

EPISODE 548

[ASK FARNOOSH]

[0:00:33.8]

FT: Are you looking to buy a home? Maybe you have some debt in your marriage and you want to know about tax deductions? You're in the right place. Welcome to So Money everyone. It's Ask Farnoosh time, I'm your host and it is Friday so as we do every Friday, we're answering your biggest money questions and like I said, we have questions about real estate, about relationships and money, tax breaks and everything in between. Joining me as always is the awesome Sophia. Welcome to the show.

[0:01:01.1]

SY: Hey.

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FT: Hey. I apologize and I'm a little under the weather, you may have noticed and now I'm just being more vocal about it. I thought it was going to go away but just, you know, it's like everyone — I feel lucky that I haven't actually gotten like a flu or stomach virus or out cold for several days. I know people have had all sorts of things happened to them over the last few months.

It's been a crazy winter. I've had the sniffles and a little bit of weakening voice and that could just be because I've been doing this podcast since 2015, nonstop. How are you feeling Sophia?

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SY: Luckily, I have not been sick this winter, knock on wood. I've made it through the winter without a snuffle or anything in between, so I hope it stays that way.

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FT: Yeah, hopefully knock on wood. PS, the best remedy, I did a story a couple of years ago on cold remedies and there's a ton of over the counter stuff, obviously. Robitussin, cough drops, cough suppressants. The best ailment according to consumer reports for somebody who has like me, congestion, runny nose, cough is hot tea, lemon, honey. That's it

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SY: Wow, so simple.

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FT: You don't need the Robitussin. Everything else is very temporary, you might get a quick fix from a cough suppressant, also, the cough drops are good too, they said, just for the throat. But in general, heat from tea and also the citrus from lemon or lime and then honey is like just a really great soother for your whole upper respiratory system.

Frankly, since of course we've had a baby and our apartment gets so dry, we have humidifiers running all over the house. At least in our bedroom and Evan's bedroom and that's also very helpful. Sometimes I literally just been head down, head over humidifier. It does help but just get everything out, flushes everything out, it's really free, cost effective and works. So if anyone's going through my misery right now. Hot tea, lemon and honey. You're welcome.

All right. Before we get to the questions, we have Alecia kicking us off with some good news about her salary.

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SY: Yes. So she says she's been a So Money listener from the beginning and she accepted a new job offer recently and had your voice in the back of her head as she successfully negotiated a higher starting salary for herself. She also looked into that XY Planning Network after your interview with Allen and was able to connect with a terrific fee based financial planner who is helping her get her financial ducks in a row right now.

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FT: All right, Alan Moore of XY Planning Network. Great, that's awesome. So happy. It just makes me feel so great to know when people are making more money, especially women. The world becomes a better place when women make more and that she just negotiated. She asked.

You know, sometimes people ask, "How do I ask for the raise?" You just do it, you just ask and there are obviously best practices; you want to talk about your value, you want to talk about your experience, keep emotion out of it, keep it really about your research that you've done hopefully outside of the company to find out what a job like this would merit in the workplace and there are tons of websites like Glassdoor.com and Comparably.com that can lead you down those paths to give you some concrete numbers to go in with.

So Alicia, congratulations, this is awesome and now of course you're making more, want to make sure you've got a grip on that cash flow. Hooking up with a financial planner, fee based financial planner who is a fiduciary. I'm sure Allan gave you the hookup. Very happy to hear. XYplanningnetwork.com is the site if anybody else is interested in finding a fee based financial planner.

This is kind of the new age way of working with planners, you know? Traditionally and still, there are planners who charge you a percentage of your assets under management and a lot of those planners won't work with you until you have a certain amount of assets; \$500,000, a million but a lot of younger people and even older people, we don't have that much money and we shouldn't have to go it alone. We should still be able to get the good help.

So XY Planning Network is a consortium of financial planners that a lot of them work virtually too. Do if you're in California, you might hook up with someone in New Orleans or Minnesota and they can work with you via Skype, phone, and work with you on a monthly fee retainer bases, on an hourly fee basis, on whatever. You can kind of negotiate with them based on what's amenable for you and that's the beauty of XY Planning Networks. Good luck Alicia and good luck to everybody else who chooses to work with a planner this year.

All right, let's get to the questions now because we know we have a question about real estate. Haley, she's only 21 and she's thinking about buying a house.

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SY: Though she has a steady 30 hour per week job right now that's spaying her \$30,000 a year while allowing her to pursue some of her entrepreneurial interests. But she's also considering law school in the next five years. She wants to know if you think she should try and buy a home? She has \$5,000 for the down payment and could acquire a \$100,000 home with ease, she says.

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FT: Okay. Well, so Haley's a planner. I like that about Haley.

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SY: She is.

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FT: She's a planner, which is always good and no doubt she'll make a great lawyer. Listen Haley, I think there's nothing wrong with having the goal of wanting to be a home owner in the future and that you've started to think about it and you actually start to look at the number a little bit. I think that no need to rush into things.

I think law school is going to be expensive unless you get a scholarship or somehow you make it more affordable for yourself. But law school is quite the investment and so that combined with home ownership I think could be a lot. Not to say impossible but it's considerable debt potentially or a lot of money that you're going to be forking over for graduate schools.

I would say, in the meantime, between now and perhaps graduating from law school, you start to really do more research about housing, the housing market. You save continually and right now, if you were to buy a home and she's telling us she's got \$5,000 for a down payment, she could get a \$100,000 loan without any problem. That is a 5% down payment, which is really only 5% equity and I would love for you to be in a place where you could have 20% down for your home.

You have more skin in the game, you have more equity that will also help you get a lower interest rate usually on the mortgage when the buyer comes to the table with more cash. Banks like that. Not to say that you want to go buy a bigger house, but having a bigger down payment can definitely help you financially and there's a lot of readiness that goes in to becoming a home owner. You have to know whether or not you just — it's not just a financial decision, it is also an emotional commitment. It's a psychological commitment, it's a time commitment.

You're 21, you're working, you want to go to school, do that and in the meantime, save, continue to educate yourself about real estate and hopefully, as you're graduating from law school and you get that big job with a great salary and you're addressing your loans, you can start to look at the reality then of actually buying a home and by then you've got more money to work with hopefully. More experience, more education and you know, that's how I would do it. I would pace yourself. No need to rush into things, you'll still only be your 20's, will you become a homeowner and take it from there.

She gave us some other background about herself right? What else did she say?

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SY: Yeah, she said she has a modest Roth IRA and she has guaranteed employment even though she's part time and the market where she's living is growing so she could convert the house into a rental at some point.

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FT: Right. I mean, I kind of see this as like, if she were to do this now to buy the house and turn it into a rental, maybe in 10 years she'll look back and be like, that was an incredible decision an incredible investment. I don't want to say absolutely no to this but I'm going to play the devil's advocate a little bit. I'm going to be a little bit more conservative and say, she's got a lot on her plate, this may not be something that she wants to rush into.

If she is going to do this, she wants to make sure that she does all her research that she talks to other people who have done work in real estate in the neighborhood that have perhaps bought investment properties that she understands the cash flow potential of buying an investment property and turn it into a rental, et cetera. I think she's a smart woman and could probably pull it off but just make sure Haley that whatever you do, you don't rush into things.

You don't just take someone's word. You just don't take one person's opinion, you talk to many people in the market about whether or not it's a smart time to rent, how much could you get for the rent, run the numbers, there's probably data that you could get from various sources about the average rent for a particular bedroom house.

And so just do the math, be clear on the expectations of you as a landlord too if this is something that you really want to do but it sounds like you're off to a really strong start as a 21 year old, Mazel Tov and I'm not Jewish, but I love that saying.

Lena has a question regarding her marriage and the debt that they have to deal with.

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SY: Yeah, so she and her husband started their marriage with a ton of student loan debt and now they proceeded to fall into some credit card debt. Her student loans will be paid off this month and her husband has about \$40,000 left. They also have \$16,000 in credit card debt and want to know how they should plan to tackle the debt. I should note that they don't mention what their interest rate is currently on the debt.

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FT: Okay, so there's no sense of how much interest the debt is carrying.

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SY: No.

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FT: I'm going to assume that the credit card debt carries a higher interest than the student loan debt just because that's on average what happens and so to me, that seems to be what should be priority. Of course pay off your student loans every months, the minimum just stay on that path. With the credit card debt, two of you should really come together and look at your budget. Look at your expenses and see how you can shore up more money to put towards that debt, not just you paying the minimums.

I think the faster you can get out of that credit card debt, the better and not knowing what their incomes are, not knowing how their spending, this could be a situation where if your minimum credit card bill every month and your minimum student loan bill every month combined is eating up more than 20% to 25% of your take home pay, then I would say you may want to work with a credit counselor and you can go to the National Foundation for Credit Counseling, that's nfcc.org. There's also money management international, moneymanagement.org.

These are accredited certified credit counselors who will help you as they look at your budget, they look at your spending, your cash flow, come up with a plan and also work on your behalf to negotiate with your lenders to maybe reduce interest rates, come up with a payment plan. This isn't a quick fix settlement path. You are not going to a debt settler, you're going to an organization that's going to help you better manage the debt to get out of this debt in still maybe a few years but over that period of time, it's going to be more amenable to you.

So that might be something to consider, again, if your debt is adding up to more than 20% to 25% of your budget. And as far as the two of you how you should tackle this, I think it would be wise that your husband talk to his student loan provider, and talk about what are some modification plans. The two of you should have monthly meetings.

Sophia we talk a lot of the show we've got planners on and others who are couples, who are married couples they say what really helps is to have that monthly check in or sometimes weekly. If you're really going through something like this, the more frequently that you talk about it and that you check in with one another, I think that's all well and good and probably really healthy.

So schedule a time maybe once a week after you've come home from work and you are not stressed and you can open up a bottle of wine and just go over the balances and start a spreadsheet, you can start tracking this on something like Mint.com and other ways. But really important that you really get the visual down that you both have access to it and you can see the progress and in some cases it maybe makes sense to work with a third party like a credit counselor.

All right Lena, good luck to you and now a question about taxes. Stick with us people, I promise to not to make this news fest.

[0:14:27.0]

SY: So our question about taxes is from Joe and he's wondering if it makes sense to write in his medical expenses if they are less than 10% of his annual income. For example, if he only spent \$2,000 on medical expenses, should he just not include it?

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FT: Yeah, so the rule is with medical expenses, they're deductible, as long as your expenses meet a minimum of 10% of your pay and so if he is not meeting that minimum, he perhaps will not qualify for the deduction. Joe if you are working with a tax planner or someone who's doing your taxes, they may also be able to give you some more insight but generally from what I understand and I'm not a CPA, I'm not a tax expert but even on my own experience.

When my expenses do not add up to the particular threshold that the IRS requires before you can actually claim the expense, you kind of can't do anything about it. So just keep that in mind

for next year as you are taking on expenses. Not to say that you want to spend more than you have to but do keep track of your expenses and also know what all the expenses could possibly be.

You know, out of pocket medical expenses can be everything from over the counter drugs, to co-payments, to whatever, your contacts, braces. So there's a lot of things that fall under that umbrella and get a second opinion, Joe. I don't know everything about taxes so do get a second opinion.

All right now, Emily she's going to round us out here with a question about negotiating?

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SY: Yeah, so right now she's working for a startup and they recently decided to make employment contracts for everyone and any new employees moving forward. So she wants to know is salary included in a contract and would now be an appropriate time to bring up a raise before she goes about signing the contract.

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FT: So she's already working for the startup and what they're doing is they are basically redoing everyone's contracts?

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SY: That's what it sounds like.

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FT: Okay. So yeah, I think if she hasn't gone to raise recently, if she hasn't talked about her income or her pay with her employer recently, this is a good time before the contract gets drafted or perhaps if they're going to give it to her and they allow the employees to give their feedback. See what they are going to offer you, maybe they're going to give you a little bit of a

raise on their own. I doubt it, but maybe what you could do is wait to see what the contract says, then if you're not happy go in and talk about the changes that you could like to make.

But yeah, I think this is a fine time to bring it up because once that contract is made and signed, it's very difficult to go back and sometimes these contracts may have terms so for a year, for two years, for three years until you can renew it. So if you're going to lock yourself into something like a salary for a given period of time, you want to be happy with that salary. Because once you're locked in then you can't renegotiate until that contract is up for renewal.

So this is a very appropriate time to talk money and maybe we should hook up Emily with Alicia, our first person who chimed in and talking about how she got a raise. I think the bottom line Emily is it's never a bad time to talk about money. Of course, it's probably not going to work in your favor if you already agreed to the job and you've already started the job.

And you're like, "Wait a minute, I really don't want to make this much," and trying to go back and turn the wheels backwards. I think that this is a great time to bring it up. So go for it and keep us posted. Hopefully you will have a good anecdote to share just like Alicia did. Thanks everyone. I love these questions. I really appreciate you guys trusting me with them and I'll be honest if I don't have all the answers like Joe.

I think it's true that you can't really claim those medical expenses because they don't exceed at least 10% of your annual income but it doesn't hurt to get a second opinion especially when it has to do with taxes. Listen, I get second opinions from two different CPA's sometimes because tax code is a very complicated and hairy thing.

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SY: It is.

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FT: It always helps to get as many opinions as possible. All right everyone, thank you so much. Thank you Sophia.

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SY: Of course.

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FT: And I hope everybody has a So Money weekend.

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