EPISODE 881

[ASK FARNOOSH]

[0:00:35.4]

FT: You're listening to So Money everyone. May 3rd, we made it to May, welcome to the show, thanks for tuning in, we have a lot of questions today to tackle, we have a special cohost, I'm going to introduce very shortly, just a couple of updates for you, if this is the first time you're tuning in this week, I would recommend you go back and listen to Monday and Wednesday's interview episodes. Monday we had on the show David Bach.

Who is at this point, he is an honorary member of the So Money team. He's been on the show multiple times. He's just a prolific writer and he's always got interesting work coming out. Always a good opportunity to have him on the show, as you may or may not know, David is a nine time New York Times bestselling author.

His most recent book is called the *Latte Factor*. If any of you ever have heard like give up your latte or you know, the whole sort of latte analogy when it comes to personal finance and savings advice. David is the grandfather of that. David coined that phrase and it's a little bit of a controversial topic I suppose.

People don't want to give up their lattes or people argue, you know? What's $5 a day or whatever. When we can get rid of some of our bigger expenses. Anyhow, he has in his latest book, kind of talked about financial freedom but this is a really different kind of book for David.

You know, mostly he writes is nonfiction prescriptive books and this new book is a narrative. It's a fiction story. Of course it has a lot of great financial advice in it as it's written by David Bach but it's more of a tale. As a way to sort of you know, bring in new audiences, new readers, people love tot sort of escape into a book and we can congratulate David on that.

The book just came out this week so check it out, the *Latte Factor*. Then, Wednesday, we had on one of the most accomplished television anchors, female television journalist, Kate Snow.

You may have seen her on NBC, she's all over the network, she's on MSNBC, she's host NBC nightly news Sunday's she covers everything from elections to mental health issues.

She's an Emmy award winning journalist and also the breadwinner in her marriage. Kate was a very gracious and generous in sharing a lot about her career, the behind the scenes of her work but also how she manages money in her relationship. Inquiring minds wanted to know.

She definitely went there with us. We appreciate Kate for coming on the show, that was Wednesday. Today, we have a listener on the show as a cohost and he is also a financial expert. Michael Reynolds who is a principal of Elevation Financial.

He has founded/cofounded a number of successful businesses including a training company, a software company, a virtual staffing firm. Today, he's in the financial services industry and he became licensed to help people with investments and financial needs, mainly as just a passion project and specifically now, he works with entrepreneurs and he's a listener of the show.

Honored to have someone like him in the audience.

Michael, welcome to So Money.

[0:03:50.2]

MR: Thanks Farnoosh, I'm really happy to be here.

[0:03:53.0]

FT: Tell us about your transition to personal finance, given your background in starting a bunch of companies, pivoting to giving financial advice, was this a passion of yours?

[0:04:03.2]

MR: Yeah. In 1996, I cofounded a digital marketing agency and then for two decades, I've owned that and sold it last year and at the same time, kind of cofounded some other companies and so I call myself a parallel entrepreneur. There's actually a book out there if you want to read it, it's kind of a cool book about parallel entrepreneurship and running multiple companies successfully at the same time and using them as kind of lifestyle support mechanisms to kind of enrich your life.

Yeah, about five years ago, I really got the passion and the itch to work in personal finance and I mean, as you know, money touches everything in our lives foundationally. It's kind of the driving force behind all these decisions and opportunities we have in our lives.

It's so important and I just really want to help people take it more seriously and get comfortable with money and comfortable taking control of their money. Yeah, kind of went form there.

[0:04:52.0]

FT: Specifically, you help entrepreneurs, that's your focus, your target market.

[0:04:56.7]

MR: I do.

[0:04:57.3]

FT: I guess you come to this with entrepreneurial experience. What is one thing that you think is sort of the lesser known strategy or a big problem that entrepreneur specifically have with their money and a solution that you provide that you think is unique?

[0:05:13.4]

MR: Sure, well, the list is very long as you might expect. One thing I see is that when they're starting a business, a lot of entrepreneurs, they kind of – maybe they're leaving a corporate job or leaving the corporate world and they've left their 401(k) behind and they kind of unplug their mindset of retirement savings because they're starting a business and they never get around to plugging it back in.

They might start their business, get a little excited, put their 401(k) on hold because maybe they don't have one anymore and they spend the next five years focusing so much on growing their business that they've lost ground in saving.

I really like to help people not think of their business as their retirement but think of their business as a tool to get there but also to not give up on the savings plan.

[0:05:57.8]

FT: Speaking of 401(k)s, we do have a question that came through on Instagram from Christina and it's about 401(k)s and she says that she recently accepted a new position that is a move upwards in my career which is great, congratulations Christina. But the company offers a 401(k) with no match. Which isn't –

Unfortunately, that's not uncommon. I think it's always –

[0:06:25.5]

MR: It happens.

[0:06:25.4]

FT: A delight when I find out that a company offers a 401(k) match but they do, she says, they do offer stock options. She has a question for us which is can we please explain the value of stock options and investing rather. She's also thinking about contributing to a Roth IRA instead of the 401(k). How much should I contribute per pay period?

I'll take that second question first and then I don't know a whole lot about stock options. I think this is more your universe but I mean, I think that a Roth IRA is a great investment strategy for retirement and/or other long term goals as we know Roth IRA is designed in such a way where you can take out your contributions, penalty free after a while for the purposes of supporting other financial goals.

Whether that's buying a house or paying for college, et cetera. So people like the flexibility with the Roth IRA. The issue is really like, if it's really about either/or, I kind of like to be able to do both here but if she's trying to figure out either/or.

It's sort of a two question here, right? One is where does she see her tax situation going? You know, if you think that your taxes are going to increase in retirement, then perhaps a Roth IRA would make sense now because as you know, Roth IRA, you can make those withdrawals in retirement tax free.

The other question is, how much does she need to be saving every year to meet her retirement goals with a Roth IRA, you're capped at this year, I believe it's at 5,500, right? Or is it 6,000?

[0:08:13.3]

MR: 6,000.

[0:08:13.9]

FT: Right. It changed. Then with the 401(k), you have almost triple that. It's sort of the calculation that she needs to make. Is she going to be behind if she simply just invest in a Roth IRA, if she simply is maxing out her Roth IRA. Is there anything else she needs to consider with that either/or scenario?

[0:08:34.1]

MR: Yeah, actually kind of like it as a potentially both scenario. Kind of like you eluded to. With stock options, the stock options are kind of nice sometimes. They give the employee the option to buy company stock in a preferred price and they can turn around and sell it at market price. In theory, they make a profit because they get a better price buying the stock and then ideally the market price is going to be higher when they sell it so they make a profit immediately on that sale.

The issue is if you're going to hold on to it. Then, it kind of depends on the company. I don't know where this person works, if Christina, if you work at Google app or Microsoft and yeah, your stock probably has a bright future. If you're a different company, Sears for example, maybe not. It kind of depends on where this company is going and what company specifically are at.

What kind of stock you're getting. It can be a nice thing but you might want to consider. If you feel like the stock in your company like the options actually have some strengths to them and if actually worthwhile investment then you know, maybe go up to the match, if they're matching in stock, go up to the matching your 401(k) and then turn around and put the rest in your Roth and I'm with you Farnoosh, I love Roth IRAs. Just like the corner stone off personal retirement, it's flexible, it's not tied to a company.

You take with you, you've got a gazillion retirement fund options, I love Roth IRAs so I'm with you.

[0:09:53.0]

FT: Yeah, I think going back to just first figuring out what your retirement needs may be, doing those projections, there are calculators online and you can kind of figure out how to reverse engineer your savings plan, you can go to sites like choosetosave.org, AARP, NerdWallet, being great. There's a lot of different tools out there, Schwab has a retirement calculator and so it might help to start there.

Because from there you might be able to see how much you on average should be saving every month. If your 401(k) doesn't offer a match, maybe it doesn't make sense to sort of max that out but perhaps better to do a Roth IRA because maybe it is that you only just save, you know, five, six, $7,000 a year to meet your future retirement goals and a Roth IRA can be that vehicle for you.

[0:10:43.3]

MR: My favorite is the NerdWallet.

[0:10:44.8]

FT: What's that?

[0:10:46.1]

MR: Sorry, I like NerdWallet's retirement calculator, it's really user friendly. It lets you kind of plug in stuff in really easy way and gives you graphs and everything. I like the NerdWallet calculator.

[0:10:54.4]

FT: There you go. Yeah, nerd wallet's fantastic, they've a lot of different calculators. Christina, good luck to you and let us know how things pan out and if we can help further. All right, another question on Instagram, by the way, Michael, are you on Instagram?

[0:11:07.1]

MR: I am. Instagram is really – yeah, it's mbrey. M, last name kind of shortened there. I'll use Instagram for pictures of my family so you'll see like nothing but pictures of my four-year-old son and his antics and fun stuff. Feel free to follow me but be warned, it's just like my four-year old's antics.

[0:11:29.4]

FT: Well, I have a four year old and there's no shortage of antics, that's for sure.

[0:11:33.1]

MR: I know.

[0:11:36.2]

FT: All right. Nightingale PDX has a question. Says, I'm 46 years old, self-employed. I have a five-year-old and I own my own home. I have $206,000 in student loans. The interest rate is roughly 6%. Last year, this person made $90,000 after taxes. Sorry, $90,000 and then $51,000 I guess net. I think they had it reversed here.

They had $90,000 net, $51,000 AGI but I think it's the other way around. $51,000 sounds like the take home. They have $10,000 in a Roth. No other debts. This person's financial advisor is telling him/her to continue on the interest, sorry the income based repayment program which they started and until they get to the 25-year debt forgiveness point.

In the meantime, they were advised to save money for the tax bomb that will occur then because there is a bit of a tax burden with IBR and then save for retirement versus hustle to pay of the student loans.

Long story short, I think what this person's getting at is they got $206,000 in student loans, 6% interest rate, They're currently on the income based repayment program which is a government program for federal loan borrowers which allows you to pay a percentage of your income towards a student loan.

It's a 25-year program, if you arrive at 25 years with still some debt left over, then that's forgiven but it's also considered taxable. You have to prepare for that potential. This person's financial advisor is saying, just stay the course and deal kind of with – cross that bridge if and when it happens, that financial bridge.

In the meantime, important to put money towards retirement and I'm wondering I guess from your perspective, Michael, do you agree with this advisor, is there anything else for this person that we can provide, it just sounds like they're kind of emotionally unnerved by this.

[0:13:45.9]

MR: Yeah, I have tons of thoughts on this, let me try to get through it quickly. First of all, I hate debt, that's kind of lens I'm looking through this right now, but there's two reasonable options here. One is the option they have presented, the financial advisor is saying, hey, let's look at the math and math is telling me, let's just kind of stay the course and that has some logic to it.

The problem with that kind of extreme first example is if we're just paying the minimum on the debt, you are in debt until you're 65, that's a long time. Being in debt 25 years is just, that's a drag, I don't know if I could get behind that.

The other issue is, I'm not sure that I would want to take on the risk of hoping that this program works out in 25 years. In some programs missing a payment or not being on time can invalidate the whole program. Forgiveness is not necessarily automatic in many cases, once you get to that 25-year mark, you have to apply for it and hope you get it.

You know, often, each year, you have to really certify your income level and your family size and that way, your payment actually might change, your circumstances may change and so there's so many variables that might lead to this forgiveness program not actually working out the way you think it's going to.

With that, that's some risky kind of things to consider there. I would say, this is a matter, again, of extreme. Extreme one is that kind of stay the course, long term thing. To me, you've got to look at a second model which is extreme number two which is knock it out as quickly as possible.

I took this person at their word and assumed they were making 90k net. I kind of just – maybe that's wrong but I kind of took that as 90k net which means that if they live on 40k a year and put 50,000 a year toward debt, they're debt free in four years.

That gives you the freedom to be debt free and that risk is eliminated and if you start maxing out a solo 401(k), first is self-employed so they can use a solo 401(k) for example. If they max out a solo 401(k) starting at age 50. At retirement age, they'll have it a million dollars and if you're debt free within million dollars, you're probably going to be okay.

The other factor is, in looking at the language used by this listener, I feel like they want to hustle, I mean, the language used is, you know hey, versus hustling to pay of a student loan, using that terminology says they want to do it and if you're self-employed, you have the potential to earn more money by growing your business.

All those factors put together really lean me towards just aggressively knocking it out and getting that debt off the table.

[0:16:16.8]

FT: Right. No, that's good. I love that you picked up on that because I kind of agree with that too, it's one of the beauties of being self-employed is that and that's why a lot of people become self-employed is so they can have more control over their income potential, right?

On one hand, it's not as maybe guaranteed but on the other hand, there's no stopping you, right? From going out there and trying to earn what you want and need to earn and then there's nothing I feel like, that fuels at least me to do go out there and earn more money than knowing that I have some big financial obligations on my plate, right?

[0:16:51.3]

MR: Yeah, it's pretty motivating.

[0:16:52.7]

FT: I want to hustle, I'm thinking about that for me right now is I've got this big company that I'm trying to grow and it has a lot of expenses and we're self-funding it and okay, need to go out there and you know, do some more workshops or you know, maybe start another podcast, I don't know but there is no stopping me.

Thank you for putting that out because – that's why your great financial advisors. Because you're picking up on some of this emotional nuances that sort of like reading between the lines and that's what makes I think a great – a difference between a great financial advisor and a good one and you're a great one.

[0:17:26.1]

MR: Thank you.

[0:17:27.3]

FT: Yeah. All right. Let me get to this next question from Nelly on Instagram. She said, this is a good one. Because I think a lot of people are in this camp. After filing our 2018 taxes and not getting the federal return we expected as home owners, my tax accountant said that I should stop contributing to my Roth 401(k).

So we can lower our taxable income and fall into a better tax bracket. What do you think about this? I guess a lot of people are – I'm hearing a lot from people who are just confused by why in some cases their taxes went up this year or just 2018. In this case, this person Nelly is just wondering if it's sound advice to stop contributing to retirement all for the purpose of having a lower tax bill today.

It sort of seems like a little bit of a short sighted piece of advice.

[0:18:25.7]

MR: Yeah, I kind of took this as – I could be wrong but I kind of read between the lines and assumed they meant, their accountant wants them to stop contributing to Roth and start contributing to traditional to get that tax deductions, that's kind of what I interpreted, I could be wrong but if that's correct, I'm not sure I agree with that, I really don't agree with that.

The reason why is, accountants and tax people are great at their jobs and that they're trying to save you taxes right now. Their review is like hey, how do I save my client's taxes this year? That's really great, that's what they are being paid to do and they're really good at that.

The issue is, you want to also think long term and long term, do you want to be paying taxes on all that growth down the road? Typically, I would not want to so I kind of used this seat in the harvest analogy, a lot of people use this but, if you're a farmer, would you rather pay taxes on the seeds right now or the harvest later which is worth a lot more.

Obviously, people would say, well I'd rather pay taxes now in the seeds they're worth a few pennies but the harvest is worth a lot of money later on. I would always in general, that's an oxymoron. I would in general want to invest in Roth because I want all that growth to be tax free later on.

I'm willing to pay a little more in taxes now to get that advantage later on. I'm thinking about the future, usually more than just kind of a quick win on short term taxes. There's always exceptions but in general, that's the way I'd like to look at it.

[0:19:50.8]

FT: Just maybe side bar talking about the tax changes. I know that for a while, a lot of us couldn't predict the general impact that the tax watching is we're going to have on the average person's tax bill because you know, it was still sifting itself, sorting itself out but now, we know because people are either paying more or getting a refund, what's been your understanding of the impact of the tax law changes. I guess, from your perspective on self-employed people, entrepreneurs.

[0:20:21.0]

MR: Well, first of all, I'm not an expert on taxes, that's not really my thing. My accountant is even confused by it, so I don't feel quite so bad. My accountant's been saying hey, they're still trying to figure it out but basically the tax tables are not really figured out yet and my experience has been actually save money.

I actually paid less in taxes. Some people are saying they paid more. It's still very confusing so I think some people are just like I said, we're all just trying to figure it out.

[0:20:47.3]

FT: Okay, last question is here form Sam, also on Instagram. By the way, if you're wondering why all these questions are coming from Instagram, it's because that's the direction I lead people to. Go to Farnoosh Torabi on Instagram, follow me there, direct message me there, that's usually where I lift a lot of these questions for the Friday episodes, that said, you could also, if you're not an Instagram person, you can go on somoneypodcast.com and click on ask Farnoosh and leave a voice mail or type in your question, I also definitely look there for your inquires.

Okay, Sam wants to know why she and her husband owe over $4,000 in federal tax bills this year but in previous years, we've received refunds. Here is maybe where we could find some answers. They're recently married, there are two wage earner household with no property or children and she knows that some laws change but doesn't understand fully.

Wondering if others are feeling the shock as well. Also, she just would like to know how to maximize her tax deductions in future years because she finds it confusing.

[0:21:53.6]

MR: I have a theory. Again, I'm not a CPA, that's my disclaimer. But I have a theory and again, there's so many factors without knowing more details, it's really hard to kind of diagnose but one theory is that when you combine your incomes on a joint return, this is a recently married so I think I married within the past year.

Their first tax filing is now joint. The combined income could have pushed them into a higher tax bracket so that's one issue that could be a factor here. Without any more details, it's really hard to tell but that could be something to consider.

[0:22:25.8]

FT: Right, as far as ways to maximize their tax deductions going forward, I mean, I think that contributing to retirement helps, I think that having kids, although not the reason to have kids but dependents can sometimes reduce your taxable income, there's also special credits and deductions for parents that are for families rather.

There is that. I think you're right, there may be some exploration worth having around whether you file jointly or married filing separate, right?

[0:23:01.2]

MR: Yeah, I would talk to your CPA. I mean, these are the kinds of questions that without more details, it's really hard to tell what the best route is and what's going on. It's just a theory but that could be something to explore.

[0:23:11.8]

FT: Okay. What is your financial goal for this year Michael? 2019 is almost halfway through. Do you set financial goals for yourself?

[0:23:21.6]

MR: Actually, I don't. Here's why. I don't set financial goals because there's different kinds of people and some people are very motivated by like a big money target on the wall or something. I'm more motivated by creating habits. My personality style is that if I have a big target on the wall, it's like how do I get there and it's kind of scary sometimes.

I would rather say okay, how do I get there, let's put a cook book together and kind of a recipe to get there. That might be hey, I'm going to do a podcast every week, I'm going to blog, you know, X number of times per time period or whatever. I'm going to do these five activities that connect me with people. I'm going to do all these things and I'm just going to focus on the recipe.

By focusing on the recipe, I can – those will lead to predictable results which will get me to that end goal. That's kind of a roundabout way of saying, I have kind of an idea of what I wanted but I'm focused more on the recipe of the cookbook to get there because that helps me actually get there more than just like you know - shooting for the moon if that makes sense, that's just my personality type.

[0:24:16.03]

FT: Yeah, for sure. I mean, look, you got to put it out there. You have to have standards, you have to put it out there even if they seem lofty, the goals seem like pie in the skies but better start somewhere, you know? Just have that constantly kind of in your face, in your mind because when it's something I just find though, when something is top of mind for me, it usually is the only way it gets done.

[0:24:46.19]

MR: I will say though; one goal is 10 new planning clients.

[24:49.25]

FT: 10, okay. Tell us how we can find you?

[24:52.12]

MR: Yeah, sure, elevationfinancial.com is the best way. I'm all there, I'm actually working on a new website but I got a current website kind of up and running, it's pretty simple but it does tell you a bit about me, I've got a podcast I just started this week actually with episode 0 it's kind of the intro. Episode one will start next week and I will be inviting cohost on as well. Hit me up, elevationfinancial.com, send me a note and you can actually book a discovery call directly on my website too if you want to chat for 30 minutes or so.

[25:19.16]

FT: Wonderful.

[25:20.02]

MR: I'd love to chat. Thanks.

[25:22.15]

FT: Yeah, we'll find you, thanks so much for tuning in everybody and thank you Michael, hope your weekend is So Money.

[END]