EPISODE 1145

[INTRODUCTION]

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FT: Welcome back to So Money, everybody. It is a new week in a new year and quite the week it has been. It started off pretty uneventful. But then by Wednesday, totally different, right? The devastating events at the Capitol made it pretty hard to do anything. I kind of became a zombie starting Wednesday afternoon, glued to the television, glued to Twitter. I just couldn't believe what I was watching and learning. I hope everybody has mentally recovered at least, and we can look ahead to the weekend.

Someone said on Twitter, "Well, I guess we can look forward to 2022." But I'm still hopeful. I'm hopeful this year will bring change. I'm hopeful that this year, many of us, our community will continue to gain financial ground or a lot of us will achieve financial independence. Some of us will be able to pay off our debts. We'll be able to find new jobs. We'll be able to negotiate. We'll be able to save, invest more. I hope to be there for you every step of the way. This is really what these Friday episodes are for. It's a chance for us to connect.

You hear me talking to fascinating people on Mondays and Wednesdays. This week was no different. On Monday, I spoke with Umbreen Bhatti, who's running The Athena Center at Barnard College in New York City. She's dedicated to helping future leaders learn what it takes to become financially-fluent and empathetic leaders. So we talked a lot about money in the context of college and your young professional life but also things like sustainability and the benefits to slowing down, which I think we can all talk about, and we've all experienced to some extent, right? 2020 was definitely a year for taking it down a notch. What were the fruits of that? What were the benefits of that?

On Wednesday, I spoke with Erin Lowry, who's the author of the *Broke Millennial* book series. Her newest book, the third of the series is out this week. It's called *Broke Millennial Talks*

Money and it's how to tackle all the awkward conversations that we may or may not be having but should be having with our family, with our friends, with our colleagues. I just love that interview because we really went there. We talked about prenups and why I don't have one but probably I should. We talked about how to bring up the fact that maybe your colleague is making more than you to your boss. We talked about how to tell your friend who's asked you to be in her wedding and you don't really want to be because it's going to make you run broke. How do you have that conversation? Can you be friends with people who are richer than you, poorer than you? Oh, my gosh. So much that we talked about on Wednesday.

Today, though, it's about you and me, really you. What are your questions when it comes to managing your money, saving, investing, getting out of debt? We've got a lot to cover in this episode. But first, I want to say thank you to U.S. News & World Report. I told you this week started out uneventful. That changed. But Monday, I woke up to an article, U.S. News & World Report recognizing So Money as one of the top 10 personal finance podcasts out there. I've been doing this for six years. I've been grateful to have been recognized on so many lists, so much media. It is overwhelming. As a journalist, I know when someone has listened to the podcast or is just naming the podcast because, well, it's a podcast that seems to be popular, so I'm going to put it on my list.

Look, I'm grateful for all of it but this reporter at U.S. News & World Report, Maryalene LaPonsie, the contributor who wrote this, really it sounds like did her homework. She listened to these podcasts and selected them. So I want to say thank you because here's how she characterized So Money, and I feel like she really gets it, gets the show. She says, "With more than 1,100 podcasts under her belt, Farnoosh Torabi has plenty of shows about everyday topics such as buying a house and saving for college. However, where So Money really sets itself apart from other podcasts is in its willingness to have deeper discussions about the financial landscape. These include shows dedicated to building wealth in the black community, the education gap created by the COVID-19 pandemic, and the proliferation of the marijuana industry nationwide."

I just love that. I felt like, “Oh, okay. People are noticing.” This was intentional. This was not an accident that we covered these topics in depth. I felt like 2020 for all its uncertainty and for all its craziness for me to have a podcast, to have a platform, to have the fortune of a community, it's my responsibility to step up and try to rise to the occasion and not just try to keep the status quo of the podcast that times are changing, and we need to change with that time, and we need to be able to have these tough conversations about race and gender and politics, even though I may have lost some listeners along the way, who don't want to hear it. But I think that the net of it is that more people gravitated to the show and I know that because I run the data and I know that the show has grown double-digit percentage points in 2020.

It’s I think a testament to the fact that when you have anything that you control, whether that's a business, a project, a community, a platform, that when you take healthy risks that come from a good place and are meaningful. Yeah, along the way you step on your toes like I did. I didn't always have the language for the questions that I wanted to ask about race, about politics, but it came from an honest place, and it came from a place of sincerity and really wanting to learn. It paid off. It paid off, and listeners generally appreciated it. More listeners came to the show because of it. The media embraced it, recognized it.

As a host, oh, my gosh, enlightenment, absolute enlightenment. I feel like every day with the show you tell me you're learning, guess what, I am learning too. I’m learning so much. It's my job to not make this boring for me, right? I have to find a way to do this day in and day out, and I feel like the secret is just to not be committed to a format. If you've been listening to the show from the beginning, you know that it's evolved. Initially, we had a show where I talked to people strictly about their finances. Now, it's a little broader. We talk about issues. We talk about the news. We talk about what's happening in the world and we try to make it all relevant to the listeners. So Money has evolved, and I hope it has been helpful to you over the years. As we get into a new year, I want to hear from you. I want to know what's working, what's on your mind, and how we can continue to be in service of your financial goals.

All right, with that, let's go to the review section and pick a reviewer of the week. I haven't done this in a couple of weeks because we were a little bit on hiatus. I aired those recaps of 2020 which I hope you enjoyed. I certainly enjoyed putting them together, kind of go down memory lane and re-learn, re-listen to all the great, great conversations. But we are back fresh with picking a reviewer of the week. I give a free 15-minute money session to one listener every week. All you have to do is leave a review. If you get selected, then you and I are talking soon.

This week, I want to say thank you to Mariak22q, who left review back in December saying, “This is one of my favorite podcasts. Even when I think I’m knowledgeable about the subject, Farnoosh always has something new to share. Her interviews with guests are always informative, and I’ve used the information I’ve learned on the show to get serious about my financial security. No matter your age or level of financial expertise, this is a show for you if you're serious about money and your future.”

Well, thanks so much, Maria. Get in touch. You can email me, farnoosh@somoneypodcast.com. Or go on Instagram and follow me there. Direct message me there, and let me know you left this review, and I will respond with a link where you can choose a 15-minute money session for us. Keep the reviews coming, everybody. It’s how we keep the show in the fray and iTunes giving us some love. So if you've got some feedback for me, please do it in the review section.

All right, let's go to the mailbag and see what we've got this week. First up is my friend, Grant, who writes in saying, “Hey, Farnoosh. As a young adult learning to take control of my financial world, your podcast is an excellent resource, a daily must. My question is regarding taking on student loan debt of a significant other. Here's my situation. I’ve been living with my girlfriend. I’ve been with my girlfriend for a little over two years, and we both feel confident that marriage is in our cards within a year or so. I’m 27 with a stable job. I make $70,000 a year. I have zero debt. My girlfriend's 30, and within the past year she's graduated from PA school and is now beginning to establish herself as a medical professional. She has over $400,000 in student debt from both undergrad and medical school. My question is this. Is it wiser to immediately help her out of her student loan debt by putting a lump sum of my savings, about $100,000? Or do I take my savings and continue to invest? I have a 401(k), a Roth IRA, in hopes that it garners greater return than the interest accruing on her debt? We've been slowly increasing our personal financial transparency with one another so that when we inevitably join our funds, we can manage it together."

All right, Grant. First of all, I have to give you so much credit that you and your girlfriend have already started talking about your personal finances together. You're not engaged. You're not married but you obviously care about one another, and I do believe you when you say that marriage is in your cards because you're having these conversations. This is a healthy sign that your future is bright.

Now, her student loans or shall I say her mortgage, $400,000. I feel terrible for her and I don't care what the interest rate is. That's a lot of money, even if it was just zero percent to pay back. I get that you want to help her out right now. It's honorable of you. But I want to tell you as someone who has no stake in this, I don't think you want to be giving her any money at this point and I know that it's with the intention that this is going to help out everybody, right? You want to have a life with this woman, a bigger life with this woman one day. Obviously, not having this debt would be very helpful, so you want to do what you can. I really respect that but I also want to look out for you and I don't want you to hastily give her this money when you're not married. You're not even engaged.

If you've listened to this show for a while, I have said here and there that I don't generally like the idea of significant others who are not in marriage financially helping out their partners with debt. Listen. If you had a million dollars in the bank or more than that because we're having $400,000, you need a lot of money to be able to help someone pay this off without it being a lot of skin off your back, right? You need a lot of money for this to not be a source of potential resentment down the road because here's my worry.

My worry is that you will help her and she will be appreciative, but you may not stay together or you may start to resent. Even if you do stick together, you could still start to resent doing this because maybe you find that some of the other ways that she's spending is not "responsible" or "how you would spend the money," and maybe she's not prioritizing the debt. I don't want to assume anything of your girlfriend. I assume she is responsible, and that this debt is really just a symptom of our broken academic system. I’m sorry. I am sorry. No one should be having this much debt, and I don't entirely blame the system because she took it out on her own, knowing well and good what this would imply. But how can we indebt our citizens so much for not to mention entering a profession where she is going to be in service of people, a medical professional?

Maybe she can qualify for income-based repayment, right? Because this is a program where if your debt over exceeds your ability to pay based on your income, which I’m going to guess it will. She might be able to get on to one of these federal programs where she only pays a percentage of her income and is limited to 10 or 15 percent. I know under the Biden administration, he and Kamala Harris are proposing an expansion of that program to help more borrowers out.

So hold on to your money for a number of reasons. One, I don't want you to get caught up too soon, helping a significant other with your money because you can't predict the future, and $100,000 is a lot of money to give towards someone else's debt, even if you love this person to death. Hold on to your money. Number two, she may well qualify for a federal loan assistance program, either income-based repayment or because she's entering the medical profession, maybe it is some sort of forgiveness program like the PSLF, Public Service Loan Forgiveness. When you enter a field that is in service, whether like a teacher or a medical profession for a not-for-profit, there may be a provision where you can then have this debt written off after 240 consecutive on-time payments. Public Service Loan forgiveness. If your loan is not repaid in full after 20 years or 25 years, depending on the track that you're on, your payment goes to zero dollars. You can learn more about this at studentaid.gov.

But understand what her options are. I’m sure she's not going to be the only one in this boat. She should talk to her classmates. She should talk to her professors, talk to her school, discover what may be available to her before you give up your savings because you worked hard for that. I, again, really respect and appreciate your sentiment, and it is something that I hear often from people who are in committed relationships, but we have to be so careful. Good luck, Grant. Thanks so much for writing in and thanks for being with the show.

Emily writes in and says, “Hey, Farnoosh. I want to just start out by saying thank you for your content. I found your podcast about six months ago. At the time, I had just moved to a new state with my long-term partner, so he could begin a PhD program. I was unemployed and then I found your podcast and I binged hardcore. Since that time, I’ve tried to take in all of your wisdom. I opened up a Roth IRA this year. I’ve been contributing to it consistently. I started a job in August at a local community college, and your podcast inspired me to keep looking for a job that could set me up for a brighter future. Guess what. I found it,” What? Oh, my gosh.

Emily says, “I’ll be starting a job at a university in January this month. I’m 27 years old and guess what. The job has the same pay as my last job, but they're going to contribute nine percent to a 401(k) if I do six percent, which I’m definitely going to do. They're also going to pay for nine credit hours per semester at any university in the state.” My, gosh, Emily. I’m virtually high-fiving you. Basically, she's now going to get her masters, which is something that she's been wanting to do for years and have it partially paid for. This is the question. She's in the process of researching programs for getting a master's and wanted my and wants my input. She says, “I would love to stay in the higher education field but I don't know what the future holds. I’m not sure if I should enroll in a more generalized program like an MBA or an MPA or a more specialized program like a master's in higher ed administration. What are your thoughts?”

Okay. Well, Emily, this is really an exciting part of your journey. 27 years old, great job, great benefits, an opportunity to study and further your education at a reduced cost, get that master's degree. Love this path. If I were you right now, I would start talking to everyone I have access to at the university who is currently a professor, who is currently working in higher ed. You can narrow it down a little bit. Don't just go through the alphabet and the index and just start talking to everybody. But are there three to five or five to seven different kinds of academic tracks that you want to go on? Is it psychology? Is it medicine? You got to start somewhere.

I don't know enough about you to say like this is the path to start on, but you got to sort of start a little bit big, and then narrow it down, and then find the like 8 to 10 people that you can talk to. You may think that that's a hard thing to do. I was in this camp back in my 20s when I wanted to just like sort of explore financial journalism. I remember it was one of my bosses at an internship who was like, "You're at CNBC as an intern. Yes on the sales finance side and I know you want to go into journalism, so guess what. Just go through the phone book, a CNBC phone book, and call the journalists that are at the company that you're at. You have a connection because you're an intern. Look, not everyone's going to reply immediately or ever but enough will."

I tell you that like me, when I get these emails sometimes, people are like, "I'm looking to explore a career in finance or journalism. I would love to pick your brain." I usually write back and I don't give them an hour but I'll give them you know 15 or 20 minutes or we'll do a couple email exchanges. But I'm the type of person who does appreciate when people are wanting to do some research. Put yourself out there. Talk to some of these professors. Talk to some of these administrators about their path.

The things you want to ask them, what was your path, what would be your advice to yourself if you were starting over. For someone like me who is trying to start right now pursuing a path in this industry or in this education track, what are the trends that you're seeing? What does the future hold for your discipline or your area of expertise? What are the things that I should know? If I'm going to go for the MBA, specifically what should I couple the MBA with? Should I also maybe learn how to code? Should I also learn a language? Should I go do this abroad?

I love this question. I'm sorry I don't have specific answers for you as to what you, Emily, should do. But I think the answers are going to be discovered after you have several conversations with the people that are doing the thing that you think you might want to do or a variation thereof. The great thing is that you're at a university. You have access now to these people. If they don't know someone, they can connect you with someone. This is going to be a bit of a process but give yourself like the next six months to do this. Focus on this. Keep a journal, keep a notebook, and maybe even tape record the conversations. You will get closer to your answer but you're not going to just discover it in a vacuum. But I really am excited for you, Emily. Thanks so much for your question.

Next question is from our friend, Helen, who says, "Hey, Farnoosh. I'm an avid listener to your podcast. The huge library of episodes means I can focus on different parts of my financial life when I'm ready. This month, it is retirement savings. I'm under 50, I've maxed out my 401(k) through work, and I want another way of saving for retirement. I earn close to $200,000, which I think means I'm not eligible for a Roth IRA. Can I get a regular IRA? If so, are there any providers you would recommend?"

Yes, I do think you're right that you have phased out of your eligibility for the Roth. If you're filing as a single person, your adjusted gross income has to be under $139, 000 a year for tax year 2020. For 2021, it has to be under $140,000 to fully contribute to the Roth IRA. If you're married and you're filing jointly, then you have to earn less than $206,000 in 2020 and $208,000 for 2021. But as you point out, you can still invest in a traditional IRA where there are no income caps. Depending on your tax situation, you may be able to receive a tax deduction for the amount that you contribute to the 401(k) and the IRA each tax year. I'm going to put this up on my website for you to see.

Based on your income, making $200, 000 a year, having already maxed out your 401(k) at work, you can still contribute to a traditional IRA. There are no income requirements for contributing. But if you want to take the tax deduction, which is why so many people love the traditional 401(k) is they can deduct their contribution, you have phased out of that because of your income level. There are limits to taking that tax deduction when you already have a 401(k). But you can look it up yourself. I have the link on my website.

Another way that you can contribute to your retirement outside of a 401(k), outside of an IRA is just a standard brokerage account portfolio. I have one where I just go in and I tell them what my goals are, what my risk tolerance is, my timeline horizon, and the portfolio automatically creates a low-fee diversified portfolio for me. You can get this through any number of websites. I use Charles Schwab but there's also Fidelity. There's Vanguard. There's Betterment, Ellevest.

The list goes on. This is very much the status quo now in the investing world. So if you are interested in that, just the caveat there, of course, is that there isn't a tax deductibility with those contributions. But you can access that money anytime without penalty. All right, my friend. Thank you so much, Helen.

Lastly, Morgan who wrote to me on Instagram. A lot of you are hanging out with me on Instagram @farnooshtorabi. He says, “Hey, Farnoosh. I’ve started to listen to your podcast over the last six months. It’s been life-changing, and I actually share your podcast with almost anyone I can so that they can get some insight as to how to be financially free.” Well, thank you and I hope I haven't annoyed any of your friends. “I’m 24 years old, I graduated from college in 2018, and I work in Manhattan. I work in commercial real estate. I eventually would like to purchase my own multifamily portfolio over time. I’m trying to figure out a way that I can create some kind of account that helps me grow my down payment over time. I also would like to create some kind of retirement account and I was curious if you had any suggestions as to what you think might be best for someone my age and someone who is an independent contractor.”

All right, Morgan. This is a timely question because I write for Bloomberg. I have an opinion column there, and one of my recent columns was actually about where to put money for the medium term. In this case, Morgan is curious where to save for a future down payment on a home, which isn't going to be next year but certainly maybe over the next 5 to 10 years. Is this money you want to put in the stock market? No. It’s a bit risky, right? Do you want to put it just in a plain vanilla savings account? You might be able to do better than that.

In this article, where should I put my savings? Options for the medium term. That's if you want to Google it but also put this on the website over at So Money podcast. I talk about how in this low-interest market where you can put your money to get a better yield without a lot of risk, and I found some things. One potential option is I bonds. What are I bonds? They are a relatively safe US government-backed investment sold directly to the public. They're not going to make you rich but they will help you track your cash, alongside inflation. At the very least you're not going to “lose money.”

We’re guessing a lot right now that inflation is going to be continually on the rise. The savings rate for I bonds, what is it? Well, it’s a combination of a fixed rate and an inflation rate that's figured out twice a year. The current rate is around 1.06%. I know that's pathetic. But have you checked your return on your bank account recently? It’s probably just 0.06%, so you're going to get that extra percent and you can technically withdraw the cash after the first year. You're not going to have locked up for too long. That's one thing.

The other thing, consider ultra-high-yield accounts. What are these? These are some lesser-known financial institutions and credit unions that usually give some higher savings rates, anywhere from two to four percent, for opening an account with them, but they do require following some specific rules. For example, I found some accounts where you can only earn that relatively higher rate if you put just a little bit of money in the account or not a lot of money, so anywhere from 1 to 25,000 dollars. $25,000 is not a little bit of money, but the point is that it's a limited amount of money. You can't just put any amount in there. These tend to differ bank to bank. I’ll put the link for where you can find some of these institutions, again, on the So Money podcast website. It’s also in the Bloomberg article.

Some of these ultra-high-yield accounts, again, usually lesser known financial institutions, they will require minimum monthly direct deposits and debit card transactions. So you have to be ready to make a lot of transactions, which can be annoying if this is not your primary bank. The other thing you might want to consider is banking on bonuses. What do I mean by this? There are some traditional savings accounts where, yes, you're going to earn next to nothing. But if you're a new customer, you get a welcome offer and access to a one-time bonus for opening up the account. It’s like an instant boost of money into your account, and they come with fine print catches. You usually need to deposit a minimum amount of money and you have to set up direct deposits for consecutive months to basically show that you're a “active account holder.” But you could earn maybe $250 automatically, not bad, for depositing like $1,000. That’s an instant 25% “return,” right? Then you'll continue to earn nothing, but it's like a one-time jolt.

Then last but not least, look at where you're currently banking. They might have some relationship rates for current account holders, and this is something that actually I experienced when I was looking to get a mortgage for this house that we bought in 2020. I discovered that the bank that was giving me the best interest rate was not my bank. It was another bank, and they said, “Look. If you move your money over to our bank, like your deposits over to our bank, we'll sweeten the pot. We'll sweeten this rate.” It was such a good deal that I actually moved money from my bank to this other bank because I wanted to get this lower interest rate. This isn't exactly what you're asking for but this is the sort of stuff that you wouldn't know unless you asked, right? So when you do go to get that mortgage down the road, this is some future advice, ask that bank, whatever bank it is. If I do other sorts of banking with you, if I actually have a checking account with you and this mortgage, will you give me a better mortgage rate? That is a lot of savings. Just some parting advice on that.

Before I forget, you did have a second question. Suggestions you asked as to what you think might be best for someone my age and someone who is an independent contractor for opening up a retirement account. Well, as an independent contractor, Morgan, do you have a business? Are you technically incorporated or have a business? You can then open up what's called a SEP IRA, Simplified Employee Pension plan, SEP IRA. I have one. I’ve had one since I became incorporated in 2009, and this is essentially just like a traditional IRA, which you talked about earlier. The contributions to this are tax-deductible today. It is specifically for business owners, and what is great about it is that you can contribute far more than what a traditional IRA allows you, which is $6,000 a year. I believe the SEP IRA contribution limit for 2021 is $58,000. So if you really wanted to put away a ton of money for your retirement, you can and all of that is tax-deductible.

SEP IRA, again, you can open this up at any number of online brokerages, robo-advisors. I listed a few of them earlier in the episode. If you're not technically a business, then you could still do a traditional IRA or a Roth IRA. These are available to everyone, and you can also open these up at any of those places I talked about. What a great way to start the new year, Morgan, and I love that you've been such an advocate for this show, and you're helping your friends out by sharing a resource with them. Thanks so much, Morgan.

Thank you so much, Helen and Emily and Grant. Remember, you can always send me your questions. A lot of these questions came through the So Money podcast website. They clicked on Ask Farnoosh and wrote in their email. You can leave me also a voicemail. You can also go to Instagram and send me a direct message there. I've got all of those saved in a folder. Wishing everybody a restful, hopefully peaceful, not distracting weekend to make up for the crazy week that we had. See you back here on Monday, and I hope your weekend is So Money.

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