right now, young women in America perhaps. Just form the snapshot. I'll send this article to you, it's really cool. Refinery29.com is doing some really great money stuff right now. They have Lea Goldman as executive editor. She came from Marie Claire and Forbes, she's amazing. She's actually been on the show as a guest.

I attribute a lot of the content now that I'm reading and loving to her because I don't think it's a coincidence that she started working there and there's all this really great content and advice around work and career and money which is really Lea's wheelhouse so check out refinery29.com. Kind of an unexpected resource for this sort of information but it is great.

Thank you everyone for your questions including Chris, and Marley, and Regina for that awesome follow up. Merry Holiday to you. Tiffany and Leah. Sophia, of course, thank you so much.

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SY: Thank you.

[0:25:34.3]

FT: Hope your weekend is So Money.

[END]