EPISODE 119

[ASK FARNOOSH]

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FT: You're listening to So Money everyone. Welcome back. I'm your host Farnoosh Torabi. For all you mothers out there, happy Mother's Day! It's funny, I'm a mother now for the first time in my life and I was making plans for Mother's Day for my mom in law and my own mom, and it didn't even occur to me that this is a holiday that I should also perhaps celebrate. That's it's also dedicated for me now, and honest, I totally didn't realize that [chuckles] I am now qualified to celebrate Mother's Day for myself. So thank you to all the mother's out there for all the hard work that you do. I know now, it is not an easy job, and I'd like to start the show - before we get to the questions - just reminiscing a little bit on what my mom taught me growing up as far as being money savvy.

What were the lessons that she taught me - I mean she taught me so much - but I would say that one of the biggest memories I had of my mom when it came to money was that she always worked hard for what she wanted. My mom has pretty high taste and she likes fancy things, and she likes a certain kind of lifestyle, and she's not afraid to work for it. It's not beneath her to take on odd jobs. When she moved to this country at age 19, she came here pretty much stripped of her possessions from being back home in Iran - they had a pretty nice life there - and coming to America, newly married, didn't speak English. But she learned English, she went to college, she took on a number of jobs to support us, along with my father. And always saved her money to buy a beautiful piece of furniture sometimes, taking us on a vacation, so my mom really wanted to make sure that we enjoyed our lives too. That it wasn't just a struggle, and it wasn't just hard work, that we had time to really have fun and really enjoy coming home and having nice things from time to time. And she really worked hard for that.

I remember she would - she had a couple store credit cards, not something that I would say recommend anyone doing today necessarily, but she had a couple store credit cards - but, she would take me with her to the stores and she would pay them off with cash from her wallet every week. So she never carried a balance. And I remember wondering, "Why is she giving the store money but not getting anything in return?" This is my 8 year old brain, and so I think, looking back obviously it was cause she was paying off her debt. So thank you mom for all those great memories. Happy Mother's Day, and I love you.

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Alright, let's move on. Let's talk about what's on your money mind. Danny writes in, and he says:

D: "How much is too much to pay for an apartment right out of college?"

FT: Well, you know, funny because last weekend we also talked about housing and real estate and I shared that story of me living with a married couple after college, to make ends me. [Chuckles] Oh my gosh! But I would say Danny, my rule of thumb - this is true for a lot of financial experts out there and certified financial planners - the goal is that you don't wanna spend more than 30% of your take-home pay at the high end of your budget for housing. So calculate your after-tax take-home pay, monthly, and multiply that by 0.3. And that's the most you really wanna be shelling out for rent. Assuming that you're gonna have other expenses, right? Including gas in your car, food, utilities. Maybe you've got some student loans, maybe you have some credit card debt. And if you live in a pretty expensive city, like New York or San Francisco, it's not unlikely that you may have to shell out a little bit more. And I'm not advising that you do, but it is the reality living in these bigger cities. The way to kind of work around that is to get several roommates, maybe move further out from the city, strip your budget of some of the extras that you don't need - that you want, but you don't really need - and so that can better help you afford housing.

And if you do end up living in a high-priced city, remember that it can offer you savings in other ways like public transportation, you can walk to work. So there are ways that you can cut costs in large cities that you wouldn't necessarily in the suburbs. And by the way, if you've got family near by, there's no shame - you've heard it from me before - there's no shame in shacking up with relatives or your parents during that first year out of college. Many, many, many college students are doing this out of necessity. And if you need to do that as well, do it. If you can do that and save money at the same time, or use that time to get yourself out of debt, I absolutely recommend it. As long as everyone's game, you know, getting basically free rent during your first year out of school can be a really great financial stepping stone for you. So take advantage of all these opportunities. Maybe spend some time at home, that can I think be a real investment in your future. So good luck with apartment hunting, and maybe you will end up back at home and I won't judge you for it. Thank Danny.

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Jeremy says:

J: "At what point do you negotiate salary once you've received a job offer?"

FT: Alright, well if you've already received the offer and presumably now you'll be talking about the salary. And hopefully you haven't accepted yet, because if you've accepted then you've essentially accepted the job and all of it's benefits and the salary as it stands. So I would say, for new hires, the best time to negotiate a salary bump is right after the offer but before you accept the offer. It's at this point that you know that the employer really likes you - they're offering you the job obviously - and you are their first choice. So yeah, they might have other people, lots of other resumes stacked in the office, but they've decided that they wanna offer the job to you. And so they're willing to perhaps hear you out. So don't be afraid to speak up.

This is often the only real chance you're gonna have to establish conditions that you're happy with. It's not gonna be probably for another 6 months or a year that you can really revisit salary and benefits after this point. So it's important to really take advantage of it. And now, as far as how to negotiate, you wanna go into the meeting with some knowledge of what others in your position - or similar - are earning at the company or across the industry. So go to sites like Glassdoor, PayScale - there you can get free salary reports of specific positions. And that data should help give you a factual frame of reference, and it should help you avoid making any mistakes of asking for a raise that's too high or too low. So good luck. Sounds like you're in the process of accepting a job offer, so good luck with that. And do speak up. It never hurts to ask. And do your research before you do the ask - know what everyone else that's in your similar position in other companies is earning, roughly, in your town/in your city.

[00:07:18]

Rachel writes in, she says:

R: "Do you recommend taking out a loan against your 401K plan to pay for medical bills?"

FT: Well, in general I'm not a fan of taking a loan out against your 401K. But before we get to why, let me just kind of explain the reality of the 401K loan. So most 401K plans do offer plan participants the chance to borrow against their retirement savings. Something like 90% of 401K plans currently have a loan option, and this is according to Yale University. And 1 in 5 of us currently has an outstanding loan against our 401K. Now there are advantages to this, but there are also some risks that I think outweigh the advantages. Now the upside is that a 401K loan tends to offer relatively lower interests rates than say a loan you would get at a bank in the private market, or even a credit card's interest rate. The rate is usually somewhere around prime plus 1%, and right now prime is about 3 1/4, so it's about 4 1/4 at the best would be the borrowing rate for a 401K right now, which is pretty low. I don't think there's anything out there that's lower than that, except maybe a mortgage, but you can't do a mortgage. And the interest that you do pay returns to your account, so you're essentially paying yourself back - you're not paying a bank the interest. A 401K loan is also more convenient to secure. So you don't have to go through a really lengthy application process, or wait for a credit check necessarily to get approved.

But, there are some catches and we're gonna go through them right now. First there are borrowing limits. Usually up to half of your vested balance, or no more than $50,000, whichever is less. So this is a general statement. There are of course exceptions as you look at specific 401K plans, but this is kind of a general statement that it's usually up to half of your vested balance, no more than 50 grand. The loans term, at most, is just 5 years. Which may be too short a time period for you to repay the loan, right? You also need to understand that if you lose your job, or you switch employers, the 401K loan will need to be paid in full pretty soon after that - usually within 60 days of your departure. So if you fail to pay it back for any reason, the outstanding loan balance will be considered in default, and it will be taxed. And if you're under the age of 59 1/2 - because this again was your 401K, it wasn't meant to be withdrawn until 59 1/2 - if you do an early withdrawal now, it's gonna be considered an early withdrawal subject to a 10% penalty.

And finally, borrowing from your 401K pretty much defeats the purpose of saving for retirement. It means missing out on tax-free compounding interest, as well as any potential employer-matching program. Because a lot of times when you take a loan out against your 401K, you can no longer continue to contribute. So you're missing out. You're missing out on the tax-free compounding interest, you're missing out on employer-matching program potentially. And so it can be a really big set back for you, especially if you're nearing retirement age. So I would say to you, Rachel specifically, if you are nearing retirement I wouldn't do this. I would try to find alternative ways to pay your medical bills.

And I would also say while the interest rate on your 401K loan is very competitive, don't forget 0% APR credit cards that have introductory 0% offers for like the first year. And if this is something that you can pay off and pay down in a year, then I would do that. Because basically, it's 0% and that's, you can't beat that. So that's another way to maybe navigate this. But try to really find other ways to do it. Because what's gonna happen is you're gonna come back to this place of feeling financially fragile, but then you're gonna be older, you're gonna be in retirement, and you might not be working. So it's important to, while you can, nip this debt with other means as opposed to your 401K, which is really meant to be there for your retirement. Okay Rachel? Good luck to you.

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FT: And that is a quick wrap. You know what? It's Mother's Day. I'm getting back out and enjoying the day. It's my first Mother's Day everyone. Thank you so much for tuning in. If you've got any questions for me, as you know, just hop on to Somoneypodcast.com, click on "Ask Farnoosh", and send me your question. Also, if you'd like a free 15-minute Money Session with me, very easy to do this. Just got to iTunes, leave a review, and every Saturday morning I select one new reviewer to receive a free 15-minute Money Session with me. So if you're interested in that, I hope to hear from you. I hope to see your review. Thanks in advance.

Have a great rest of your weekend everyone! Tomorrow on the show, entrepreneur and The Apprentice first season winner, Bill Rancic. Hope your day is So Money.

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