

EPISODE 560

[ASK FARNOOSH]

[0:00:32.4]

FT: You're listening to So Money everyone. It's Friday, episode 560, Ask Farnoosh time and I am up and at it ladies and gentlemen, had my baby, all is well, back at it, back at work, sort of. Working from home and Sophia has been keeping the place all tidy and ship shape.

[INTERVIEW]

[0:00:49.8]

FT: Sophia, welcome.

[0:00:50.5]

SY: Thank you, welcome back.

[0:00:52.8]

FT: Thank you, it's good to be back. It's good to be practicing my vocal cords again. It's been a while. It's good to take a rest, not just because I birthed a baby but for those of you who have been listening consistently, you probably noticed my voice was getting very coarse and I sounded like I had a cough but I didn't. I've been over using my voice for the past probably two or three years.

It was good to take like a four week break and this week I've been doing a bunch of podcasts again and admittedly, a little rusty. I've been apologizing to my guest because I've been forgetting like my train of thought is just a little scattered right now. So it's a little bit hard to get back into the swing of things, interview wise and podcast wise but I know you guys understand and I'm very excited to be addressing your questions now for Friday but first, let's maybe give a

little update on what's happening at the Torabi-Dussinger household. We have now two children under the age of three.

For those of you who know what I'm talking about, god bless you. It's hard, you know? I find that most of the attention needs to be given to my son who is older because he's the one who is capable of throwing things and harming himself. When he's upset, that's the one that — and she's crying, it's usually, he's the one that needs to get comforted sooner because Colette, you know, she's a big baby, she gets hungry but, you know, she can wait an extra 30 seconds if it means making Evan not burn down the house.

It's been a juggle but it's been fun and you know, lack of sleep is part of the job but this I will take over being nine and a half months pregnant, for sure. My sister in law actually, by the time this airs, hopefully she'll have her little bundle but she is currently in the home stretch and she is just like, "I can't carry this baby around any longer."

Colette was, for me, also a big baby. She was eight pounds, 11 ounces when she was born, bigger than her bro. She is a healthy, god bless her, you know, just healthy happy baby for the most part. She has her moments of colic but we're all together. I think we're hanging in there and if you guys have any advice for me as a new mom of two, I welcome your advice and, you know, you can of course send me a question to Ask Farnoosh but you can also sprinkle in some parenting advice as well and we'll appreciate it.

How have you been doing Sophia? All alone?

[0:03:25.8]

SY: I've been well. I was going to say, it's great to hear your voice. I have obviously been keeping up with the podcast so to everybody else, it feels like you haven't left but I noticed.

[0:03:34.8]

FT: yeah, definitely.

[0:03:37.4]

SY: I've noticed that it's been quiet.

[0:03:38.9]

FT: I owe you a huge thanks, you know, because it's why I was able to basically be off the radar for so long and you've been keeping the show running and without a hitch and for those of you who may not even know I was out having a baby, that's what's happening behind the scenes and waking up now to these questions that you've compiled for us Sophia, we're happy to know that a lot of you are using the SpeakPipe feature, we're getting your voices heard and we'll be using a lot of them in this current episode and interestingly Sophia, a lot of the questions have to do with jobs.

[0:04:10.1]

SY: Yes. I've noticed that, yes.

[0:04:11.4]

FT: Job market. Also timely because the Oprah issue this month, April, has to do with — my column at least, has to do with how to quit your job without having another one lined up, which is, it can be a — who does that? But people are doing that or at least contemplating it and the article goes into how to do it so you don't end up sleeping in your car and you have the financial wherewithal and the ability to do that and also you know, how to make the most of the time off. You can find that next job in good time and have it be on your terms. That's just a tease for you to go pick up the April issue.

Let's start with Alicia, she's got a speak pipe question, let's hear what she has to say.

[0:04:52.3]

ALICIA: Hi Farnoosh, I was wondering What are the common fees she should watch out for when opening an IRA or brokerage account? I'd like to retire early if possible and I'm debating between opening up a Roth or a traditional IRA or possibly a brokerage account to trade ETFs.

Wondering if a five year Roth IRA conversion is a good plan? I make \$70k a year and currently have a TSP where I'm contributing 25% with a 5% match. I'm 32 years old and I have \$40k in my TSP and six months in savings. I also have \$10k to go into whatever type of account I decide to open and I have no debt. Thanks.

[0:05:27.1]

FT: All right, so not a question about jobs from Alicia but I promise you there will be some, her question, Sophia, is really about her retirement account. She's really ahead of the curve it sounds.

[0:05:36.8]

SY: It does sound like that but she's also worried about those fees. What do you think?

[0:05:42.6]

FT: There are a number of different kinds of fees when you're talking about investment accounts and I think the ones that you really want to watch out for because you may not really realized what you're paying is the fees that are attached to the various funds that you're invested in. The mutual funds, and et cetera.

We talk on the show a lot about the benefits to migrating away from these fee-loaded funds, for example mutual funds with high expense ratios and transitioning to fee free or low fee index funds and ETF's. Whether you're investing in a Roth IRA, a traditional IRA or a brokerage account, these fee free bonds should be available to you.

The reason that this are a pain is that over time accumulated with compound interest, these fees will end up costing you quite a bit of money especially if you're looking to invest for

decades. I actually did the math and found that in my brokerage account a couple of years ago, I had a lot of this no fee funds but then I did still have I'd say a handful of the mutual funds that were charging me over 1% annually.

You know, 1% doesn't seem like a ton of money but when you do the math and you look at what that 1% is of and times 30 years and then, you know, it compounds, it's hundreds of thousands of dollars. I got rid of that and replaced those with these ETF's, exchange rated funds, index funds that had a much lower fee. I hope through that process I'm saving tens of thousands of dollars. So that's one thing to look out for Alicia.

You go with a brokerage account as supposed to a Roth or a traditional account and you open this up in an online broker or whatever, just watch out also for these trading fees and also sometimes there's a fee to setup the account and so there may be more fees to pay when you go to open up a traditional brokerage account as opposed to a Roth or traditional IRA.

A brokerage account difference there is that those aren't really setup for retirement necessarily, there's no tax deduction, there's no tax benefit, there is not also a limit to how much you can contribute, which is the pro. People like brokerage accounts because they can contribute as much as they want, whereas with the Roth and traditional, you are capped annually as to how much you can contribute.

The tradeoff with the brokerage account is that there's usually more fees associated with investing in a brokerage accounts, that's our first question. Good luck and it sounds like you're way ahead of the curve anyway. You can't really make a wrong move here other than just making sure that you're being smart about the fees, which is a really smart question that you had.

You're investing 25% in your retirement plan? Wow, I don't think I know anyone who does that at her age. You're not doing that, I'm not doing that but so it does sound like she'll be able to retire early just by doing that. Keep us posted, I love people who have plans to retire early and if you end up actually doing it, you can be a guest on the show, that's who we tend to spotlight. All right, was that everything she asked? I think so right?

[0:08:56.7]

SY: Yeah, I mean, we're heading in to our next question which is also another SpeakPipe one from Lauren, let's hear what she has to say.

[0:09:03.5]

LAUREN: Hi Farnoosh, my question is I'm about to be 30 years old and I just got laid off from my tech startup job yesterday and I don't have much savings because I was in the process of paying off some student loan, credit card debt and I'm just wondering how unemployment's going to affect me going forward, in next year is taxes as well as I have an option to work part time.

How to know how much you're going to be paid with unemployment and where to go from there and rent? How are you supposed to pay rent in San Francisco when you're unemployed? So it's a stressful situation and I know I'll be okay in the long run. I'm just more concerned about the short term and getting back on my feet because they're only giving us one week payout. Thank you.

[0:09:58.8]

FT: All right, so I'm sorry you were laid off Lauren. Been there and it's tough, I know exactly what you're going through. But the good news is that it sounds like you have a lot of skills, you're in California where the job market for people in tech, last I checked, was pretty strong and for women too. I think there needs to be more women in tech and so hopefully you'll be able to land that next job pretty quickly.

Obviously, Sophia, she's concerned, right? Because she doesn't have a ton in savings. She's looking at unemployment, not sure how that's going to impact her taxes, she also has this opportunity to work part time but doesn't really know if it's going to be more beneficial to do that versus just taking unemployment.

So the first question she had was, "How will unemployment affect her taxes next year?" And all I can say about that is that unemployment varies state to state but it is true that the IRS does consider unemployment income as income. You have to report it and you have to assume that you may have to pay taxes on that. Make sure that you're saving a bit of that unemployment paycheck for taxes, for tax purposes, don't spend it all.

Now, if you do end up taking this part time job, just know that the income may or may not affect whether you'll qualify for unemployment. According to California state law, we looked this up, you could earn unemployment if you have part time work, the issue is I think, how much are you making? You know, technically, you're eligible for unemployment until you find a replacement job or your next full-time job.

So if it's just par time, it's just a little bit of money, you have to report that. In fact, I think if it's like most states, you'll be required to provide an update every week as far as your job search and how much money you're potentially making, just so that, you know, the state can reevaluate your unemployment benefits as you go along.

Just keep that in mind but I think it's better to be working and making some money even if it compromises some of your unemployment benefits because at the end of the day, being active in the work force, connecting with people, doing work, even if it's just part time, it's more likely you will land a full time job through that process as opposed to being home and collecting unemployment.

She's also concerned about rent? Right, in San Francisco, while being unemployed. You know, this is the thing you know, this is the thing you know, this why it's so important to have a savings account, some sort of emergency savings. So if she is going to go on unemployment, take that part time job and it's not enough to pay her rent, then she obviously needs to look for other accommodations and maybe it means breaking her lease, moving in with a friend, going to a sublet, some place that's a lot more inexpensive.

If she can go live with family, I don't know if she has family in the region, but I think that this is really a time for her to practice austerity and unfortunately, you know, one of the issues with not having savings when you lose your job is you don't have this freedom to explore, right? To take

the time to actually job search and interview because you have your bills, you have your rent, you have your food, you have your gas. Good luck with all of that, I know it's stressful and you're not going to be unemployed for too long, I just know it and you know it.

So just make sure that you're cutting expenses right now that you don't need to be having obviously, gym membership, Netflix and just make sure that if rent is going to be too much that you talk to your landlord, maybe you can work something out with you or you have to get out of your lease and find something more affordable, a friend's couch for a few weeks, you know?

It happens to the best of us. I think it was Lewis Howes who was just on Ellen talking about his experience sleeping on his sister's couch and now he's a millionaire. He was on the show, as Lewis Howes as well, he's very inspirational.

All right, moving on. Who is next Sophia?

[0:14:06.3]

SY: Our next question is another SpeakPipe from Lauren about her mortgage so let's take a listen.

[0:14:12.4]

LAUREN: Hi Farnoosh, this is Lauren and I'm looking for some specific advice on why people might be discouraging me from attempting to pay off my mortgage. My goal is financial freedom and it's a little tough because I live in a condo so I will always have HOA dues that need to be paid and those may increase over time, but if I could get it paid off, I think that would be an awesome, at least mental feeling of financial freedom but everyone is discouraging me from this idea.

[0:14:47.8]

FT: All right Lauren, you know, I was having a really interesting conversation with my father last week. He was over at the house and I think he's also at the camp that Sophia, it's better to have a mortgage than not and I just...

[0:15:00.3]

SY: I'm hearing that more and more actually. I'm really interested about what you have to say for this question.

[0:15:06.3]

FT: I mean, on the one hand, I think why some people advocate for maintaining your mortgage, if you can afford it, is that it does provide an interest tax deduction. But I'm also, like take a step back, my feeling is like, well you still have the mortgage payment. It's not like your interest tax deduction is going to outweigh the mortgage payment, you know? It's like you have to pay to save. That's never been something that I really agreed with.

I feel like if you have the capacity to pay down your mortgage, pay it off and this is additionally as Lauren talks about, something that is weighing on her mentally, then you should do it and if it's not going to take from any other aspect of your life like paying down your mortgage is not going to make it impossible to continue living your life the way you've been living your life. In fact, maybe it's going to give you a richer life because you'll have that savings every month that you're not giving to the bank. Then, why wouldn't you do it?

Maybe there's more to this if there is, people please tell me but I just look at this very simply you know? What's more is that as you approach retirement and I'm not sure how old Lauren is, I don't know if she's approaching retirement but if she is, this is definitely something to be doing. You want to be reducing your debt, downsizing, reducing your financial commitments as you age because cash is king in retirement.

Having cash flow, having income, not having these really big bills is going to be a huge weightlifter in retirement and imagine also in your 20's, 30's, 40's, it's going to be a huge

financial weight lift and if her goal was financial freedom, I mean I think this is a way to accomplish it assuming everything else fits, you know?

Assuming that, like I said, this isn't going to be to her detriment. That actually, she'll have money left to play with and, you know, some people would even say that not having that mortgage payment is helpful because you can take that monthly payment that you were putting say towards the mortgage, I'm putting it in retirement, having it grow, accumulate interest in a brokerage account in your IRA, whatever, investing that money in the stock market over 20 years could be more beneficial to you than paying off a mortgage.

Lauren, financially, I think if you can cut it, that's one thing, that's a positive and then also this is going to be mentally healing for you. That's another pro and why I think you should do it. So that's my take. Again, I understand where people are coming from, it's a great tax deduction and if your interest rate's really low, it's like, you know, what's the big deal?

But as Lauren points out, it's a — psychologically it can be a really big issue for people and money is not just dollars and cents and numbers on a spreadsheet. It really impacts your emotional wellbeing and if this is something that's going to help you heal in that department then I don't see why you wouldn't want to do it. So that's my take.

Andrew is next, right? And he has also a voice question or did he write in?

[0:18:04.5]

SY: Yes, it's a SpeakPipe question.

[0:18:06.2]

FT: Oh cool. Okay Andrew take it away.

[0:18:08.0]

ANDREW: Hi Farnoosh, my name is Andrew. My question has to do with student loans. Should I get a balance transfer card in order to pay for some of my student loan debt and take advantage of the zero percent interest rate for the opening period? Currently my credit score is in the seven hundreds and I have \$29,905 in student loan debt. My next payment is due on July 2018 because I have continuously paid over the amount that I need to and ahead.

Right now, I take in roughly \$3,600 a month for my current job and on the side, I take in around \$5,000 per year from coaching. Thanks.

[0:18:44.1]

SY: So what do you think? Should he get a balance transfer to get rid of some of that student loan debt?

[0:18:48.7]

FT: Well, maybe. So he seems like he's in a really great financial place in the sense that he's earning money, he's got the side income of \$5,000 a year, he's already over paid, that makes me think that he's not in a financially dire state. He's looking for more flexibility, he's looking to maybe save some money on interest. He's not the kind of borrower who is headed for default or needs to re-modify the mortgage.

He just wants some maybe some additional breathing room and that's obviously something that at 0% APR interest rate card can afford you. But the caveat to that is that these cards offer they are 0% APR interest rate for a limited timeframe. So usually 12, 15 maybe 18 months. So if he can pay off this debt within that timeframe of 12 to 18 months then okay, wow he's saved a lot of money on interest and he's not debt free at the end of the 0% term.

But if he catches after that 12, 15, 18 months the interest rate skyrockets to I'm willing to bet far more than what he's actual loan interest rate is on those student loans. So he just have to be aware of that and if he's going to make the most of that transition of that balance transfer, he needs to do the dirty work within that 12 to 18 months, pay it off otherwise I would just say create your own refinancing kind of a DIY refi.

Which is that you take this extra income that you are making through the side hustle and applying it towards the principle of this student loan of this \$29,000 and you can do this over the course of a few years, you'd probably be debt free, assuming you're making your other payments on time as well. So it just depends on how quickly he can get out of debt and wants to get out of debt. If he can do it very quickly and uses 0% interest rate card to do it then do it.

But if he knows that he's going to need more time then I would just say recalibrate his budget, take this side income, apply it towards the principle and just the principle not interest and principle, you're going to knock down that debt a lot faster that way and then call us back with an update because I think you're going to be really happy with the results and if you want to be more aggressive, you can look for other ways to cut back in your spending.

But it sounds like you are making this nice chunk of change on the side from coaching. You use it for the student loans and I think you will be out of debt a lot faster that way. That's my feeling, I mean when I was in his situation, I had just about \$29,000 in student loan debt, funny enough, and I used my side hustle money and then ultimately my book advance to pay off the debt once and for all and some people thought that was unnecessary because they said, "Well the interest rate on the debt was only like 2%."

But let me tell you, going back to Lauren's point it was psychologically awesome. Mentally and emotionally it felt so great to just never have to deal with a lender, a student loan lender. To never have to to get that bill, to never have to pay that monthly bill every single month and I felt like an adult. I felt like a real adult. I felt like my adulthood officially started. So for all of that maybe it is better to stay the course Andrew and use that income to pay off your debt more aggressively and we have time now for one more question. This is a written in question, this I know and it's about jobs.

[0:22:27.6]

SY: Yes, so it comes from Heather and I think she's asking on behalf of her husband. Her husband recently lost his job but fortunately he's had two interviews and she doesn't want to disclose the names of the companies so she's going to refer to them in her question as

Company A and B. So company A made an offer with 5 days to respond and right now he's going to accept it because they're not really in a financial position where they should decline and it seems like a great company offering a great opportunity.

Meanwhile, he also has an interview scheduled with company B that he really does want to follow through with and so he's going to see if he can push the start date with Company A. Her husband really likes company culture at Company B and so if they extended an offer it that a 100% would be his first choice but he doesn't want to decline the offer from Company A if company B doesn't end up working out. So she wants to know what all of your thoughts are?

[0:23:26.3]

FT: Did everyone catch that? I did. I mean she did a very nice job of laying that out, thank you and it sounds very similar to the whole pre-school application process in New York, which I've just finished. You get into your second choice school and you hear about it early but then your first choice school hasn't got back to you yet but your deposit's due and blah, blah, blah. Oh it never ends.

So I will just give you a story quickly, a friend of mine was in the exact same situation. It was actually my cousin in law and he accepted the job at company A, because like Heather's husband, it was the one that was more readily available and they made an offer and it wasn't terrible and he took it. But he still continued to interview with Company B and Company B eventually offered him a job and it was a better commute, he loved the culture more.

So he accepted the offer at company B meanwhile he was working at Company A and it was his first week on the job and he quit. So he's happy but let me tell you, don't ever go back to Company A for anything. That's something that you're going to have to be okay with. You are burning a bridge there, a big bridge. Think about it; you're a company that is onboarding a new employee. There is a lot of time, investment, commitment.

You've now taken the job post off the web, you're no longer looking for a candidate and maybe it had taken you six months to get this offer on the table and now that employee is leaving. So that is extremely annoying but also can be costly for the company. Now they have to go back to

basically from scratch, they have to start from scratch to find somebody or maybe they will go back to the pile and find their second favorite candidate.

But at the end of the day, you've done them a disservice. You've done yourself a service, you've done them a disservice. So that's going to be something that you'll just have to accept and that's what happens sometimes in life and I always about you have to look out for yourself. No one cares about your happiness, your wellbeing and you don't owe companies anything. Because look, they can fire you.

They could have fired him in the first week as well just as he would have given them the notice that he wanted to leave, so there's always that. Don't feel terrible, but just know that that is not something that you're not going to be able to go back to this well ever again and if you do, it would be a miracle. So he could just continue to play this game like my cousin in law did and it could work out.

He could get the offer from B, you'll just have to go back to Company A with the honest truth and I don't think it should be something like I can't tell you why. You should just tell them that, you know, unexpectedly you got an offer from this other company. It's better pay, just talk it up so it seems like a no brainer like you just have to leave. What Heather's husband could also do as another option is before accepting the offer of Company A, call Company B.

And say, "Look I've got this other offer. Can you push up our interview? If you want me, can you just make me an offer now so that I can have two jobs to compare at the same time?" And it is not going to be like you're burning a bridge with Company A, you're actually still exploring your options but you need to know where Company B stands sooner than later. That could be a risk, it could backfire, they could say, "Well if you've already got this job offer we are not willing to move as quickly, so good luck."

So there's that, but you know he only knows, he knows more than I do obviously about the circumstances and maybe he can read their temperaments but that's another way that he could get out of this a little bit more painlessly just to be able to have those two offers in hand at the same time. Meanwhile maybe also ask Company A for an extension but call company B right away and say you've got this other offer. You are their first choice, you want to make it happen

at Company B, how can we accelerate the process? Because if you got the offer you are starting work ASAP.

So good luck Heather's husband and if you have any other follow up questions please you know where to find us and that's a wrap. Thank you so much for making my comeback so fun and the questions, as always, very, very smart. I have a very smart audience. It's really a privilege to be able to have a podcast audience like ours.

Sophia thank you so much.

[0:27:49.6]

SY: Of course, great to have you back.

[0:27:51.5]

FT: It's good to be back and hopefully I'll be back in the office soon. I am working from home for the time being, but looking forward to getting back into the swing of things and hearing more from everybody and the podcast is doing really well, right? Tell me it's doing well.

[0:28:05.0]

SY: Yes, it is. It's doing very well.

[0:28:08.7]

FT: We are growing in subscribers, we're growing in audience and downloads, and I believe I can say because it should be done by the time you hear this podcast, we have a new website. We have an updated somonypodcast.com, an updated Farnoosh.tv so if you haven't checked out the sites please do. Give us your feedback, we want to make sure that it is working for you and that it's easy to navigate so please let us know your thoughts on that as well. Go to Farnoosh.TV or somonypodcast.com. They're intertwined and leave us a note there and we'll talk to you next Friday.

Thanks everyone and I hope your weekend is So Money.

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