

EPISODE 524

[ASK FARNOOSH]

[0:00:35.6]

FT: Welcome to So Money everyone. Happy Friday. January 20th, 2017. It's ask Farnoosh Time, where I answer your biggest, baddest money questions. Thanks to all who've been contributing, writing in, leaving voicemails, if you haven't already. We'd love to hear your voice. We have this little cool widget at somoneypodcast.com where you can, on the right hand side, click on this little widget called the Speak Pipe widget. Send a voice message to Ask Farnoosh.

You can start recording right through your laptop, through your phone and it goes into our inbox. My only tip is to speak clearly and make sure there's not a lot of ambient noise, because we have gone a couple of calls where we just can't hear people, unfortunately. We're going to go back and ask them to rerecord. Otherwise, it's been really great.

Sophia, welcome to the show. Don't you love this little tool that we've discovered?

[0:01:27.2]

SY: I do, it's great. I hope more people will start using it. I think it's really fun and it's actually great, as you mentioned before. I'd be able to hear people's voice. You can't see them, but it just adds another dimension and makes it a little bit more personal, which is really interesting when we're getting these questions. I do enjoy that aspect.

[0:01:48.0]

FT: I think people are being why though. We haven't gone like a flood of voicemails, but I think it's a part people just – It's a little more effort than writing in, I suppose. Also, the widget is not like glaring at you on the website. It's a little bit of a – It's off to the side. Maybe you don't see it. I'm just reminding you that it's there. We're also redoing the website. Hopefully in the future it will be more a prominent fixture so that we can hear more of your lovely voices.

It is January 20th at 2017. My brother turned 26 two days ago, which means I'm only getting older. He's invited me and my husband out for drinks on Saturday night. As if we do that now at our age with a child and one on the way. I'm going to try to make it out for a little bit. I can't even drink.

I did find a list of bars that are specializing in mocktails in the month of January, because a lot of us go off alcohol this month.

[0:02:47.9]

SY: Yeah. I actually read a similar article as well.

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FT: I'm looking forward to finding those bars and maybe I can convince my brother to include one in his barhop.

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SY: Doubtful.

[0:03:00.1]

FT: On Saturday – Doubtful. Yeah. I asked him the other day, I was – I guess it's been a while since I've gone to a cocktail bar. In New York we have these really cool, sometimes, underground bars that specialize in medicinal cocktails from the olden days. They go for \$18 a drink. What? My brother was like, "Yeah, that's normal." I'm like, "\$18 is a meal."

[0:03:29.2]

SY: I know. It's become absurd.

[0:03:33.6]

FT: You're not going to drink wine. You're going to have a few. Before you've even gotten to the next place, you spent \$50 on beverages. I just feel that that's ridiculous. Unless it's just quite the scene and you meet your next employer there – I don't know. I just feel like it's — I don't know — Priorities at this stage of my life not to spend \$18 on a mocktail or a cocktail. I don't even care what it tastes like. Such is life when you're 26 in New York.

Anyways, let's get to our questions and not waste any more time on that and talk about our question here from Michelle. She's curious about retirement and weighing her options.

[0:04:15.9]

SY: Yes. She has multiple investment accounts. She has an IRA from an old job that has 53,000. Now she has a 401(a) investment with her current employer that has about \$9,000. She wants to know is there any benefit to moving the money from her IRA into that 401(a). She currently contributes \$100 a month, sometimes more, to the IRA account with after-tax dollars.

In the 401(a) account, she contributes 4% of her paycheck with a 4% match, and then she additionally contributes 2% after-tax. She wants to know if she's doing good here or if there's any benefit to consolidating the IRA and that 401(a).

[0:05:02.0]

FT: Okay. First things first. You keep saying 401(a), which some people might be doing a double take, like, "What is a 401(a)?" It's not a typo. It does exist. We know about the 401(k), which is more common in corporations. Businesses offer this.

A 401(a), I think is more of — It's basically the same thing, but basically it's more for federal employers offer this and sometimes the rules are a little bit more stringent as far how much you can contribute, when you can contribute. Things like that. It's nice to know that this still comes with a match.

I would think that it just trumps any other retirement option at this point. This is 4% free money that you're getting. It is also — The situation with the 401(a) I believe is that you can deduct a large portion of the contribution from your taxable income, so you're saving money that way. I like the 401(a). If you wanted to streamline your retirement, put everything under one roof and be able to track everything more easily. Also, be able to bank more on the match, be able to bank more on the tax break that is given to you today, I would do that.

It sounds like the 401(a) is the better of the two options here. If it's just \$100 a month that she's contributing to the IRA, we'd move that over to the 401(a). Good to know that she is also contributing enough to earn the full match, which is fantastic. That's my short and sweetie answer to Michelle.

[0:06:42.4]

SY: Our next listener has two questions for us. Her name is Brooke. Her first question is that her husband was recently accepted into the London School of Business and they'll be moving this June. As the spouse, she'll be getting a working visa from the school. She wants to know when should she start applying for jobs abroad. Ultimately, this summer, they'd like to spend time travelling. Realistically, she wouldn't want to start something until August or even September.

[0:07:11.5]

FT: Okidoki. The truth is it takes a while for employers to hire you these days. Just anecdotally, I know people apply for jobs and they may get that first interview right away, but then they don't hear anything for weeks, a month till that second interview. Employers have their own time tables sometimes for hiring and it's not always in line with what we want.

The sooner the better, I would say. Start to look into job prospects abroad and start to make contact with those hiring managers abroad. Start to fill them out. Start to get a better sense of what's really realistically available for you out there. If the jobs are — If there are postings, apply for them.

The truth is it's not wrong to apply for a job if you can't start immediately, unless the job says, "We're looking to hire someone in the next two weeks, two months," they give a specific

timeline. I think it's safe to assume that when you see a job posting, that it could be months until they find their candidate. At that point too, they might be able to negotiate your start date. If they want you really bad and you're like, "Well, I'd love to work here. Truthfully, we were hoping to take six weeks off this summer to travel." Maybe there's a way for them to be flexible. I would just say get your foot in the door. Apply. Get them to love you. Get them to hire you. Want to hire you. Then talk about flexibility. Maybe pushing the start date off.

She has a second part to her question?

[0:08:38.9]

SY: Yeah. In terms of when she's applying to these jobs. Right now, she works as a temp and has an 18 month contract with the Gates Foundation and she has the same responsibilities as a full-time employee. She wants to know, does she have to list that she's a temp on her resume? She obviously doesn't want to be dishonest, but she wants to be able to position herself in the best way possible as she's applying to these jobs.

[0:09:03.5]

FT: Okay. Maybe some people would disagree with me, but I think this is not something that needs to necessarily list on her resume, but certainly something she can talk about in the interview. I wouldn't want to put something like that on my resume. It's not lying. It's just not putting all of the facts out there. You're saving some of these facts for the interview. Hopefully they like what they read on your resume. They invite you in for an interview. You're not misleading them, because it doesn't mean that you're doing any lesser of a job or less meaningful of a job and that you're less qualified. It's just the technicality of the job that you have, that it's not "full-time".

It doesn't mean you want to reveal right away either because that may interfere with your ability to negotiate well for a salary if they really want you. In their minds they're thinking, "You're just a temp. You didn't even have benefits. Maybe we could get away with giving you less." You don't want to play that up so much, because you don't want it to work against you. It shouldn't work

against you. Some employers, perspective employers might use that as a reason to not be as generous with their benefits and their salary knowing where you came from.

Don't need to state that it was a temp position, a fulltime position, whatever. Really more interesting and important that you put the responsibilities that you had and what you're accomplishing. I think that's going to speak more and more significantly than the technicalities of the job. That's what I would say to that.

Maybe some people would think that that's being dishonest. I don't think that it is being dishonest. As long as you do talk about it at some point, what it makes sense. I worry that if she puts it on her resume, it's unnecessary. It doesn't really add or takeaway anything. If anything, it could maybe put a bias against her.

[0:11:05.3]

SY: I'm with you. I think, plus, if she doesn't put it on the resume and then brings it up in the interview process, it gives her time, obviously, to explain herself in person, and they can ask some follow up questions and things like that. Also, as a temp, she's still doing, as she mentioned, the same responsibilities and be curious to know if she's working the same amount of hours as a full-time employee. That's obviously something worth bringing up as well. If you're not spending as much time, maybe it's allowed you to do something on the side that's also contributes to the work that you could be doing for this other — For a job in the future. That might be a great asset for them to know as well. I think that there's —

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FT: Yeah, plain up. You're totally right.

[0:11:50.0]

SY: Yeah. There's some way that she could position that.

[0:11:50.8]

FT: This is why I have you on the show. Yeah. That's so true. If this temporary position has actually allowed you the time and the flexibility to pursue other things that directly or indirectly make you more qualified for this job, talk that up. I think that's a great way to spin it.

Didn't you work in PR, Sophia?

[0:12:10.5]

SY: I did.

[0:12:12.3]

FT: There you go. We have some expert PR advice on how to spin that story.

[0:12:16.5]

SY: Another great thing that she could do also, another idea that I have is if they ask for a reference, by all means, go ahead and give someone from the foundation who's able to say, "Yes, Brooke was a temp, but she's been doing excellent work and she's been able to accomplish X, Y, Z. If we'd match up her against fulltime employees, she's doing the exact amount of work, if not, more. There's definitely some opportunities here that she has to position herself in a way that's very attractive to future employees.

[0:12:51.7]

FT: Yes. For sure. Okay Brooke, enjoy your voyage. Congrats to your husband for getting into the LSB. Good luck to the two of you.

Okay, moving on.

[0:13:03.3]

SY: We're going to switch gears now to a real estate questions that comes from Sarah C. She wants to know how you feel about rent to own options, because she currently lives in the Boston area and housing is expensive. She feels that renting is throwing away money. She's also thought about maybe even buying a two-bedroom condo and renting out the second bedroom. She wants to know what your thoughts on all of these are.

[0:13:30.8]

FT: Two very different prospects. One is rent to own. Another is becoming, basically, a real estate investor/landlord. You can definitely do both in the future. Let's tackle the first one, which is rent to own. This is a very attractive option for people like you, Sarah, who are living in areas where they may not be able to readily afford housing, purchasing a home, but they have maybe been given the opportunity to rent something. Part of the rent goes towards the future down payment, and then on a decided date, an agreed upon date with the owner, you strike and you become the homeowner, assuming that the loan comes through and all other financials fall into place.

The pros to that is that it gives you — It basically buys you time and it allows you to slowly build up that down payment while you're still living in the home to ultimately become the home owner. The con, the caveats to keep in mind are that you may not be able to secure the financing down the road. At that point, depending on your contracts' terms, you may lose all the money that you had put towards the down payment, because the seller or the home owner at the time, they need to protect themselves. They're giving you all these time to work your way towards buying the home, which, in the meantime, they could have sold to somebody else.

They're, in some ways, doing you a favor, a little bit of a favor. They're going to want to cover themselves for that. They're going to keep that money that you are using to secure towards the down payment regardless of what ends up happening. Just keep that in mind. Your life might change. You might not want to buy the house. What do you then? Will you be allowed to get out of the contract? If you can, what are going to be the penalties? Just keep that in mind.

The other thing that could be a good thing or a bad thing is home prices. They could go up or down in the next few years while you're looking to save up to buy this home to rent to own it.

You usually will set the purchase price today for the future. If your gut is saying that home prices are going to continue to go up, it could be good to lock in a price today because you might ultimately save on buying the home in three years, versus buying any other home on the market in three years.

That said, prices could also go down. If you've locked in a higher price, you might feel really bad about that and that could hurt in more ways than one. Just think about all of these pros and cons as you are contemplating a rent to own. It could work out, but it could also backfire. As far as becoming a landlord, buying a two-bedroom, renting out the second bedroom, it's been done many times. I've never ventured into being a live-in landlord. I've been a landlord. I rented out a studio, and that was okay.

You really, in that situation, want to think about your lifestyle. Is this something that you want to — Do you want the stress? Do you want the responsibility of being, basically, a real estate investor and having to basically be watchful and mindful of another person living in your home? Do you like the idea of someone else living in your home?

In that case, you really want to have a good real estate attorney to draft up a contract for you to make sure that the person who is renting your second bedroom knows the rules, knows that the rent needs to be paid on time, that there are some boundaries as well. Just keep that in mind. Talk to friends who might have done it before.

You might also consider just doing something like Airbnb, which is temporary and not so committed to one person staying in your home at all times. If you're someone who likes to travel, that could be a way for you to make a lot more money in less time renting out the house for a week, or for a weekend event in some cases.

If you're living in Boston, it might be more lucrative to just do short term rentals to people coming and going to the city, because I know hotel prices can be very high in Boston. Some people would like to have not just the savings, but also the immersive experience of living in a home in the city that they're visiting. If listing your home on a site like Airbnb is something that's attractive to you, you could probably make as much, if not, more money that way than becoming a full-time landlord.

Another avenue to consider — But I love real estate questions, as you know, Sophia. Keep them coming and let us know how things go.

[0:18:04.5]

SY: Definitely.

[0:18:05.0]

FT: Is that it?

[0:18:05.8]

SY: No. We're on our last questions, and it comes from Brandy. She just finished grad school and has 31,000 in student loans. Her parents have been kind enough to contribute \$7,000 towards the loan. Her annual salary is 58,000. Starting next month, she wants to pay 2,000 a month so that the loan can be paid off in the next 12 months. This would be the majority of her take home pay and she only has about 3,000 in savings and she does contribute 5% of her salary to her 401(k).

She wants to know if she should save more or if she should start paying down the debt, because she also doesn't like having this debt. She's not sure what she should be doing.

[0:18:50.2]

FT: I hear this line a lot, which is that, "I don't like having my debt," which I understand. Who likes having debt? It's not a reason enough always to prioritize that. As a result, prioritize your debt over savings, just because you don't like the debt. She doesn't have a lot in savings. As much as she doesn't like having debt, is it more than she doesn't like having enough in savings? Maybe the answer is still yes. Realistically, if she's putting a majority of her take home pay towards the debt and then something happens which will result in her needing a \$5,000 to \$10,000 cushion, because she either lost her job, her car broke down, she needs to get a new

one, or she has a medical bill that she can't afford through insurance. That's going to throw her back into debt.

I would like to see that her savings were substantial. I don't know what her salary is, but we'd like to see that you have at least, in this case, at least a few months to six months of your expenses in a savings account so that if something happens, you can afford to cover all those expenses while still maybe paying off the debt.

Yeah, I hear this a lot. People want to be really aggressive with the debt, and that's very notable and I respect that. You also have to put it in the context of your big financial picture. If you're lacking in savings, that could backfire. It could mean that she does an 18 month approach instead of a 12 month approach to paying off her student loan. In the meantime, she can also continue to contribute to savings. If that makes sense.

Contributing 5% of her salary to her 401(k). Not awesome. I'd like that to be closer to 10%. Although she didn't really talk about a match. Did she say anything about a match or anything like that happening at her employer?

[0:20:50.8]

SY: No. She didn't mention if she has a match program or not.

[0:20:54.4]

FT: Okay. Anything else I can chew on that she wrote about that she included in her question?

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SY: No. Nothing additional.

[0:21:00.7]

FT: Okay. That's how I feel about that, Brandy. I really respect that you want to get out of debt in 12 months. I totally relate to the fact and the sentiment that you don't like having the debt, because, who does? Just think that you don't want to jeopardize yourself, or put yourself in an even riskier position all for the sake of getting out of debt, because if something happens and you don't have the money to cover yourself for it, then that's going to require getting into credit card debt, which is also not something that will feel good.

Just be smart about it and be — Just take the right pace even if it takes a little bit longer, but you are affording yourself more financial stability in the process, I'm for that.

I don't know the interest on the student loan, but it's probably not as bad as a credit card. It's not like she has to — It's not the end of the world, but that's my advice.

Thanks to everyone for writing in. I think we're done, right?

[0:21:59.4]

SY: Yeah, we're at the end.

[0:22:01.0]

FT: We're at the end. Only 500 more episodes to go, right? Thank you so much everyone for writing in, Brandy, and Sarah, and Brooke, and Michelle. Again, all the ladies with the questions, fellas, no financial questions out there? I'm sure you have them. Write in. it's really easy. Go to somoneypodcast.com, click on Ask Farnoosh. You could write in. As I said earlier, you can also leave a voicemail. We'd love to hear you and help you out.

Thanks for tuning in everyone, and we'll see you right back here on Monday when we're interviewing Jessica Mah who is the founder of inDinero, a company that specializes in online bookkeeping. Which at one point, almost didn't make it. She had to lay off, like everybody, and then she rebuilt the company.

We're going to be talking to this tech phenom on Monday. She's very young and she's been called the next Mark Zuckerberg. We're going to find out why. Stay tuned and hope your weekend is so money.

[END]