BONUS EPISODE

[ASK FARNOOSH]

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FT: Welcome to a bonus episode of So Money, everybody. August 29th, 2019. I'm your host, Farnoosh Torabi. We have an extra episode today. We are in conversation with Julie Lambert, who manages trial Schwab's branch in Plano, Texas, a suburb of Dallas. She's been with Schwab since 2014 and in the financial services industry for almost 30 years. She's got her bachelor's from the University of Texas and an MBA from Southern Methodist University.

We've got questions today about planning from retirement. When you're getting a little bit of a late start and you're also a freelancer, as well as things to think about, if you're looking to move to New York City and start a family, as many of you know, I'm working with Charles Schwab to help spread financial literacy to the masses.

We've been doing these great bonus Ask Farnooshes once a month and it's been a really great collaboration so far. I'm a Charles Schwab customer and have been for many years. Before we get started, I just want to thank Charles Schwab for helping get this financial education to you.

Here we go. Here is Ask Farnoosh with Julie Lambert.

[EPISODE]

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FT: Julie Lambert, welcome to So Money.

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JL: Oh, my pleasure, Farnoosh. I'm very happy to be joining you today.

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FT: It's always fun to co-host and we're really lucky to have you as someone who is so experienced in the world of finance and helping people with their money. You are a Schwab branch manager, I understand in Plano, Texas, and arrived at the world of finance and financial literacy by way of a degree in biology. Tell us what happened there.

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JL: That's exactly right. I feel my entry into the business of financial services was accidental. My undergraduate major, like you said, was biology. I reached the point where I was out of money and couldn't afford grad school and I needed to get a job. A friend of mine suggested that I come to work in financial services with her, until you save up some money. I feel it was really meant to be. I loved finance from the start.

I'll tell any young people, men and women listening, financial services is fun, it's high-energy. You get to talk to people and help them solve their problems. It has really suited me and 27 years later, I'm still doing it.

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FT: It's funny, you say you've become a really great problem solver. I think that's so true. When you help people tackle a topic like money, inevitably you start talking about so much else, right? You're not just a money counselor, you eventually become this therapist/life counselor.

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JL: Absolutely. Family counselor, helping people with protection and taking care of people that they love. It's very involved and rewarding.

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FT: Yes, for sure. All right, well, let's get to our mailbag. We've got about four or five questions on the burner and we'd like to tackle all of this with your help. The first one comes from a listener, Melanie, who recently says she got really serious about long-term retirement savings. She admits she's starting late. She's 40-years-old and she had started early to save for retirement, but then had to take a big pause, because she was spending many years freelancing. As a freelancer, she says that she hasn't really had the option of a 401k, for example, matching contributions, etc.

She has a rollover IRA and a couple pension plans, one of which is pretty small. She says she does live below her means, she has plenty of savings, but she wants her money to do more work for her, as opposed to just putting her money in a traditional savings account. She wants to invest. She wants to get serious about long-term planning. Any advice? PS, she has no kids, she is single and she would like to have a family one day.

Well, first of all, let's be honest. 40, not the end of your life, right? In some ways, it's just the beginning. 40 is the new 25. I think, I'm almost 40. A lot of more years hopefully left to live a great life and play catch-up when it comes to your finances. I mean, it would be ideal if she had been saving more and investing more in her 30s, but here we are.

I would say, just because you don't have access to a 401K doesn't mean that your retirement savings options are nil. As a self-employer, as someone who's self-employed ,I have a SEP IRA, I know colleagues who have a solo 401K, as well as a traditional IRA. I think that it's first, really about knowing what your options are and taking advantages of those resources first.

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JL: Absolutely. I think just in general, it's a really important question. A comfortable retirement is probably the biggest financial challenge that any of us will ever face. It's really important, Melanie that you put it at the top of your priorities and that you keep contributing in some way that does work for you. I always tell my clients, you can borrow money for a lot of purposes, but you cannot borrow money to fund your retirement.

Melanie, specifically, as an independent contractor, you have several options for retirement accounts. As Farnoosh mentioned, there are multiple types of IRAs that might work for you. There's always the traditional IRA, where a contribution may be tax-deductible, the earnings are going to grow tax deferred and you can contribute this year at $6,000 for someone under 50 like you. You also have a Roth IRA. If your income as a contractor, a freelancer is under $135,000 you should consider a Roth. You don't get the upfront tax deduction, but your earnings grows tax-free in this case and your withdrawals are tax-free after 59 and a half.

With Melanie being what I consider pretty young, that still gives a really long time for that tax-free growth to really, really take hold. A Roth can also makes sense if you expect to be in a higher tax bracket come retirement time. These contribution limits are exactly the same as a traditional IRA. Then you mentioned the SEP IRA. So many of the self-employed clients that I work with have a SEP. They're very easy to set up. They allow for higher annual contributions than the other types I mentioned. In fact, up to 25% of compensation, or even up to $56,000, whichever is blessed in your case.

There's just one more option I'll mention, in case you're looking to contribute even more than these IRAs would allow, would be the independent 401K. Takes a little work on the front-end, a little more setup, but the contribution limits can be higher, because they're not limited by percentages of compensation.

Just in general also, Melanie, it sounds like you have the ability to save and invest for goals that aren't just for retirement. I'm assuming you have an emergency fund and a little or no debt, but you might want to consider an investment account, even for your after-tax dollars, just a brokerage account, so you can start putting your savings to work.

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FT: Does it matter that she doesn't have children, or that she's single versus married, doesn't have a family? I mean, I would say that being a single woman, she probably even has more potential to save and pay herself.

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JL: I completely agree. Absolutely. I think just it's really important to pay attention to basic investment principles, save in the ways that work for her. Absolutely, once you have kids, your money may be drawn in different directions.

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FT: Speaking of different directions, we've got a question here from Roya. She reached out on Facebook. She's asking about moving to New York City. I'm not sure from where she's moving from, but I'm guessing somewhere less expensive than New York. She says that she and her husband are both doctors and thinking about moving to the Big Apple, though not sure how to afford it with kids. I don't know if kids are already in the picture, or if they're hoping to have kids one day, but she's looking for advice.

I'll kick this one off maybe with some experiences, almost now I've been here, I don't know, like 17 years. I started here without kids, grew into the city with two kids now. It is hard. I will just start off by saying that it is not inexpensive. I think having strong salaries, consistent income definitely is a need here. It's one of those things where if you want kids in the picture, you have to start thinking about, "Well, do we want them to go to public school, versus private school? What part of the city are we likely to live in? Brooklyn versus Manhattan versus Queens, there's also the Bronx and Staten Island."

A lot of people are settling in the outer boroughs for the long-term. They're not living in Midtown, or West Village Manhattan, even though that's really cool when you're in your 20s, but it's not really livable under a certain price point when you have a family.

I think if you come here, or I think what I'm trying to say is you need to have some flexibility and an open mind. You also have to be quite frankly, financially ambitious. I know I'm going to get letters that are like, "I live in New York on a teacher's salary and we have three kids and we're doing fine." It's possible, but I'm just speaking to the lens of having lived here for almost two decades, having seeing both ends of it, having been someone who is making $18 an hour versus somebody who's now established in her career. I would much rather be living here established in my career. I think that those are two good combinations; flexibility and financially ambitious, to give you some more options. Julie, do you have kids?

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JL: I do. I have three.

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FT: All right then. Take this one away.

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JL: Sure. I'll just start by saying I have personally moved cross-country four times as an adult. As Roya's question implies, moving has one of the largest financial impacts that you can possibly have. Selling a home, buying a home, all the things that you mentioned, all the complications of potentially changing jobs as well. It's one of the most important decisions that someone can make. I know that child care and education was a huge driver with my husband and me with our most recent move five years ago to Dallas.

I know that it's a huge decision, Roya, and I know we went the other way. We went from a city Seattle, with higher cost of living to a city Dallas with a lower cost of living. Big decision. When there are so many changes and important decisions to be made, it's so important to have a financial plan. In this case, I'd call it a move plan, that can really help guide you through these decisions.

Any successful financial plan is going to be holistic. It's going to look at all the parts of your financial life, how much you earn, how much you would earn if you move to New York, how much you spend, save. The roles that insurance and taxes play, which could be huge in New York. In this case as you mentioned, potentially with children, you have to consider education options and what those costs may be.

Creating a plan will really make sure that all of these puzzle pieces are coordinated in a way that helps you and your husband first, make this important decision. Next, reach your goals and frankly, sleep at night. I'll just share some advice for all listeners who I think, people hear the word financial plan and it's a little overwhelming. To get a financial plan in place, you can of course work with a financial professional, but you can do it yourself too.

At schwab.com, we have a great resource, free resource called 10 steps to a do-it-yourself financial plan by Carrie Schwab Pomerantz. Please do not let the number 10 intimidate you. Many of these steps are just things to consider. Trust me when I say that sometimes, the hardest part is just getting started. Get started and start writing those goals down.

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FT: I think that if there is a common thread that brings people together here, it's that at the end of the day, for those people who protest to love living in New York City, even as they have big families and are may be crammed into an apartment, it is because of the vibrancy. It is because of the diversity that really does outweigh the expense. The culture here is unparalleled, you know what I mean?

They're willing to make the expensive move to live here, because it is ultimately the lifestyle and the exposure that they want for their families. They would rather just live more simply in an apartment. For others, that is a non-negotiable to not have say, a washer and dryer in your apartment, to have to walk up three flights of stairs just to get to your front door, but people do it here. They don't care, because to them, it is the beauty of living in New York City and all the excitement and thrill and richness that is here is worth it.

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JL: I completely agree. With any decision, it's all about what your goals are for yourself and for your family.

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FT: Yes. Trade-offs. You got to be okay and at peace with those trade-offs. All right, now Celeste has a question. She's 23-years-old, recently graduated from college with both credit card and student loan debt. She says, “I feel like I'd be okay, but I have health issues that prevent me from working full-time. My finances are really tight. I've drained my savings.” She asks, “Do you have any suggestions on how to improve my finances?”

Well, this is a really tough situation and I do want to give you a lot of credits to last for being proactive at 23-years-old, thinking about your future, thinking about ways to protect yourself. I sense that it is hard for you to find work, because of your health issues, but perhaps, perhaps there are some work from home jobs that you can piece together. The internet is a lovely thing and you can find a lot of gigs from the internet.

Again, and I don't know what your ability is, your skills. If we had known, we could maybe do a little bit of a brainstorm for you. I think that when you're in your early 20s and really any time in your life, but particularly as you're starting out in your life and starting salaries have been pretty stagnant with the cost of living just escalating over the last 10, 15 years. You really feel the financial crunch. Plus, you've got student loans, debt, credit card debt like Celeste.

What saved me and so many of my peers and today even more so is having an extra income stream, or multiple gigs that you can piece together to earn more. Yes, saving money is important. Absolutely. Budgeting is key, tracking your expenses, trimming the fat, all of it. I think having another revenue stream is going to help to further your ability to pay off that debt quickly and then get a jump start on the rest of your financial planning. How about you, Julie?

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JL: First, I want to back up and say congratulations, Celeste, on your graduation, because that's a huge accomplishment. Please know that you are not alone in your finances being tight when you're just starting out. I know that this particular situation is a difficult one. Hopefully with some planning and discipline and maybe some of the work from home options, you can stay on track.

From the question, it sounds to me like Celeste may be working at least part time, so we do have some income. With that, I would just say, really important to commit to paying off the high-interest consumer debt, the credit cards and creating a credit card to pay off plan is really just three steps, three hard steps. Number one, you decide which cards to pay off first. Of course, it makes sense to pay off the highest rate cards first. Make sure you understand the terms of each card.

Sometimes you can move a balance from a higher-rate card to a lower-rate card, to really get a good understanding of that. Then commit to a pay-off schedule. Here is where discipline really comes in. Pay the minimum payment for any lower-rate cards and then apply everything you can to the highest rate card. Then once that one's paid off, go down the list. Then finally, number three, never be late. Make sure you can always pay at least the minimum and pay on time. Credit card companies impose so many fees on late payments and of course, you could damage your credit rating for years to come if you're late.

Then Celeste, just imagine, paying off your credit card debt would make it so much easier to reach your savings goals. That's money that you could just start saving if you weren't paying interest every month. Then I want to address what she said about student debt just quickly, because I know that it's really great to be rid of student loans. That's a happy day.

Sometimes they're low interest and they don't appear as a negative mark on credit ratings, as long as you don't miss payments. You might not need to rush to pay these off. In financial terms, we view student loans as good debt, like a mortgage and not at all like a credit card.

Just making regular on-time payments while you get the rest of your financial house in order, Celeste, is probably the best thing to do there. Then once you feel you're finally on top of your debt, you can start building an emergency fund and maybe taking a little pressure off of yourself.

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FT: I like the steps here, because often you hear the question being, “Well, I have debt. I don't have savings.” What should be the priority? It sounds like from what you're saying, Julie, is that you should focus on the high-interest rate debt first and then maybe scrape together some savings. Simultaneously great if you cant. If you can't, just at least get rid of that high-interest rate credit card debt first. Is that fair to say?

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JL: That's exactly right. The faster you can get rid of that, the better because that's just going to lower your payments on all the parts.

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FT: So true. All right, last question. Switching gears a bit from saving and paying down debt, to investing. This is a question from our listener, Audrey. It's on about stock market investing. Here, we're talking about investing in real estate, one of my favorite topics. I don't have an investment property myself yet, but I don't know. I just love watching HGTV, call me crazy.

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JL: Me too.

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FT: Okay. This is totally up my alley. Audrey says, she actually is a fellow Nittany Lion. Oh, well hello, Audrey. Hope to see you at the homecoming game. I'm going to be the grand marshal of the homecoming game, fun fact. Hope to see a lot of my fellow Penn Staters there. Her question is, is it really a bad idea to spend over half of my emergency fund on an investment property? The plan is to rent it out right away. She's a teacher, so the chance of losing her job she says is minimal. She's 30-years-old, has over a $170,000 in retirement and $90,000 in equity in her condo. “My income could cover the investment expenses if I needed to, but it would be tight,” she says. Thanks so much.

I guess, my one question that I wish Audrey had answered is how much of an emergency fund are we talking about? What do you have saved for a rainy day, in addition to retirement? Are we talking six months? Are we talking a year, three months? I think that's important. I think that if you know she's got a one-year savings account, well and that means that she's got a year's worth of her expenses saved up somewhere and let's say she wants to take out half of that, I mean, it still leaves her with a six-month savings nest egg.

In that case, I don't know if that's a real huge risk. I'd say maybe go for it. If this cash outlay that she's going to put towards this investment property is going to bring her down to more like a two-month rainy day reserve, I don't know. At that point, that would start to concern me, because on top of everything else, the fact that maybe you're a little rainy day fragile, adding an investment property to that a life where you now have to deal with renters and that cash flow and you're pulling from your salary, plus savings to cover your expenses, I think all of that could be a little too risky. I think it really here depends on how much savings we're talking about, right?

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JL: I completely agree. Also, her perspective on how much she thinks is the right amount. Some people think three months is great of emergency savings and some people think hey, that really needs to be a whole year. The fact that she's calling it her emergency savings makes me think that it's in her perspective, whatever that right time frame is.

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FT: This is interesting, because to generalize this question and make it more relatable for everybody, if you have an emergency fund and you've been fortunate, no hiccups, no broken cars, no health scares, the emergency fund’s been pretty untapped for the year. Let's say you've got this cool opportunity to invest now your money in something and it would require tapping some of that savings, how do you go about making that decision?

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JL: Sure. Well first, I love to say yes to people, but I can't always say yes. I know it's going to be difficult for Audrey to hear. I just think buying an investment property is a great goal, but it can't supersede some other really critical goals. At Schwab, we have saving fundamentals that we encourage all of our clients to stick to and here's the order; number one, don't leave money on the table. Audrey, if your employer offers a 401K, or in your case, perhaps a 403B match, that's your number one priority.

Next, when it comes to any debt you might have, it sounds like you're in pretty good shape, but if you have any of the debt we talked about with the last question, paying that off will make it a lot easier to do other things. Third, build that emergency fund. You've done that already, Audrey, so congratulations. This will help you avoid more expensive alternatives, if you need extra cash for a rainy day.

We believe here at Schwab at three to six months of living expenses is a good target, but different people believe different things. Then the next savings plan in the hierarchy would be maximizing savings to those tax advantaged retirement account. Of course, you want to get your match first, but then when you're able to get up to the maximum that you can, you can contribute up to $19,000 in a 401K or 403B pre-tax this year. If any listeners are over 50, you can contribute even more and catch-up contributions.

I think once you've met these four goals, then you can save and you can invest in things like an investment property. I want to quote a study that I read awhile back. According to a Federal Reserve report two years ago, 40% of Americans say that they wouldn't be able to cover a $400 emergency expense. Audrey, you have worked so hard to not be among that 40%. I just really encourage you to not change that. I hope it's helpful.

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FT: Yeah. I think the good news is that she's doing a lot of these steps. I think she's close to fulfilling these four steps. If not, maybe already there. It does sound like she has a lot of ducks in a row, if she wants to invest in an investment property. I think it can be in her near future. She has to though, to your point, she needs to make sure that she's got her bases covered. Most importantly, that if you're going to take some proverbial cookies out of the cookie jar, that being your savings account, your emergency savings account that it's not going to put you in a vulnerable state.

The good news is now you know how much it's going to cost you potentially to be a real estate investor. You've gone through this exercise. Maybe now is your chance to you put aside money more intentionally for this future investment in real estate. Just like you do with your emergency savings, you're having that diligence, that commitment to get that next fund, that next savings goal to where you want it to be.

I get it. You can get really excited when a deal crosses your desk and you're like, “Oh, my gosh. I got to strike now while it's hot. I'm going to miss this opportunity.” There will be more deals in your future. I've had a number of guests on this show who are experienced property investors, so check out those episodes and hopefully will be some supplements to you as you do your research my friend.

All right, Julie Lambert, thank you so much for joining us and giving us all these tremendous advice. Wishing you and your family in Texas a great rest of your summer.

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JL: Well, thank you so much. Terrific questions and this was really fun for me.

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