EPISODE 1269

[INTRODUCTION]

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FT: Good day to all of you. Welcome to So Money. I'm your host, Farnoosh Torabi. It is Friday, October 22nd. We will be answering your most pertinent money questions that have come through all of the channels. As a reminder, you can send me your question on Instagram. You can direct message me there @farnooshtorabi. You can email me, farnoosh@somoneypodcast.com. You can always visit the website, somoneypodcast.com, and click on Ask Farnoosh.

Thank you to everybody who wrote in saying that they purchased or pre-ordered my Page-A-Day So Money Calendar. I was a little remiss last Friday when I gave you the discount code. Apparently, it only activated on Tuesday of this week. I thought it was already activated. So if you tried and were not successful, I apologize. You can go now to pageaday.com and look up the So Money Page-A-Day calendar. Use the code somoney, one word, and get 20% off your calendar.

Now, if you missed last Friday's episode and you're wondering what I'm talking about, So Money has a calendar. It's a 2022 calendar. Every single day, a piece of advice from moi. It's a little square calendar. You can put it on your desk, in your bathroom, by your bedside, give it to a friend. Great stocking stuffers if I may say so. It's just a little random project that I worked on, and there is going to be one for 2023 as well. So if you're interested in having something tangible from this podcast, this is the first thing I've ever created, besides a podcast, with the name So Money on it.

Well, there was the book from 2008 but that was a different era and that was called *You're So Money*, but this calendar is really based on this show, the learnings, the guests, the insights, the advice. I'm really proud of it and I hope you'll check it out. Pageaday.com, look up So Money. 20% off coupon is somoney, one word.

All right, this week we had incredibly talented guests on the show. On Monday, we welcomed back Minda Harts, who is a best-selling author and professor. She came to talk about her new book, *Right Within: How to Heal from Racial Trauma in the Workplace*. Very important episode. If you are somebody who has experienced microaggressions at work, macroaggressions because of your race, maybe you're not sure and want to hear what that even looks like, feels like, Minda joined to talk about how to heal from that so that you can then address it with your boss. How do you even do that? A timely conversation.

Then on Wednesday, we welcomed Alana Karen to the show, who was an early Google employee, something like employee 315. I don't remember exactly but early. So you can imagine the exposure that she got to the tech industry from a very early start, and she's got a book called *Adventures of Women in Tech: How We Got Here and Why We Stay*. Yeah, why do they stay? Everyone's leaving their jobs these days. Why is technology a job in the tech space something worth keeping? It might have something to do with money, spoiler. Check out Alana Karen, episode 1268 from Wednesday.

Let's hit the iTunes review section now for our reviewer of the week. This week, it's thanks to M. Schreyer who left a review earlier this month saying, "Great podcast for working moms. I've been listening to Farnoosh for a couple years. She's down to earth and has practical advice. I listen to a lot of financial podcasts, but Farnoosh offers a balanced approach for working families to live a rich life. Thank you." M. Schreyer, let's get in touch. You can direct message me on Instagram. You can email me, farnoosh@somoneypodcast.com. Let me know you left this kind review, and I will promptly reply with a link where you can then go and schedule a free call for us.

By the way, your last name maybe is Schreyer. I went to the Schreyer Honors College at Penn State. Not to name drop but I never met somebody with the Schreyer last name, except for the family that endowed that scholars program. Are you a member of that family? That would be cool. Did you go to Penn State? Even cooler. Let's discover things about ourselves. Email me or DM me on Instagram.

Did you hear Facebook is changing its name? This was a surprise. It reminds me of in New York City when I would see that a restaurant kept changing its name, and it would reopen as the same restaurant but with a different name. It was very curious to me, like why would this happen. I found out it's because when the city is about to shut you down because of health issues or excessive complaints, apparently you can just like rename your business and start fresh. That counted back then as a clean slate. So that kind of reminded me of like what's happening at Facebook with all of the controversies surrounding the company. Maybe they're taking a page out of the New York City restaurant, Playbook. Let's rebrand, rename, clean slate.

Between us, I wouldn't mind if Facebook went away. Now, I know that's a very privileged thing to say because some people in parts of the country and around the world depend on Facebook applications like WhatsApp and even Facebook to communicate. It's very important. It's a vital lifeline. But, man, I could totally do without all of the divisiveness, all of the fake news, all the propaganda, and even all of the like cat photos. I'm done. I'm tired of it. I've really stopped looking at Facebook. Outside of a couple of pages where I follow community events and connect with other parents in the town, my son's elementary school page, there's really no benefit that Facebook brings my life.

That said, I do love Instagram. Clearly, I'm on it and that's how I connect with a lot of you. So I'm conflicted like so many people. I like a few aspects of Facebook. A lot of it I think can change. It's time for a change, Facebook. If this name change is indicative of more changes to come, I'm for it. You know what's funny is my mom, for the first time when she learned about Facebook, she was calling it Bookface. Bookface. That wouldn't be a bad name. At least give my mom some credit all these years.

All right, moving on. Let's go to the mailbag and see what's on your money mind. First up, to buy or not to buy a house. This question is from an anonymous listener who says, "First off, I want to just thank you, Farnoosh, for building a podcast that really speaks to me as a breadwinning woman of color." Yes, my pleasure. She says, "I've learned so much. My question is around whether or not to buy a house. My husband, two kids, and I currently rent a wonderful house in a remarkable neighborhood for about $3,000 a month. Our annual household income is $300,000 a month. We save and invest about 30% of our income and we have net assets of about a million dollars."

“We face so much pressure to purchase a house but we aren't sure that's the best decision for us. We live in an area where purchasing a house the way we would like to would mean putting about $200,000 down, and our mortgage would cost at least $4,500 a month. Based on our income and asset level, does it make sense for us to consider purchasing a house? We hear a lot about tax benefits, equity, and diversifying our portfolio but do not quite understand all of the potential benefits.”

All right, I think you know the answer to this. I mean. I'm hearing it in your question. I'm hearing you analyze this in your question, and you're bringing up all of the right points. Buying a home is a financial decision, 100%. Biggest financial purchase most of us will make in our lives, but it's also an extremely personal choice. To your point, buying a home the way that you would want to, the kind of home that you would like would require trade-offs. Are you okay with those trade-offs? Are you okay with increasing your housing costs by more than 50%, which is what would happen here? You're going to go from $3,000 a month to $4,500 a month. That’s not even including the taxes, the maintenance, the insurance, all of that. So really more like $6,000 a month, if you're asking me. It’s going to double what you're basically paying towards rent.

You love where you live, and it's giving you the liquidity to invest. You're not just sitting on this money. You are putting it to work. You're putting it in the market. There is something about diversification. There is something to be said about sometimes the emotional benefits that a home brings, a home purchase. It's not always a positive emotional response for people. But for many who talk about why they like being a homeowner, it's because it gives them a sense of stability. If they plan on staying in a neighborhood for a very long time and they have children, the idea of picking up and moving because their landlord says they have to is something that they don't have to worry about.

But when you also dig a little bit deeper and you ask those people who are happy owning their home, it's also because financially they can comfortably make this payment. Does it make financial sense? Is it going to be something that necessarily increases their net worth? Maybe not. I mean, renting doesn't increase your net worth. Owning may not increase your net worth. But what they're paying to afford this home as an owner is something they can very much comfortably afford, and they don't feel as though the trade-offs are big compromises.

So I’m going to give you our example, right? We own a home. Our mortgage payment is a fraction of what we earn as a household. It's less than 20%. That's including all of the add-ons that I mentioned, insurance and taxes, etc. If this becomes an investment for us is still an unknown. It's uncertain. I look at some of the other homes in this neighborhood in this town that we live in. In 10 years, the ones who bought a home 10 years ago versus today, they may just be breaking even as far as the home value. Then think about the time that they spent in that home, the 10 years, all of the added costs; the taxes, the interest on the mortgage, the insurance, the gardening, the leaks, the new fridge. The net of it may not be positive. Do they regret it? Perhaps not because, again, it was something that they could afford. They have to live somewhere and they were able to also do other things with their money like invest in their careers, invest in the stock market, go on vacations.

We got to live somewhere. We all have to live somewhere. Ideally, if you own a home, it's an asset, and it appreciates above and beyond your overhead or during the years that you live in that house and before you go to sell it. Now, back to you, my friend, my listener, owning a home, I think my sense is perhaps still in the cards for you. It may be something that you can be really happy with but it doesn't sound like you want to create these immense trade-offs. It doesn't sound like you want to increase your outlay for a home every single month, at the detriment of not having enough to invest.

By the way, the tax benefits have diminished over the years. It used to be that you could deduct all of your taxes, your property taxes. There's caps on that now. So in some markets, it's not as beneficial. For some households, it's not as beneficial as it once was. So you have to be very careful about that stuff. But what would make this may be possible for you in a way that feels good to you is finding a home that is more affordable, that does keep you closer to this $3,000 a month outlay. It may mean looking in a different location. It may mean finding a second home that you rent out, an investment property that might cost $3,000 a month, but you're going to make $4,000 a month. So you're actually making money out of the gate with this property.

Owning real estate doesn't just mean your primary home. It can also mean an investment, a literal investment property. That's a whole other calculation. I would send you to my friend, Paula Pant, who is the host of Afford Anything, and she's got a lot of YouTube videos and courses on how to calculate and look for an investment property. She runs several Airbnbs. But I'm with you here. I don't think you want to rock the boat too much, just because others are telling you you need to do this. Diversifying your portfolio is important. Down the road, yes, I would look to expanding your exposure to different things in the marketplace, so you're not just 100% in the stock market. But maybe there are aspects of your portfolio where you're investing in a business, you're investing in a small property. There are people that are into cryptocurrency. I'm not but there are a lot of different ways to diversify. It doesn't always have to include real estate. But I do believe in diversification, so keeping that in mind is important. I hope this was helpful to you, and please keep me posted. I do want to know how things end up for you all.

Okay, next up is a tax question from our friend, Marissa, who is making more money, thanks to unionization at her job. But that also meant that she lost access to the company's 401(k). That's a bummer, Marissa. I'm sorry about that. Her question is, “What are the ways that I can shelter my income from taxes? I have a Roth IRA, but it seems like my first move should be to open a traditional Roth IRA. Also, I had a 401(k) from a previous employer that does not allow contributions any longer. Now is probably the best time to roll it over, along with my more recent 401(k) towards a traditional Roth. I don't believe I'm eligible for a health savings account. I haven't seen that on my list of benefits. Since I don't have children, I'm not interested in the education account. That's called the 529. What can I do to reduce my taxes? Thanks for considering my question.”

Absolutely, Marissa. All right, so definitely I think you should take that previous 401(k) and your more recent 401(k) that you would no longer have access to, and roll that over into a traditional IRA and start contributing there and benefiting from the tax deductions. Some other things to remember as you are tax planning, things that are potentially deductible for everybody, one is the charitable contribution deduction. You can deduct charitable contributions. That includes clothing that you give to the Salvation Army. You can put a value on that. Get a receipt from them and include that in your calculation.

If you have student loans, you can deduct up to $2,500 worth of interest for the year. The deduction decreases once you start making more money, so just look into that to make sure how much you can qualify for. There's also the medical expense deduction. If you had medical expenses or will have medical expenses that are more than 7.5% of your adjusted gross income, you may be able to get a deduction, the medical expense deduction. If you own your home, there's the mortgage interest deduction, which – There are more than a few deductions that may apply to you outside of these retirement plan deductions, HSAs, etc. I would go to irs.gov. You can even just go to a search engine and type in 2021 tax deductions and see what comes up. Over at CNET we have a lot of this covered.

Moving on to Candice, who says she is thinking of leaving her living situation, living with roommates in Santa Monica. But it's a rent-controlled apartment. It's a tough one. She goes, “Hey, Farnoosh. I currently have a 401(k) to which I contribute 16% of my earnings. I live in a rent-controlled three-bedroom apartment in Santa Monica, shared with two other roommates. I'm kind of ready for an upgrade and I've been having some roommate issues and I'm a bit tired of cleaning up after the messes that aren't my own.

I make enough that I should be able to live on my own, but it will likely require to pay well over double what I currently pay in rent. My rent is $655 dollars a month, a steal. This will affect how much I can stow into personal savings and, let's be honest, just living comfortably without having to think too much about eating takeout all the times per week. Would it be insane for me to cut back to 10% of my 401(k) contributions to get my own place and not feel like I have to tighten purse strings so much that I don't get to enjoy some comforts?” She says, “By the way, 10% would still keep me over the company match maximum.”

Candice, you have my blessing, my friend. I think it's time to move on. You know it. It's time. You can afford it. Dialing back to a 10% contribution in your 401(k) temporarily is fine. 10% is a great goal to hit, as far as contributions go to your 401(k). I sense that you are still in your 20s or early 30s. If you've been doing this since your first job, I would imagine you're in great shape. So, yes, if dialing back your contributions to 10% would free up a few hundred dollars a month or more and then would allow you to better afford your own place, do it. You got to move on. This is part of adulating.

Now, I caution you. Once you go solo, you're not going to want to go back. It's going to be very hard to move in with a roommate down the road if you think, “Oh, I should do this to save money again.” Maybe this would even encourage you to find other ways to save. You're going to have more time to yourself, maybe a nicer kitchen. You would want to cook more meals than eating out. You might want to host people over your place. You sound savvy. I trust that if you're committed to ramping up your contributions to your 401(k) again, you will find a way. By the way, you're going to make more money. It's all going to work out. I'm confident. I'm optimistic. You got this. I'm excited for this change for you. Send us pictures of your new place.

All right, now Jetalez writes in, and she says, “Hey, Farnoosh. I hope you're doing well. I've been listening to your podcast and I've got a question. I'm three years away from turning 40 and I am not investing. I don't have a portfolio. I work for a non-profit, and there's no 401(k). They don't offer one. Where's the best place to start for someone like me? Okay, Jetalez, I would say start with a Roth IRA. I don't know how much you earn, so just make sure you can qualify for a Roth IRA because there are income limits. If that's something that you cannot contribute to because of where your salary is at, then I would move over to a traditional IRA, also a place where you can save towards retirement, investing up to $6,000 this year, and that contribution will deduct your taxable income.

Now, you're making up for lost time, so one $6,000 contribution a year may fall short, depending on what your retirement goals are. My guess is you want to do some other types of investing. You can open up a brokerage account. We've talked about many different types of investment platforms. I would recommend a site like Ellevest, Wealthfront. Charles Schwab even, which is where I do a lot of my investing, has an online platform. I like the online platforms because they're relatively inexpensive. The fees are much smaller than working with a financial planner who will directly invest for you and manage your portfolio. It's also very easy to track your investments.

But opening up a brokerage account, this is essentially a portfolio. In there, after telling these online platforms about yourself, your age, your risk tolerance, your financial goals, your retirement goals, they will create for you a diversified portfolio with a mix of assets. It's really plug and chug. It's quite beautiful. Then you're off to the races. You can contribute to this automatically from your bank account as regularly as you want. You can set up automatic payments. Maybe it’s a start. Whatever you can do, a few hundred dollars a month and then increasing that as you go. Whenever you get a tax refund, whenever you get a lump sum, a raise, a bonus, dedicate adding a portion of that or all of that to your retirement account.

This is go time. Go time was actually 10 years ago, so this is like supersonic time. You need to ramp up your retirement account, if you do plan on retiring at some point, maybe late 60s, 70. We're living longer these years, so I don't even say 60 anymore. I'm more likely to say that we're going to retire in our late 60s or early 70s. Especially if you like what you do, you might want to continue working. If you like hanging out with people, you might want to continue working. But start with an IRA, either a Roth or a traditional.

By the way, you can open this up. Add these same investment platforms that I just talked about. There you can do both. You can open up these IRAs and you can open up a regular brokerage account. The difference is with the brokerage account, you can take those contributions out. You can take out your investment at any time. You'll pay taxes on the gains, but there's no penalty for "early withdrawal." The IRAs are designed for retirement. So with the exception of the Roth IRA, where you can take out your contributions at any time penalty-free, the traditional Roth IRA does slap you on the wrist with a 10% penalty if you take the money out before 59 and a half. It's really encouraging you to keep the money in the portfolio and riding out the years. It's good, but the Roth IRA does give you that versatility where if you do need your contributions back at some point, you can without penalty take out those contributions.

A brokerage account, the door is open. You can put in money, take out money as frequently as you want. There's no withdrawal penalty. These two types of investment portfolios will serve you well. Contributing to them regularly from now until retirement and even in retirement is very important, and I would press upon your employer to come up with some sort of benefit, some sort of retirement benefit, a 401(k), a Roth 401(k), something. If you haven't noticed, a lot of people are leaving their jobs right now. Employers are scrambling to find good talented people to work for them. This is the time.

Public service announcement, everyone listening, if your employer is not offering you the benefits that you want to see, whether that's health benefits, retirement benefits, flexible work benefits, ask for it, band together, petition. Ask for these things. This is our time. I was just reading in the Atlantic a little while ago a story about what will the COVID-19 pandemic for our generation leave us with. Obviously, it was and continues to be a devastating era in our lives. But as we look through history and we examine things like the Spanish flu, world wars, the outcomes, they were seismic shifts for society and culture. Things changed. They accelerated change or they created change that was unexpected.

This employment story of people leaving their jobs and making their employers more accountable is a residual benefit, can I call it that, of the last 20 months. People realizing that our employers should be held more accountable. We spend a lot of time and giving a lot of effort to our companies. Whether it's better pay, better benefits, employers need to step up, and they won't step up until talented employees like you, Jetalez, start voicing

That is our show for this Friday. Thank you so much to everyone for joining and especially our question askers this week; Crystal, Candice, Jetalez, and our anonymous listener that asked the important question about tax deductions and retirement accounts. Good luck to all of you.

Again, shameless plug, if you're interested in the So Money Page-A-Day calendar for yourself or gifting it to your friends and loved ones, you can go to pageaday.com until the end of the year, now until the end of the year. Grab it. 20% off if you use the code somoney. That’s one word, somoney. Take a picture of it. Share it with me on Instagram. I'll be giving you several more reminders as we get closer to the holidays because I really think this would be a great holiday gift, a smart way to start your 2022. In the meantime, thanks again, and I hope your weekend is So Money.

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