EPISODE 1377

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So many episode 1377, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. July 1st, 2022. What are your July 4th plans? It's going to be kind of gloomy and rainy here in New Jersey. So we have plans to go to a friend's house and watch the town parade. But I'm not sure what the forecasts will even allow. My kids are trying to get me to take them to see the new Minions movie. So that maybe in our future, especially if it's not the best weather. But fingers crossed, we'll at least get a little pool time before the holiday is over.

Questions today about how to get out of that living paycheck to paycheck cycle. We have a listener who's in her 20s, making an average salary and really not sure how to build wealth. What can she do? A question about investing for a child's future outside of college, Roth IRA penalties, negotiating more money at your job right now. It's a weird time for being an employee, depending on your industry.

I think if you work in tech, real estate, let's say like a real estate firm or crypto, obviously, anything ecommerce-related. It's a weird time. Companies are scaling back. They over hired in the last two years, some of them, and are in a cooling period. So it's a tricky time to be negotiating. That doesn't say you can, but I think it's important to take into consideration some of the economic challenges that companies are facing. But more on that question in just a moment.

Let's take some time to review our episodes this week. On Monday, we had Kevin Matthews, who's a financial expert. He came on to talk about the Fed's interest rate hike and how it will or won't manage inflation. Is that all we got in the arsenal? Can't pull any other levers. We get into it, and he's got some interesting advice about homeownership and whether it's really a tool for building wealth.

Then on Wednesday, Dr. Jacqueline Kerr offered her experiences with motherhood burnout and the advice that she has for moms out there worried about not just burnout but also the impact of Roe v. Wade being overturned on a woman's financial freedom. So that was Dr. Kerr, Jacqueline Kerr, on Friday. Monday, Kevin Matthews.

Let's go to the iTunes review section and pick our reviewer of the week. This person, like always, gets a free15-minute money session with me. So if you're interested in a 15-minute chit chat about your finances, one-on-one over the phone, this is the way to do it. Leave a review. I pick one every week. So your odds are pretty good because I don't get like thousands of reviews every week, although that would be nice.

Crystal is our winner. Her review is entitled #Number1FarnooshFanGirl. “I live in California, and I've been listening to your podcast for years. I'm a first generation Latina, daughter of immigrant parents from Mexico, and your podcast has absolutely changed my life. I am the eldest in my family, often talking to my parents and friends about personal finances. I got my best friend hooked and now my sister too, #somoneyfangirls. I am so excited to share that listening to your podcast and hearing all the amazing entrepreneur stories has inspired me to open up my own nutrition consulting private practice and investing in myself. Your Podcast always inspires me and helps me stay motivated. I can't thank you enough for all you do. #Number1FarnooshFanGirl.”

Crystal, I am blushing over here, and I'm so overwhelmed. I like to hear not only that you're a fan, but the show has actually moved you, mobilized you to become an entrepreneur and pursue this incredible path, owning your own nutrition consulting practice. That you're getting your sister and your girlfriend and your parents involved. Just know that you are inspiring so many people through your actions and through your involvement, and I'm just honored to have you in the audience. So let's talk. Email me, farnoosh@somoneypodcast.com, or Instagram me. DM me there @farnooshtorabi. Let me know you left this review, and I'll be in touch with a link where you can pick your time for us to connect.

Before we get to the mailbag, I want to give a shout out to myself. I wrote a big piece this week on the job market. The article's up on CNET right now, and it's entitled What to Do After You Lose Your Job: 7 Timely Money Moves. The economy is cooling, everybody, and layoffs are expected to ramp up in the coming months. I have been going to this website called Layoffs.fyi. It's a site that tracks downsizing in the tech and startup sectors. I've been refreshing it over the past few weeks, just to see where things stand.

In the second quarter of this year, we have seen 34,000 layoffs in just tech and startup land. That's more than triple from the same period last year, 34,000 layoffs. If you look at the unemployment rate simply sitting at 3.6%, you may believe that everything's rosy, and it's true. Hiring has actually remained strong, but it's layoffs in particular sectors that are giving me pause, and I'm wondering. This time next year, even the next quarter, what is that unemployment rate really going to look like? Because the people who have just gotten laid off, they may not collect unemployment for some time. They may be continuing to work at their jobs until another month.

The companies are giving their employees a little bit of time to basically cut them off. It's not like you get laid off, and the next day you don't have your job. You might get two weeks. You might get three months. So we may not see these layoffs materialize in the unemployment rate that comes out every month for some time. There may be a delay. In any case, if you have just gotten laid off or anticipate getting laid off, I wrote you an article, and it includes my own experience.

In 2009, I got laid off in the Great Recession. It was a weekday morning in March. I remember it vividly. I was getting a haircut. Before you judge me, I want to let you know that I wasn't sneaking out of the office to get a haircut. This was part of what I was allowed to do. As an on-air financial correspondent, I got regular trims during work hours, and this was in the morning. Like I was going right before all my meetings, and then my Blackberry bust, and it was my colleague, who's still a friend who lives in Montclair. I'll see him this Friday. In the text, he said, "Where are you? They just laid off a bunch of people here."

I'm sitting there in the salon chair, wet hair plopping down on my phone. I call him back immediately, and he tells me that they took a number of employees. They tapped a number of employees, told them there was a mandatory meeting, go into the large boardroom. There, the CEO and the editor in chief of our company said that they were laying off 10% of the staff that day. Everyone in that room was safe. Mike didn't see me in the room, got nervous, and texted me. I did not get notified of such a meeting, and it wasn't because I wasn't in the office. I think that, well, at that point, I knew what was going on.

I got immediately another call from my boss, and he said to me, “Farnoosh, we've unfortunately made the decision to downsize and layoff a number of our staff.” I said, “Oh.” Just, “Oh, that’s terrible.” Not letting him know that I had just had a full conversation with Mike. Then he said, “Yes, that includes you.” I'll never forget those three words, that includes you.

To discover that your position is over, it's not just a financial shock to your system. It was devastating. I took it very personally. I thought to myself, “Oh, they don't like me. I didn't work hard enough. I didn't show like I was enough of a team player. I went home, and I cried and did all the things that you do when you're feeling sorry for yourself.” A lot of Chinese food and Bridget Jones diary.

In some ways, I'm glad I went through that experience, not just because it makes for an interesting story on a podcast 10, 12 years later, but because it gives me the understanding of what many people are going through right now and will be going through in the months ahead. So an article right now on CNET, helping people who are either in the immediate shock of this or anticipating a layoff. What to do immediately. There are seven things. There are probably more than seven things, but these were the seven steps that I found to be most urgent.

The truth of the matter is when you get laid off, no one's going to show up at your door with a plan. Your employer might give you a severance. But as far as like how to get back on your feet and when, that's on you. So you got to cut the Bridget Jones reruns short, I learned. You can't feel sorry for yourself forever. You have to get up and start moving, and that's what I did. My move was to not go back to a full-time job for a while, but others have different journeys. Anyway, check out the article. I'll put the link in the show notes, so you can read it. Send it to anyone who might be going through a tough time right now.

All right, let's go to the mailbag. We've got questions from Joe and Kara and, who else, Kat and Elise. Okay. So Joe on Instagram, "Farnoosh, hello. My current employer," speaking of jobs, "An employer that I've been with for eight years, I'm 29, is asking me to take a new exciting role. A little background, I recently received a job offer somewhere else for $50,000 more than I'm making, and I chose not to leave because I like my job. However, a lot of my coworkers are leaving for similar roles paying much more. What leverage do I have to ask my boss to get close to these offers that I keep getting? When they ask me again to take this role, how do I bring this up with tact? Thanks so much for your help."

I think you do have a bit of leverage here, Joe. For one, you are a hot commodity. You've already gotten another job offer. You didn't take it. If you really wanted leverage, I'd say going back to that initial job offer, that was the point at which you would have really been able to present that to your boss and say, "I don't want to leave. I got this incredibly big pay bump at this other company. Can you match it?"

But at that point, my advice is if you're going to use a job offer to try to up the ante with your current employer, you need to be prepared to hear a no and then say, "Okay, I'm going to take that other job offer." So it's important to be prepared to leave essentially, and that's going to even give you more leverage. If your employer knows like, "I'm out the door. I have one foot out the door. But if you can top this, we can keep talking." That didn't happen. You declined the job offer.

Nevertheless, it is evidence of how you're valued in the workplace, right? So bringing that up, I think not as the lead but as an interesting anecdote to your employer when you talk about this promotion. I certainly think that when you are being promoted, it's natural then also to talk about a pay bump to have your additional responsibilities match a new income, a higher income. So when they asked you to take on this role, I think that you can bring this up by saying, "Firstly." I think you can make a case for yourself by firstly just outlining all of the attributes, the values, the results that you have been providing to your employer.

Remember, I talked about this on the show and other career experts have said your value is not the fact that you're working overtime or I've assumed more responsibility necessarily, but that you're driving the results. Don't talk about the how but the what. Don't talk about the behind the scenes of your job as evidence of value but actually what you're delivering. I'm delivering three times what I promised I would deliver at the beginning of the year. I have brought in this much in sales, which is x percent more than the previous month. My responsibilities when I came were this, this, and this. I've since taken on new roles and new responsibilities and leadership.

So talking yourself up in terms of the results that you have been producing, which will then tee up, when it feels appropriate, to talk about compensation. You can say, "I would be very interested in taking on this new role. I feel more than prepared to do this and do this successfully. I do think this role merits a higher salary." Then you can say, "Based on my research, as well as a job offer that I recently received, I think that $50,000 more is fair."

Now, there is a risk. I will say, I will caveat that when you disclose to an employer that you have gotten another job offer, it can imply that you have your eyes set elsewhere. It won't necessarily imply that you were headhunted and, oh, it was just my – I didn't ask for it. They just offered it to me. But it will imply that you pursued another job, and that's something that may backfire a little bit. This is where it gets a little tricky.

I'm not really sure what the perfect advice here. But think about how much you want to share to protect yourself. You can say that there was this other job that came across your desk. When you had an initial conversation with them, they said that they would pay you this much more. But if you did go several rounds of interviews and you went on site, I mean, I wouldn't probably talk about that.

But you want to just sort of like summarize. There was this other job not too long ago, this other offer that came across my desk, and it was $50,000 more. I didn't pursue it initially. I didn't pursue it ultimately. But it was interesting how much more they were willing to pay me, and I did some more research. You can say this, and you should do this on other sites to see comparably what other companies are paying for this role. I think $50,000 is fair.

So pairing that personal experience with also some concrete market research, which you can get on sites like salary.com and payscale.com and comparably.com. Those are some really good websites to track salaries and compare salaries. I would also say that if you know people at work who are about to leave or left recently, and you feel comfortable reaching out to them offline and saying, “Hey, when you were considering leaving, did you talk to our current employer about salary? Did you ask for more money? How did that conversation go,” any of those stories can be helpful to you, as you're crafting your own campaign, let’s say, your own tactful campaign, your own tactful conversation with your employer.

But to answer your question, Joe, yes, I think you have some leverage. You can bring this up with tact by first starting with your accomplishments, the value you're providing, the results that you're driving. Then move into compensation, which is very appropriate to talk about making more money as you're getting promoted. Now, first, you could ask them, “What do you have in mind,” and maybe they're going to say $50,000 more, and this whole thing has been solved.

But if they say, “Well, we weren’t thinking of actually giving you a pay bump or $10,000 more,” you can say, “Well, I have a number in mind that would really make this move exciting and attractive and a no-brainer for me. And I think it's $50,000 more based on what I'm seeing in the market currently. And also, anecdotally, there was a job offer that came across my desk earlier this year, offering me $50,000 more. I didn't entertain it, but I think that's important to bring up.”

Okay, so try that and rehearse this. Write this down. Write this down and repeat it to yourself a lot. Because once you're in that room, you want it to come across natural. You want to seem confident. If you want to even have a piece of paper in front of you, do that. Rather than stumbling and forgetting and looking intimidated, you want to come in feeling very comfortable and confident, which you should, Joe. Your company values you, and other companies value you.

Here's the other thing I want to say. You say that you love your job. Does your company love you as much? Love is not just like, “Oh. Well, they're so nice to me. They always approve my vacation.” Do they pay you what you deserve because that's another sign of a company's loyalty to you? So don't get caught up in how much you like a job if it's not paying you what you deserve, and you know you can make someplace else and someplace else that you could be just as happy.

Kara on Instagram writes in, “Hey, Farnoosh. I'm one of those humans who's been listening to the podcast for a long time, and I read your book back in the day. My question is this. I have a 15-month-old daughter and want to set up some type of investment for her, so she can make the most of compounding interest. I'm focusing on retiring my personal debts and building my own savings and catching up for retirement. But there is and will be some money from holidays, birthdays, to funnel into something. I'd like it to not be limited to something for college, since I know a lot of kids that are not going that route.”

All right, Kara. Thanks for your question, and I love that you're thinking ahead for your daughter. A little bit now will go a very long way for her future. I totally understand not wanting to put all your eggs in a 529 college savings basket because you're right. You don't know what the future holds. If she does go to college, this money can be applied towards that as well.

So one option is a uniform gift to Minors Act account, a UGMA account. This we've talked about on the show. It's basically an account that you manage for your daughter, on behalf of your daughter. The money is invested in the market, and you can open this up at a bank or a brokerage institution. You can contribute. Family and friends can contribute. There are no contribution limits. There are no income limits for who can contribute. The deposits grow. They compound.

Once your child reaches – I believe it's 18 years old. It depends on your state. Then the account transfers to her. But in the meantime, you are the account manager. Then the account automatically transfers to her. Some parents don't like the UGMAs because they don't want their 18-year-old getting access to maybe it's tens of thousands, hundreds of thousands of dollars at that point. So the other way you could go about this is just open up your own brokerage account that's in your name. It's not a custodial account like the UGMA account is. It’s not going to be handed over to your daughter at a certain age. It's all you.

Then when she gets older, you can organize payments to her as gifts, which will have limits every year, to help with her life, towards her life goals. But this way, you retain control, as opposed to it all going to her at age 18. You can give it to her on a schedule. You can also set up a trust, which means that you save money for her in this trust, and it compounds. But she’s [inaudible 00:19:32] 18. You kind of designate the rules around that. You could say like starting at age 25, she'll get 10% every year or she can tap the whole thing.

But this is stuff that you can set up with a financial planner. If you want a UGMA account, you can go to, again, any bank or brokerage account, and you can just open up your own brokerage account. So those are three options. UGMA, your own brokerage account, which then you give to her, or you could do a trust fund.

Next is our friend, Kat. “Hey, Farnoosh. I love your podcast. It’s my favorite thing to listen to on my way to work. I have a question about my 401(k). I just left my job, and I'm interested in transferring my 401(k) to a traditional IRA because they no longer qualify for the Roth. I'm wondering if there are any penalties if I transfer more than $6,000. I know that that's a limit for an IRA contribution for the year. I don't know, and I don't want to be penalized.”

Great question. No, you won't be penalized for a direct rollover, no matter how much it is. If you were to open up a new traditional IRA and make contributions from your bank account, then that would be limited to $6,000 for the year. But since you're doing a direct rollover from a like plan to another similar plan, then it can be whatever it is. I've done this myself a couple of times, never been dinged. So you're good there, and that was short and easy.

Finally, Elise has a question about how to stop living paycheck to paycheck. She's nervous she's not going to be able to accomplish all of her savings goals. Here's her story. “Hey, Farnoosh. Despite my father attempting to spike my interest in investing and saving at a young age, I've never learned. I'm 26, and I have expensive taste. I live week to week on a $50,000 salary. I have 20,000 in student loans, 10,000 in a savings account. I want to get married in the next couple of years, and that wedding is going to be my responsibility. I do not have any financially-minded friends who could advise me in ways to earn or invest. My side project is a new podcast that doesn't earn any income. Where would you go to begin growing your savings? I'm so overwhelmed.”

Okay, Elise. Firstly, don't be overwhelmed. I'm going to repeat back to you what you told me and tell you why it's awesome. So first, you're 26. Okay, that's awesome. You have many decades ahead of you. You're not starting late. I don't know. Maybe your dad wanted you to start investing when you were 10. It didn't happen. Who does? But 26 is a great time to be asking these questions and starting your financial life for real. So don't be disappointed that you're late to the game. You're not, number one.

Number two, you told me that you have $10,000 in savings. Bravo. I have no worry that if you lose a job, you'll be able to use that, plus some unemployment, plus some severance, and cover your bases until you find another great job. That's a wonderful cushion. You've also told me that you started a podcast. Now, a podcast – People don't get into podcast to make money directly. Sure, once it's popular, you can get ad revenue. But it does take some time. I think that a podcast makes sense for creators and entrepreneurs that have other things that they are selling and using the podcast as a marketing vehicle to promote that other thing, whether it's a course or a product or a service.

In the absence of that, I'm not sure if a podcast is a good use of your time, if you're telling me you want to make money. It's a great passion project. But even at 26 without dependents, time is still limited. So I want to make sure that you're maximizing your time for the goals that you're telling me that you have, which is to save more, to get on a financial plan, to invest more. So maybe put aside the podcast for now or just don't put too much energy into it and focus instead on some side hustles. Okay, that's my big tip here.

What I did when I was 26, making less than you, actually, side hustles, okay? Babysitting, petsitting, tutoring, teaching someone another language, helping someone with their move. Get on TaskRabbit. Get on sites like freelancer.com and tutor.com and rover.com. I've written a lot about side hustles. I'll put that link in the show notes for you to reference. But if you can find a way to make an extra $500 a month, I think that could change your whole trajectory. That's $6,000 a year, and we just got finished talking about the IRA, which is a $6,000 a year limit. That's your IRA.

If you start saving $6,000 a year for the next 30 years, you're going to have a nice chunk of change. Let's just do the math. If you save starting this year $6,000 and then every month after that $500 a month, $6,000 a year, for 30 years, I calculated 6% interest. You could probably do more than that over 30 years on average, probably more like 10. But let's be conservative.

That's half a million dollars by the time you are 56. We'll, how about when you're 66? By 66, we're talking almost a million dollars, okay?

So you can start now. You can start with $500 a month that you tuck away through a side hustle and go from there. If your student loans are federal student loans, I wouldn't pay them down. I mean, they're probably paused right now, and I wouldn't pay them until you have to. The other thing I want to say is you talk about getting married. Talk to your partner. Have you discussed money together? Maybe your girlfriends aren't into this, but how about your partner? How can you work together now to build your collective wealth, things like moving in together, consolidating your expenses, saving towards that wedding?

It shouldn't just be on you. Put your heads together. If you can save, let's say, each of you $5,000 between now and that wedding, that's tens of thousands of dollars for the wedding. By the way, you don't have to have the big wedding. You can do an elopement. You can do a very private ceremony. Have a nice dinner.

But like, here's the thing too. I want to end on this. Because you started by saying, "I'm 26 years old, and I don't know what to do." I read something on Twitter the other day that my friend tweeted, Stefanie O'Connell Rodriguez. She's a financial expert. She said, "The pressure to have things figured out by a certain age is one of the most consistent drivers of bad decisions I have ever encountered."

It's true. We have this internal pressure, this clock. That's like, "By 30, I need this. By 35, I need that." Throw it all out. Make life decisions first. Then plan around that, not the other way around. So you and your partner, sit down. Think about where do you want to be this time next year, five years. You, yourself, where do you want to be professionally financially, personally this time next year?

Have that be your anchor for then how you go about earning more and saving. Don't make a plan without your life decisions figured out first. That's the very first thing you have to do. I gave that tip at the end. But truly, at the very core of this, it's about figuring out who you are, where you're going, and what you want.

And that's our show. Thanks for tuning in, everybody. I'll see you back here. July 4th is a Monday. It’s a holiday. We're going to replay an episode, but it's going to be a good one. I promise. So stay tuned. In the meantime, I hope your day and your weekend is So Money.

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