

**EPISODE 545**

[ASK FARNOOSH]

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**FT:** From retirement savings to tax refunds, I've got your questions answered. Welcome to Ask Farnoosh everyone. It's Friday March 10<sup>th</sup>, I'm your host Farnoosh Torabi. This is Ask Farnoosh on So Money and joining us always is Sophia, welcome to the show, everyone.

[0:00:50.5]

**SY:** Thank you.

[0:00:52.3]

**FT:** It is March 10<sup>th</sup> and we're recording this ahead of March 10<sup>th</sup> obviously because we have to. We have some things we need to get accomplished and including the delivery of my daughter, which I would hope that by March 10<sup>th</sup> she has arrived, if not sooner. My due date is March 7<sup>th</sup> so it's possible that I'm still very pregnant as you are hearing me. Anyway, it's just one of those wait and see moments.

In the meantime, we have a lot of great questions from our listeners Sophia, including a comment from the Victoria who has a great tip, a great story about how she negotiated a bigger salary. Tell us what happened?

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**SY:** Yes. So after listening to our year end wrap on negotiating and earning your worth, she decided to go for it and negotiate for the first time in her life and she recently received a new job offer but wanted more pay. She asked and the response was, "Sorry, there aren't enough funds to meet that request."

Then after a good cry, she sent back her response declining the position and thanking them for their consideration and then only three minutes later, she got an email saying they reconsidered and would pay her what she wanted and she said it was a real So Money moment for her.

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**FT:** I'd say so. It sounds like this was done via email? A lot of back and forth? You know, that can be an advantage sometimes because you can take a breath, you can take a pause, you can think about it, you can write a response that isn't super emotional and it sounds like she stood up for herself and demanded what she wanted, although in a very friendly way and sometimes you have to walk away in order to get what you want. I think that's my lesson here, or her lesson.

It's my interpretation of her lesson is that you have to be willing to walk away and I think that's true in a lot of negotiating books. Whether you're negotiating a deal, a job, you have to want it but not that much because a part of you has to be willing to walk away. Because when you do, then the other party, I think, for the first time maybe then realizes your value and all the hard work that went in to meeting with you, discussing the deal with you.

They're invested too. That's actually something that we should remember is that we're not the only ones invested in that job because we want it and we want the salary. The hiring party who has invited us in and had a few meetings with us at this point and now we're talking about money, that time has all been spent on you not somebody else. By you walking away that will make them probably think twice and it's so great that they realized it.

So congratulations Victoria and we love hearing from people, not just their questions, a reminder, please send us your wins as well. I think maybe she took my tip a couple of episodes ago where I was like, "Tell us your So Money moments," you know? Because we want to learn from each other that way too. Thanks so much Victoria.

All right, we have some help to give to Christina, right? She is swamped in student loan debt.

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**SY:** Yeah, right now she has \$35,000 in student loans with interest rates ranging from 6.8% to 8.5% and she also has \$15,000 in credit card debt, which she was able to transfer to a 0% interest rate card for 18 months but she's considering requesting of forbearance on her student loans so she can tackle that credit card debt because she can't seem to do both at the same time. She's wondering what she should do?

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**FT:** All right. First thing's first. Call your lender, Christina. Call your loan officer, your student loan lender and let them know the position that you're in. I don't recommend forbearance as a practice, I think that should be a last resort and frankly, you have to qualify for forbearance. What is forbearance?

Essentially, you with the agreement of your loan manager, your lender, basically put off the loan for a period of time. It could be months, it could be years. Just keep in mind that the interest will continue to accrue on that loan and you can choose to pay the interest during the period of forbearance or you can have it accrue and then pay the interest upon interest upon interest when you're back to paying the bill, when you're ready.

You may wake up to an even bigger student loan at the end of the forbearance period. That's the reality because the interest has been tacking on and on. Just be aware of that about really you have to contact your lender and see what they say if they even think you'll qualify. Usually the rule of thumb is that if your student loans exceed 20% of your income, that's a sign that you are I kind of a financial bind and you may qualify for forbearance.

Other times your loan officer, your lender might say, "Look Christina, you know, yes we could do forbearance but also we could modify your loan. We could stretch out the term in some cases." If it's a 10 year loan, they'll make it a 20 year loan which doesn't mean you're going to necessarily pay less over 20 years. You'll probably end up paying more but it does mean that your monthly payments will go down. So if you're looking for month to month relief, that could be an adjustment that would give you some breathing room.

Really, the first step here, Sophia, is that she needs to call her lender and see what is possible. Along the way, you know, a lot of us in order to get out of this financial sticky situations, we find a way to make it a little bit more money on the side. Even if it's just an extra \$100 a month or \$200 a month through babysitting, petsitting, freelance writing, doing odd jobs, running errands for your neighbors that, while it's not your favorite kind of work, it is money that can help to erase your debt faster without necessarily going through this modifications, these kinds of forbearance practices.

So that would be another bit of advice for you, Christina. Just kind of think outside the box a little bit too as far as like, what can you do in your spare time, maybe even passively to bring in an extra few hundred dollars a month to really get your debt out of the picture.

All right, let's talk about retirement now from Nicole. She wants to know how to do better with her retirement savings.

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**SY:** Yeah. So right now she's thinking about starting a supplemental retirement account but she's not really sure what makes the most sense for her and so she's leaning towards an IRA to reduce her taxable income and wants to know what you think?

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**FT:** All right, we actually did a story for mint.com not too long ago on Traditional versus Roth IRA, which one is right for you and also there are other types of IRA's out there like a self-directed IRA, there's SEP IRA's for business owners.

Nicole, I think if you have a retirement plan at work, which sounds like she does and now she wants to kind of do something else because she has some money left over and wants to supplement her retirement. I think that either a Roth or a Traditional IRA could be beneficial. If you do want to reduce your taxable income today than a Traditional IRA is the route to take because that's the way that that works.

You pay into the account, that contribution reduces your taxable income up to, this year, of \$5,500. With a Roth IRA, you do not reduce your taxable income today with that contribution but the money grows and then in retirement when you pull it out, you do not have to pay taxes on that withdrawal which is the benefit there. Depending on what kind of benefit you're looking for tax wise, those are the two differences between the Roth and the Traditional.

Now, there is some background information that she gave us too, right? Which is that she and her husband make a combined income of \$146,000 annually. So in my mind, she still can qualify for the Roth IRA, if that is something that later she decides she wants to do. The Roth IRA does have income limitations for people who participate, but I imagine that if it's like a combined income of \$146,000 that maybe she's making \$80 and he's making \$80 or \$70 or \$80 or whatever it is, you'll still qualify.

She's a teacher, which means that she probably has a 403(b) at work, maybe she has a pension? So start with also exhausting all the different offerings that your employer may provide and then think about opening up an individual retirement account. It sounds like they want to really reduce their taxes. So if that's the case then the Traditional IRA would be the best.

All right, who's next?

[0:09:32.6]

**SY:** All right, our next question is from Richard and we're taking a little bit of a turn because it's about debt. Right now he's getting around \$4,000 in taxes back this year and he has \$16,000 in debt and so to reduce his debt, he has three settlement offers right now that would clear about \$12,000 for only \$2,000. He wants to know what you think.

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**FT:** Settlement, wow, okay. I'm a little worried about settlement offers just because I hope you understand what this is going to mean on your credit report, Richard. When a settlement company comes to you and says, "We will settle your debt for, in this case, like pennies on the

dollar,” that’s a quick fix for you and could sound great because you’re like, “Wow, I paid \$2,000, they wipe out \$12,000, I pocket \$10,000.”

Basically, that gets reported on your credit report as a settlement and that you did not actually pay your debt in full. That has a huge negative impact on your credit report and therefore your credit score. Be very mindful of this. If you are somebody who in the next few years wants to buy a car, wants to buy a house, wants to take out a personal loan, a credit card, a business loan and you want to apply for a loan and your credit’s going to play a factor in that, this could prevent you from getting access to credit in the future, in the near future.

I’ve see that happen before. So there’s the advantage that this is going to get you out of debt quickly but the cost you’re going to pay is the price on your credit report. That could mean not having access to funds in the near future. So just be sure you understand how this settlement offers will get reported on your credit report. That’s really important. You’re getting this \$4,000 tax refund, I say put it all towards the debt, you know? Work your own way out of this.

It’s really important too, psychologically, and we’ve talked about this on the show before and Sophia, you know, I think you agree too, sometimes the slower way is the better way to get out of debt.

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**SY:** Definitely.

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**FT:** It means that you have to actually go through the motions of putting away your income, which you would normally want to spend on other things towards the debt, which kind of is a bummer you know? It’s like, it’s the debt, it’s stuff that you bought in the past, you don’t even remember what you bought with it. But it’s now your responsibility and going through that motion, even if it takes two years, three years, four years, I think will be a lifelong lesson and it will prevent you from falling back on to bad habits again in the future.

More likely than if someone comes in and goes, "I'm going to wipe out all your debt and all you have to pay me is you know, 10 cents for every dollar that I wipe out for you." I just think that it can give you a clean slate but it can also have bad repercussions down the road. Just thinking about the long term ramifications, Richard, and I know that he mentioned with his tax refunds, he was looking to save some of it in an emergency account because that needs replenishing, he wants to change the carpet in his home.

But you know, maybe you put \$3,000 of that towards the debt, a thousand in savings and then you just continue to really pay off the debt. Maybe you can do the snowball method, which I know he's a fan of Dave Ramsey too, where you start with a lower balance, a car that has a few hundred bucks on it, pay that off, it will feel really good, it will give you the encouragement and the motivation to tackle the rest of the debt.

That's what I would say, Richard. I'm sorry if it's not what you wanted to hear but I'm not going to be a cheerleader for debt settlement offers. I really want to know how they're going to get reported, what's going to be the long term ramification? And if you are somebody who wants to access credit again in the near future, this is serious, this could really set you back.

Okay, so let's see, one more question from Miss. Stephanie, tell us what she'd like to know.

[0:13:34.6]

**SY:** She recently was gifted some money and she knows if she keeps it in her main savings account, she'll just spend it. She's thinking of putting it into a money market accounts so that it's out of sight and earning interest but she doesn't know much about them so she wants to know if you think this is a good option and if there are any hidden fees that she should be aware of?

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**FT:** I have money in a money market account, it's basically my savings account for one of my accounts. I have not touched this in a very long time because I can't transfer money in and out of it very easily, which has been a blessing because every time I wanted to, I've gotten lazy

about it because I probably have to call the bank or go to the bank or do some sort of out of the box maneuver to be able to access this money. It's not super liquid, is the point.

If Stephanie, knowing herself, which is a great way to know how to manage your money, know yourself and she knows herself and she's saying, "If I keep this in a savings account with a debit card attached to it, it's going to be done in a week." So, yes Stephanie, finding this accounts on the money market account, sometimes even an online account that is not a money market account but is just a traditional account in terms of just the fact that it's a plain vanilla savings account but it's online and it doesn't come with a debit card or you can't access the money through an ATM.

It can only be accessed by first transferring it to another account and adding that extra step could be enough for you to keep the money intact and not be tempted to withdraw it on a whim. I used to do that. Before I had the money market account, I had this online account that was, for all intents and purposes, it may have been like a Swiss bank account because I was never going to be touching it. I threw out the debit card that came with it, I pretended like this was just money that I would add to and not to subtract from. It worked.

"Are there fees attached to a money market account?" she asks. There shouldn't be, not to be confused with the money market mutual fund which is different. Just to give you some finance 101 on the two, a money market account, one that many banks offer usually you can get one at an online bank, a brick and mortar bank. These are accounts that are insured by FDIC and a money market mutual fund, by contrast, not FDIC insured because it is tied to an investment, it's subject to risk.

So just keep that in mind and money market fund is a deposit vehicle that's similar to just regular savings. It does gain a little bit of interest, it does get the FDIC insurance limit of up to \$250,000 per deposit, per institution. But a money market mutual fund, that's where you might see some fees. That's where you may see more volatility and more risk. So in her case, it sounds like she's looking at money market fund and in my experience, money market funds and banks are setup in such a way where it's not so easy to withdraw the money on a whim, which could be a good thing for her.

Thanks for writing in Stephanie, glad you know yourself that well to know how your personality should line up with how you bank, that's a good lesson to end on. Thanks everyone for tuning in and Sophia, what can I say? Thanks for holding down the fort.

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**SY:** Of course.

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**FT:** While this baby decides to come due.

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**SY:** We can't wait to meet her, we can't wait to have her in the So Money community.

[0:17:07.6]

**FT:** You'll know, you'll all know very soon. Thanks for tuning in everyone! Have a great weekend and I hope it's So Money.

[END]