EPISODE 1121

[ASK FARNOOSH]

[00:00:31]

FT: Welcome to So Money, everybody. I'm your host, Farnoosh Torabi. It is Friday, November 13th. As I am recording, we've got a team outside of our house putting up our holiday lights. Yes, the holidays cannot come soon enough, my friends. I might be the weird one in the neighborhood with her Christmas lights on. I don't care. I think you can feel me. We started watching Elf like five weeks ago. I started putting on Christmas tunes around that time as well. You can virtually high-five me if you feel me. I'm feeling good. We had a good election. I'm feeling good. I'm feeling good about the election. I'm feeling good about Pfizer this week on Monday saying that their trials were 90% effective, their COVID vaccine trials, which is very reassuring.

We had an excellent lineup of guests this week. If you missed Monday, we talked to Jessi Hempel. She's the host of the Hello Monday podcast. It's been done in partnership with LinkedIn, and Jessi is a fantastic journalist who's been covering business most of her career, business leaders, the future of work. So we talk about the future of work. How is the pandemic shifting our work patterns? Especially for moms who've been displaced from work in this pandemic more so than dads, what is it going to be like for them when they are ready to go back into the workplace? That was on Monday.

Then on Wednesday, one of our favorite sharks on Shark Tank, Robert Herjavec, joined to talk about the future of business. If you are an entrepreneur thinking of starting a business as a recession is often a good time to start a business, funny enough, what are the good ideas? What are the things to be looking at? Robert gives a lot of advice, plus talks about his own journey as an immigrant to this country, the work ethic that his parents instilled in him, and how he started his very first company.

Heading over to the iTunes review section, we're going to give a shout out to our friend, BayArea_CherHorowitz, So Money, no problems. Left the review on Tuesday saying, "This review is long overdue. If you're looking for an amazing personal finance podcast, look no further than So Money," and goes on. It just gives some really nice generous compliments for the show and then says, "Whether you're a personal finance pro or just beginning to explore the topic, you'll appreciate Farnoosh in her direct way of communicating with her audience. We owe you so much, Farnoosh." Well, I'd love to get in touch with you BayArea_CherHorowitz. You can email me, farnoosh@somoneypodcast.com, or send me a quick note, direct message on Instagram @farnooshtorabi. Let me know you left with a review, and I will follow up with a link where we can schedule some time to talk to one another.

I just had a chit chat with a listener this week, a couple actually who were trying to get my thoughts on whether or not they were crazy to leave their corporate careers. I told them they're not crazy. As long as you've got a plan, you've got a strategy, you've got savings, that is what money affords. It affords you options to be able to leave a job if you're not happy. I mean, that's the best case scenario is that now you have the opportunity to leave your job if you're unhappy as opposed to staying in it because you have no other financial choice.

Just to follow up from last Friday's episode where I talked about one reviewer talking about how the volume of the ads lately had been loud, louder than the track of the conversations, we are working on it. This week, you should have noticed a difference. We brought down the volume of the ads, so hopefully everything is a little bit more in line. But if you're still experiencing issues this week, these new episodes, let me know. Always interested in your feedback. While I have you, did you check out my article this week on NextAdvisor where I wrote about what a Biden-Harris win may mean for our money.

Now, look. I just had Greg McBride on last Friday to kind of talk about the election and what a Trump win would mean, what a Biden win would mean for our pocketbooks, and you can't really read too much into this stuff. Now that we know Joe Biden is the president-elect, I thought I would go through his Build Back Better plans. He's got them all outlined on his website. He talks about his plans for things like the pandemic recovery, the recession, unemployment, racial wealth gap, all these things. I just wanted to kind of go through it and see what we could hypothesize based on what he is proposing.

Again, you can't really look at this as the playbook for our finances. But it's always interesting stuff, right, and it's a real – The article, you'll read it, it's a really good kind of summary of the major issues that he's tackling and how he proposes to tackle them. For example, taxes. If you're making over 400, 000 a year and the Biden-Harris team gets its way, you'll probably see your tax bill go up. But I also brought up the point that our taxes are going up at the state and local level too most likely because states are hurting right now as a result of this pandemic. If you own property in a state, you might see higher property taxes. You might see higher municipality taxes and so on and so forth.

Unemployment. There's a lot of proposal for job creation in many, many different sectors, including clean energy, care giving, education. Are you going to quit your job now and try to look for a job in education because that's where you think the growth is? A little too risky to do that now, right? But if I'm in college now or in the next few years and I'm deciding between majors, I might be interested to know where the government is going to be putting some resources and where the investment is going, right? You've got to look to the future and apply yourself to that future. So check out NextAdvisor. I've got all of the summaries there from taxes to student loan debt, to unemployment. Racial wealth gap, what is he planning to do there, he and Kamala Harris, as well as healthcare? Go to nextadvisor.com.

Okay, let's go to the mailbag. Questions about home buying, always. Another listener is in a bit of a financial pickle where her car got destroyed and what to do if you're deciding between a Roth IRA and a 403(b). Let's start with our friend whose car got totaled, shall we? Destroyed. She's anonymous, 24 years old, finding herself in an unfortunate situation, Farnoosh, and need advice. "I'm very careful with my credit card. I only use credit cards as I would a debit card. I recently purchased a new car and had decided I wanted to sell my old car." There was nothing really wrong with my old car, but it's an older model, and I was looking for an upgrade. I put most of my savings towards the down payment on the new car without really much left over. My first car payment is due later this month."

And this is all just background information because here's what is the real situation. "Last night," she said, "My old car was vandalized. Somebody came at it with a bat, completely shattered the driver's window, the left side passenger's window. The windshield is broken. It's not completely shattered but it will need to be replaced, and there's a pending police investigation. That is all I know. I have to repair this as soon as possible, but I no longer have the funds to cushion this expense. My questions are do you think it would be okay to stop my 401(k) contributions at least for three months to give me some extra cash flow? Also, my co-workers are telling me that the CARES Act would allow me to withdraw money from my 401(k), but I only have $11,000 in there, so not really sure it's going to be worth much. My friend also said I could try to contact the bank for the auto loan and try to defer my first payment. I've never deferred a payment, so I'm not really aware of the process. I'm researching it. Does a deferred payment hurt your credit score? I finally got an 800 credit score, so I don't want to do anything to jeopardize that."

My friend, my friend, my listener, I am so sorry this happened to you. I mean, it's just such bad luck that you go and buy this new car, and your old car which you were planning to sell gets destroyed. Have you have you talked to your insurance company about them helping you pay for the repairs? Because this is why we have car insurance, right? I would assume that if you get your car stolen or it gets attacked, this is where your car insurance should kick in and help. Now, maybe it's pending the police investigation. I'm not sure. Maybe they'll reimburse you once the police actually discovered that it was done. I mean, who else would have done this? I don't know if they need the police report, but talk to your insurance company if you haven't already about what they can take care of. Maybe they can take care of this and you don't have to somehow scramble to find the cash to pay for the repair. Do you have to repair it right now? You're not using the car, so that's the good news.

I would not do anything. I would not put a penny towards fixing this car. I would make sure I would pay for my debt that is coming due, and that is your car loan. Yes, you can call the bank and talk to them about the situation. Honesty is always a good policy. Let them know what happened and see if they will be willing to give you a one-month deferment. But is that really long enough for you to come up with the money to pay for this damage of the old car? A deferment should not affect your credit score or hurt your credit score. It should be something that is done in agreement. Right now, a lot of people are deferring their payments in the pandemic in agreement with their creditors, and it does get reported. It should get reported as paid as agreed because it's an agreement. As opposed to late or delinquent, that would imply that you did not have a conversation about it and you just on your own started skipping payments. That would negatively impact your credit, and it would be reported in that fashion to raise those red flags on your credit report.

But a deferment is sometimes just a nice bit of wiggle room that lenders can provide you for a short period of time. Interest may accrue. It may not. These are the things you want to ask about. But if you can get a deferment for one to three months just to help you shore up some extra cash, I would ask if you could do it. But I would not put any money. I would not take money out of my 401(k). I would not get into more debt to try to fix a car that you're not planning to drive, right? Wait until you can save up your money. Wait until the insurance company gets back to you before putting a penny towards this car.

Speaking of car insurance, you all know I've partnered with metro mile. We moved to the suburbs recently. Working from home, we realized maybe we're paying a lot more than we need to be for car insurance. So we started to shop around, and at the same time Metromile reached out to me to discuss possibly partnering up. The timing was impeccable because here I am trying to find an affordable car insurance company. Metromile is knocking on my door. Metromile is a car insurance company that offers pay per mile car insurance. If you're not driving a ton right now because you're working from home or maybe you're a retiree or maybe you live in a city and you have a car but you only drive it on the weekends, why are you paying so much for car insurance? You should go with a car insurer that just charges you based on the miles that you drive. In our case, we pay a base rate and then a few cents per mile.

Our previous car insurance was well over $200 a month, and now it's a fraction of that. We're receiving over $1,000 a year with Metromile and we're getting the same kind of claims, benefits, the same kind of customer service, the same kind of insurance benefits. Nothing is lacking. If you're interested, you can go on the site and try to get a free quote at metromile.com. Just check it out.

All right, moving on to our next friend who wrote in, Aniket on Instagram said, "Any tips for first-time homebuyers without much cash at disposal for a down payment? How does the decision process work to rent versus buy if you're not sure you're going to stay in the home long term?" So two different questions really, and I'll start with the first one, Aniket, where you're asking is it wise to buy a house without much cash. Here's the thing. The bank probably won't give you a loan if you don't have cash in the bank, and they want to see at least that you have enough cash to cover the down payment, enough cash to potentially pay for the first few months of mortgage in case you lose your job, right?

Cash is important if you plan on getting a mortgage but cash is also important when you want to put down that down payment. Typically, in competitive markets, big cities like New York and California cities, 20% is standard, more actually in a competitive, competitive market because people are competing on price and offers. The more you can put down, the more enticing it is to the seller. But 20% is usually the lowest. That's not insignificant, right? Yes, first-time buyers can sometimes get away with less through different FHA programs. There's the first-time homebuyer program. I think they say just 3.5%. I would really worry about putting just 3.5% down, especially in this market, right? Prices are through the roof right now for homes in many markets because supply is not where demand is. Supply is much, much less than demand. A lot of people want to buy homes. There aren't enough homes, so the price of homes have gone up I think artificially, frankly, and I don't think these prices are going to maintain.

So imagine buying a house at a high level, just putting down 3.5%. You are easily going to be under water in a couple of years. I'm not going to guarantee it but I would not be surprised because 3.5% is not a ton of fluctuation when we're talking about home values, right? It could go up 10% one year down 10% another year. So that's why 20% is usually the recommendation because even if your home price fluctuates, say, 18%, which it would be a lot, it's not going to put you "underwater," which means you have no longer any equity in the home. If you were to sell it, you would be selling it at a complete loss, so not into buying a home without a lot of cash.

Then if you're not sure if you're going to stay in the home long term, I would seriously consider renting. A home, again, is not really an investment, not your primary home. It's a place to live and grow and raise your kids and create some consistency for your family, for your children, and you're going to put money into this house, right? You're going to maintain it. You're going to do lawn work. You're going to fix stuff on your own. There's no landlord, so all of those monthly expenses, those yearly expenses, it adds up. By the time you go to sell, after you deduct all of that, you may be negative. But it's okay because you've had a home to live in. You got to live somewhere.

But if you're looking at a home and you're like, "Ah, I think it's just going to be a couple years," I don't know. I think renting in that case might be more financially sound. It depends on the market, of course. If you're buying in a market where it's still growing, prices are still continuing to appreciate, there you might be able to find some financial opportunity. Selling in two or three years might actually produce a profit, but it's rare these days. So if you aren't sure, I would say look closely at renting. Nothing wrong with renting.

Azar, I think that's Persian. She says, "Hey, Farnoosh. I'm a school nurse but I am in the teachers union and I have identical benefits. Do you recommend funding as much as I can in my Roth IRA first or a 403(b), which is unmatched. I'm 39. I have 34,000 in an old traditional IRA and I only just started my Roth and 403(b), so there's basically nothing in there. I'm in year seven of being in the public schools. Love your show." All right. So, Azar, 39 years old, not much in retirement, I want you to start saving 20% of your income for your future minimum. You got to play a lot of catch up here. That's why we say it's important to start early. Had you started at 29 or 24, you could have gotten away with just a 10% contribution every year for the next 40 years. But you're starting at almost 40. Unless you don't want to retire until you're 80, which I think is false. Let's say you want to retire in the next 20, 25 years. I would love for you to be allocating 20 to 25% of your income towards retirement.

Now, you've got these two accounts; Roth IRA, 403(b). The Roth IRA, very different than the 403(b). The taxes are due now. You put your money into the Roth with after-tax dollars. Then in retirement, you withdraw tax-free. So there's that benefit of not paying taxes in your withdrawal. The 403(b) is the flip of that. It's like a 401(k). You pay it with pre-tax dollars. You get the tax deduction today. Then in the future, when you withdraw it, you pay taxes on those withdrawals. I like having both because it's a bit of tax diversity in retirement. 20% is your target. Would be your target is my recommendation. So split it between the Roth and the 403(b). The Roth will allow you to contribute up to $6,000 in 2020, 7,000 if you're age 50 or older. So do 6,000 in the Roth IRA and then the remainder of the 20% of your paycheck in the 403(b). So max out the Roth IRA and put the remainder in the 403(b). That's what I would do and call it a day.

Koko, hey. That's my daughter's name, except she spells it C-O-C-O. You're K-O-K-O. It's Coko, short of Colette. Koko says, "My work went bankrupt, so my 401(k) is now in a rollover IRA," sticking with retirement here. Am I able to continue adding to this even though I'm currently unemployed? Should I just keep this when I'm employed again or invest in a 401(k) as well? So Koko, I don't know like how old you are or how many years till retirement. That would be helpful for me to understand how much you should be contributing and whether it's just enough to be contributing to an IRA where we know the limits there are less than a 401(k). The limits there I believe are 6,000. Like I said, for the IRA and the 401(k), the limit in 2020 is 19,500.

So I would try to do both. Most likely, you will need to save more than $6,000 a year to hit your retirement targets, your savings targets. You can continue to contribute. Because the 401(k) has now officially rolled over into an IRA, that is an account that you can contribute to yourself. Whether you start your new job or don't, you will have that opportunity to invest in that IRA every year. Then additionally, when you get a 401(k) through work, next job, I would open that up. If there is a match, contribute up to the match. If there's no match, contribute anyway. Although I don't know where you are in your retirement savings journey, I would guess that the $6,000 a year in your Roth IRA, and it does go up incrementally every so often. That limit won't be enough to get you to where you want to be in retirement. You will need another vehicle. That's my plan for now for you but keep in touch. Once you get that job, you get access to benefits. Let me know how it goes.

By the way, so many names this week that start with A writing in; Azar, Aniket, anonymous. Ha, ha, ha. Finally, a question here from Ivis777 on Instagram. Hey, Farnoosh. I'm a huge fan of the podcast. Being Canadian, I still feel that the stories told are relatable on the human side but I was wondering if you had recommendations for Canadians looking for saving, retirement, investing, and overall So Money advice. Yes, Ivan, I do. I''ve actually had a couple of outstanding Canadian financial experts on So Money. I would go back and listen to Kristy Shen. Kristy is known for being Canada's youngest retiree. She called it quits from her nine to five, along with her husband Bryce at age 31. I actually interviewed them twice on the show. Check our Kristy Shen, S-H-E-N. Their website is millennial-revolution.com. That's one.

Then I would also recommend Melissa Leong who's the author of *Happy Go Money*. I actually have to fix her post on my podcast website because I wrote that her book is called *Happy Go Lucky.* What was I thinking? *Happy Go Money*, changing that right now. Melissa is a personal finance expert. She's a TV personality. Maybe you've seen her on the waves in Canada and her book, *Happy Go Money*, came out a couple of years ago, and it's really insightful, really personal this book. Talks about her own struggles from quitting her job as a journalist to dealing with her husband's extreme depression and how their money life kind of intertwined with all of that and how it helped them to overcome some of these obstacles. Melissaleong.com, melissaL-E-O-N-G.com.

Canada's got a ton of financial experts. I'm just googling like Canada financial expert, and there's all these bloggers, self-taught money experts; MapleMoney, Squawkfox, Canadian Couch Potatoes, Savvy New Canadians. These are all blogs. Young and Thrifty, Boomer & Echo. Maybe you've heard of these, and one thing I want to know is how can I move to Canada. I'm just kidding. Thanks for your question. Thanks for listening all the way up in Canada, and I hope that you're enjoying the show.

All right, y'all. Thank you so much for your questions. Remember to send me a question is super easy. Just go to Instagram and follow me there @farnooshtorabi. Send me your questions for our Friday episodes of Ask Farnoosh, and we love to hear your reviews. Remember, every week I select a reviewer to receive a free 15-minute money session with me. So please let me know how the show is supporting you, what you'd like to learn, your favorite episodes, all that stuff in the iTunes review section. And every week, stay tuned. You might hear your name. Thanks for tuning in, everybody. Happy weekend and I hope your weekend is So Money.

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