EPISODE 1629

So Money Episode 1629, Ask Farnoosh.

[INTRODUCTION]

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ANNOUNCER: You're listening to So Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to So Money.

[EPISODE]

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FT: Welcome to So Money, everybody. I'm Farnoosh Tarabi. It's Friday, February 9th, 2024. If you're subscribed to my newsletter, you read how I have built wealth in 44 years. I wanted to focus on this. I'm not 44 yet. I still have a few more days until my birthday, but ahead of that, I've been reflecting a lot on life and what has gotten me here. Someone now told me that I'm about to enter my midlife crisis phase. I don't know. What is that supposed to feel like?

I feel I'm always someone who's thinking and strategizing and restless. If it's more of that, I'm used to it. I wanted to reflect on how I have built wealth, not just in the newsletter, but on this show, in case you're not subscribed to the newsletter. If you aren't, you can go to farnoosh.tv/newsletter. Subscribers you get a free download of the So Money eBook, which is a compilation of some of the best advice shared on this podcast. Let's start with that. Let's start today's show. I'm going to get to your questions. We've got questions about Roth IRA conversions and cashing out your stock options at work, sophisticated things.

First, how have I amassed some wealth over the last decades? I started working at, let's see, I got out of college. I went to graduate school and started working full time after that, so it was early 2000s. Number one, I would say that my curiosity has been such an asset in life. If you are a curious person or fuzul as I was told growing up, which is farsi for nosy, whatever, I think that this is something to leverage throughout your life. In our financial lives, we actually have a lot of questions. Sometimes we're embarrassed, or shy, or we feel weird asking them out loud or even feeling as though, like I don't know this, I should know this, and then you start feeling bad about yourself. Just stop. Okay. I still have lots of questions when it comes to managing money.

I ask around. I have mentors. I use the internet. This is how I've learned to teach myself how to manage risk in my financial life and everywhere. I ask the embarrassing questions, and this is why I do the Friday episodes here on So Money, so that I can answer, hopefully, answer your money questions. By the way, if you want to know how to get those questions to me, just DM me on Instagram @farnooshtarabi. Follow me there, DM me. It's the easiest way.

Curiosity number one. Also, I'd be remiss if I didn't include investing on this list. Investing, investing, investing. I've been doing this consistently since my early 20s in the stock market and in myself, in my business. Those are the two areas primarily. I'm not into crypto. I don't go for hot stocks. I don't have an annuity. I prefer investments that have historically strong track records that are low fee. There are no gimmicks. Investing is one of the most powerful ways to grow your money quickly. If you just put your money in savings, it's not going to suffice in 30 years with the rising cost of living. That money is going to actually lose value.

What you can buy today with $5 is going to be significantly less in 30 years with that same $5. If you do nothing and you just let it sit, you're actually working in the opposite direction. Your money is working in the opposite direction for you. I also want to admit that I've had a fair bit of luck in my financial life. Yes. You didn’t think I was going to say that, but luck and timing has really benefited me and I can't take any credit for that, but to list a few things, my parents, for one, helped me out. They helped me out by teaching me about money when I was young, not everything, but enough so that I didn't get into too much trouble.

They told me about saving and credit. At the very least, when I became an independent adult, I had some fluency around money. I was able to feel comfortable researching it, asking questions, thinking about it, talking about it, which I know that alone is very hard for people who don't have that kind of background, and that kind of upbringing. Very tactically, my parents helped me out by paying for my college tuition. I couldn't go anywhere I wanted, but I was able to go to Penn State and come out of college without debt. I went to graduate school and my parents helped me there a little bit, but I still ended up graduating with about $30,000 in debt. That was a combination of student loans, mostly, and me credit card debt.

They helped me out when they could. I don't take that for granted. People have also given me great opportunities when they probably didn't have to. I mean, look, I've worked hard. You can be lucky and you can work hard. I know that's an unpopular opinion, too. But like anybody who has been fortunate and we've all been fortunate in different ways, luck gives us a leg up in life. I think we should talk about it. I think it's important to be transparent about these things, not again to discredit us, but to shine a light on all the things that we're grateful for and to also say to those who are looking at me, for example, and going, “Oh, my God. How'd she do it? I could never get to where Farnoosh is.”

Well, you can, but I also think, I need to be upfront and transparent about the fact that I had help in some ways that you may not, but it's not to say that's the only reason why I'm here. It has helped, but it's not the only reason. I will also be the first to say that there are many people in this world who are very lucky, but they don't do anything with that luck. They don't take it to the next level. They don't learn how to leverage that luck. So, luck is the thing where it's like use it or lose it.

Another thing that's really helped me build wealth, and this might surprise you, or at least you're surprised that I'm saying this out loud, is my failures. I have made awful mistakes with my money and in my business. Starting a business with co-founders I barely knew. That's one. Then I maxed out a business line of credit with these co-founders. That's two. Then more recently, I failed to see that the money that I rolled over into an IRA was sitting in cash for a whole year. I thought that the rollover meant that it would just roll over into all the same index funds, but no, it meant it was going to now just sit in cash and I didn't know that.

Luckily, I guess, again, luck. It wasn't a terrible year to be saving money in 2023, right? Yields were pretty high. I guess it could have been worse, but these are all lessons. I'm person that accepts the failure and leverages the failure so that the next time I apply the learnings and I do better. I tell you about them too, so that you can hopefully do better and not do me. Lastly, mentorship. This is a short list. This isn't a full comprehensive list, but mentorship has definitely been one of the top five ways that I have been able to grow in my life, in my career, in my financial life. I am obsessed with leaning on the guidance of people who are smarter than me, meaning that they've experienced things that I haven't. They've learned from failures that I haven't and they can support me and they will be the first to warn me of risks. They'll be the first to support me and they'll be the first to warn me of risks. Your circle matters.

I know there's this expression. I don't know if I love it that much, but it's like you're the average of the five people you hang out with the most. I mean, I hang out with my kids a lot of the times and I'm smarter than my kids, but they do teach me quite a bit. They do bring me down to earth a lot of the days. I think that's a good circle, but I think it puts a lot of pressure on us to feel like we have to really search high and far for our people and our circle. You don't. I've actually created something for all of us to make my circle accessible to your circle. It's called the So Money Members Club.

You may have heard about it. If you've been listening to the show this week, I've been talking about this enrollment period right now that I have going on for this brand-new community that I've built. Basically, around this podcast, which is now in its ninth year. This is a safe judgment free space to learn about money. We're going to up level our financial game together. We're going to benefit from our community of people who've been there and done that. They have failures. They have wins, and we share it, and we learn from each other, and you get more access to me and my 20 plus years of financial insights, experience.

Every month, there's going to be a new live training, which I record as well, so you don't have to join the live training. You can just watch it in your own free time. We have office hours where you can stop by and ask me whatever is on your money mind. This month. It's a great time to join, because there are two live trainings where we're going to be talking about how to make more money. Whether you work for a company or you run your own company, your own business. I've got lots and lots of things to share.

It's low risk. You can join right now. It's the lowest price it will ever be. I can't keep this price where it's at forever. Price will jump after Monday, so if you want to get in, this is the time, but it's low risk as I said, you can sign up. If you're not happy with it within the first 30 days, you can get your money back. Then you can also cancel at any time, but we are filling up. I've been promoting this for about a week and we're fast filling up.

My goal is not to get everybody in the club right away. We're limiting enrollment right now. I'm going to reopen down the road. I'm not sure when, but this is a great time to get in as a founding member of the So Money Members Club, because this will mean you'll have a smaller group, more access to me. You'll get in on our workshops early and I'm adding perks as I go along. Right now, I'm pitching this as a monthly membership where you get live workshops for me, office hours. You get to benefit from the community. There's a vault of growing recordings.

I'm adding more stuff, really good stuff, like commercial free episodes of this podcast. Eventually, you're going to be able to listen to this whole podcast without ever listening to an ad, if you're a member. It's evolving. If you get in now, you get to grow with the membership at this very low price that I've put it out right now. I hope to see you in the first cohort.

Now, with turning 44, I've been focusing more on my health, because we know we talk about this here on the show, health is wealth. So, for the past eight months or so, I've been weightlifting more. I've been doing more strength training three times a week. Then I'm trying to do some cardio, or bar, class or a hit workout, one or two times a week. For the past few weeks, I've tried something new. I've been giving AG1 a try every morning.

Have you heard about AG1? It's this nutritional supplement, which I have to say, I've never been one to consume supplements in their pill form. It's a sensory thing for me, but AG1 is a liquid supplement drink. That's honestly been really good for me. It offers my daily dose of vitamins, minerals, pre and probiotics. It's just one scoop, mix in water, once every morning for me. It's been great for my immune health. As I've just been telling you, I've been pretty busy these first couple of months.

I've been watching some new projects. I've been going 100 miles an hour, not getting sick, not feeling as tired as I should. I have a lot of stamina. So, for all these reasons, I'm thrilled to welcome AG1 as a new partner of this show. If you want to take ownership of your health, it starts with AG1. Try AG1 and get a free one-year supply of vitamin D3+K2 and five free AG1 travel packs with your first purchase exclusively at drinkag1.com/somoney. That's drinkag1.com/somoney. Check it out. Let me know what you think.

If you missed any of our episodes this week, oh my gosh, the Wednesday episode is going viral. I knew it would, because it's about Social Security. It's crazy. Social Security is one of the hottest topics on the internet. When it comes to personal finance, there's nothing hotter than Social Security, believe it or not. It's not loud budgeting or any of that. It's social security. On Wednesday, we had Anne Tergesen, a reporter for the Wall Street Journal on, to talk about an article she recently co-wrote, called, *Here's What It's Like to Retire on Almost Nothing But Social Security*, which currently averages $1,900 a month. Can you imagine me in your 60s, your 70s, maybe you're living alone, you're disabled, and you're making $1,900 a month? That's it, and you're on your own. How are people doing it?

Anne and her co-writer Veronica Dagher at the Journal. They profile multiple people across the country who are doing this. I have to say, pretty inspiring. Still invest for retirement, but I was pretty impressed with the creativity that has to happen. I guess, when you're living simply off of Social Security. Then on Monday, we spoke to Regina Lawless, who is the former head of DEI at Instagram. Now, she has a new book out called, *Do You: A Journey of Success, Loss, and Learning to Live a More MeaningFULL Life*.

Her mission is to help high achieving black women find purpose beyond their paycheck, to experience more bliss in their lives, and sustainable success at work and at home. We talked about how to bring your whole self to work these days. How to do it safely and successfully. Of course, how can black women and people of color redefine their career framework on their own terms? This is Regina's expertise. I encourage you to go back and listen to that episode, if that interests you.

In the mail back today, we've got questions about Roth IRA conversions. Someone in the audience wants advice around what to do after selling your company's stocks. Should you reinvest it? Do you save it? What do you do? What are some things we should know for doing this for the first time? I've got some experience, personal experience. But first, let's celebrate our reviewer of the week. This person gets a free 15-minute phone call with me to talk about whatever's on their money mind.

This week, we're going to say thank you to Vaness G21, who left review saying, “I really enjoy this podcast. It's refreshing and actually fun to get financial advice and tips that I can implement to build healthy financial habits. I resonate with Farnoosh's background and its influence on her old money mentality.” Yes. Yes. I talked about how I've had to change my mind on some financial philosophies over the years. I used to think that rent was money down the drain. No, it is not. I just had a conversation with a friend about this week who's selling her house and she's got three kids. She's like, “You know, I'm just going to rent for a while, because I want to cash out of my house. I need the equity. Times are a little tricky. It would be great for us to have that flexibility that comes with cash in the bank.” I know a lot of people are sitting on gold mines right now with their homes, having appreciated over the last few years, but it's not liquid, right? Until you cash out, which is hard to do. If you're planning to go and buy something again right away, there's no inventory.

Renting is very strategic right now for people who want to cash out of their equity, have some more flexibility in their lives. Then as my friend said, in a year, hopefully when the markets thought a little and there's more inventory, she'll have the money to pounce and be a competitive buyer. I've done this. I've rented at least twice in recent years in between selling homes as a strategy, because it's really hard to buy and sell immediately at the same time, unless you've got oodles of cash in the bank. Typically, we have to sell, get the money out, and then take some time to buy. That for me at least has meant renting and I don't regret it.

Anyway, back to you, Vaness G21. Thank you so much for leaving this kind review. Glad to have you in the audience. Let me know you left this review. You can DM me on Instagram, quick and easy or you can email me, farnoosh@somanypodcast.com. Let me know you left this review. I will send you a link to pick a time for us to have a call. Thanks so much.

Alright, let's get to the mailbag. First up, audience member wants to know about how to do a Roth IRA conversion. Just saying those words out loud. I know this podcast is going to go viral again. The most boring stuff goes viral in personal finance. It's not, like the sexy trends on TikTok. It is things like Roth IRA rollovers. I actually did a whole post on this in my So Money members community recently. It's actually where this question came up.

First, let's review the basics of a Roth IRA. I think a lot of us know what this is, but just to recap. A Roth IRA, IRA stands for Individual Retirement Account. It's a tax advantaged investment vehicle or account that is designed to help us save for retirement. It's not, like a traditional IRA where the contributions from towards a traditional IRA reduce your taxable income today. Contributions to a Roth are made with after tax dollars, meaning that your withdrawals in retirement are then tax free, because you've already paid the taxes today.

Roth IRAs offer flexibility. They allow contributions at any age. There are no mandatory withdrawals during your lifetime. There are income limitations and contributions are capped annually. This year, the annual cap is, let's see, $7,000 or $8,000 if you're 50 years old or older. That's Roth IRAs in a nutshell. As I mentioned, there is an income limitation. Not everybody can contribute to a Roth IRA. If you make more than the income limitation, which I believe this year, let's look it up. For single individuals, if you make more than $161,000 in 2024, you are not eligible. For couples that are married and they're filing jointly, if your joint adjusted gross income is over $240,000, you are no longer eligible for contributing to a Roth IRA, unless you do what's called a Roth IRA conversion.

My brain sometimes breaks when I have to think about this, but here's how this works. If you have an existing traditional IRA or an existing 401K from a previous employer and you want to convert it into a Roth IRA, you can. You can do this at any income level, there's no restriction, but because it's like a backdoor in, it's not a direct contribution. It's a backdoor in, so sometimes this is called a backdoor Roth IRA or Roth IRA conversion. This way, people can benefit from tax-free withdrawals in retirement, which is like the nicest thing, but what you convert to a Roth IRA from this traditional IRA or 401K, which I guess then you first have to make a traditional IRA and then it becomes a Roth IRA, you do have to pay taxes the year that you convert this money.

You got to be prepared for that and a lot of times it has to come out of your savings, so you got to make sure that money is set aside before you do this. That's why it's helpful to work with a tax professional just to understand the implications based on your individual financial situation. How do you do this? If you have a financial planner, they can totally help you. You can DIY it though. You can just – you reach the financial institution you want to work with, Fidelity, Vanguard, Schwab, you do it online, you can do it in person, you can even call them.

Customer service representatives can usually just guide you to the process and answer any specific questions you have, but the first step is to identify the account that you want to convert. Maybe it's a traditional IRA that you have and identify the institution that you want to work with. It may be the institution where the traditional IRA already exists, which would make it easy, but if you want to switch over, that's fine too. You just have to contact that brokerage and let them know you want to do this and they can help to facilitate the money transfer, because what you don't want to have happen, right, is you don't want to cash out accidentally and inadvertently this traditional IRA, because then you got to pay penalties and taxes for an early withdrawal.

You want to make this essentially a rollover, which means that the money never hits your bank account. There's no check coming in the mail. It's just going from one account to the next, but you do have to pay those taxes. If you want to know what those taxes are going to be, there are calculators online, but if you've got access to someone who can help you, because they are a tax specialist or even a financial planner, they should be able to point you in the right direction, tell you how much to set aside. That's a Roth IRA conversion or backdoor Roth IRA.

Now, on to more sophisticated things. We have an anonymous question from the mailbag, which is this. I've worked for my tech company for five years, Farnoosh. I'm going to be making my first trade of RSUs. which stands for Restricted Stock Units, because the stock is at an all-time high. This person wants to cash out as my old mentor, Jim Cramer. When I worked at the thestreet.com used to say, he'd say, "Pigs get slaughtered." That was his metaphor for greedy investors who just never cashed out, because they just thought their stocks were just going to always go up. This is he was speaking specifically to traders, right? People who had individual stocks, not people who were like index funding their investments.

In this case, our friend here in the audience does have a specific stock that she is cashing out, because it's reached a nice level and she wants to benefit from the gains. Now she says, "I'm splitting the proceeds into two high yield savings accounts at different institutions, so that it is FDIC insured." Which suggests that this is a substantial amount of money, because we know FDIC insurance, if you have more than $250,000 at a particular institution bank savings, you want to spread that out, because that is the cap on FDIC insurance per account holder per financial institution. That's smart that she's doing that.

She says, she has already maxed out on her tax-sheltered retirement options. I guess she's moving over to now these high yield savings accounts, because for her, it feels like the next best move, but she's not sure. Is this the right move? Do I have any other tips for someone who's going through this for the first time? I've actually been through this recently, my friend, and it was a doozy. Let me tell you. I had RSUs at a company and they would vest, which is something that happens. You don't get the money right away. It's a carrot that companies use to keep you at the company to increase retention.

It was a doozy, because my company made me pay taxes on the gains as the shares invested even though I wasn't cashing out. That's no fun. I have to pay capital gains tax for something that I haven't even benefited from yet. That could also lose value in the next quarter. I mean, it was just almost, like I don't want this. It was almost not worth it. It was fine in the end. I did make some money, but I had to work very closely with my tax preparer who's a CPA to understand how to best report this on my tax return so that I wasn't double taxed. The paperwork that you get from your company is very important. You want to keep that and there's going to be some follow up paperwork too.

You cash this out this year. They're going to have to send you another tax statement in the beginning of 2025 that reflects again on this transaction. You want to keep on them to make sure that they're sending you the paperwork, because what I was worried about was that the IRS didn't know what did they know that I paid the taxes, because here's how we did the taxes. The company that I worked for gave me a loan in the amount of my tax liability. They offered me a very, very low interest loan that I was paying back. I had agreed to pay back within a few months.

Then I left the company before I was done paying off that loan. Then I paid off a loan in its entirety. All this to say like I was still not sure how this company was reporting this to the IRS, because when I go to do my taxes, it just looks like Farnoosh cashed out all this money, but did they know that I paid my taxes? I was like really, really concerned about that. I have all the paperwork and I kept my tax prepare in the loop about this, every step of the way, because they don't know anything until I tell them, right?

I guess all this to say, and that's all right. That was really confusing, but I guess all this to say is it's really important that you keep communication clear and open with your employer and whoever's preparing your taxes. The tax implications of RSU's are different with every company. They're different. So, you really want to be clear on what your liability is, now or in the future or both. Now, as far as what to do with the money. You say that you have maxed out your tax shelter retirement options. Things like maybe a 401K and IRA. Cool.

High yield savings is fine, but I'm curious, when do you need this money? Do you plan to use this money in the next five to seven years? If yes, then high yield savings accounts are the way to go. If you don't plan on touching this money or don't foresee needing this money for at least another 7, 10, 15 years. I'd say why not put it in an index fund, tracking the US stock market. You can open up a brokerage account, then purchase an index fund on that platform or you can ask the platform to create a diversified investment portfolio for you. If you want more diversity and doing it that way where this isn't going to give you any tax benefits today, but you have potential for more growth over the next 10 years than putting it in a high yield savings account, which is a little misleading, because high yield, we know, like in most years, it's like 1%, right?

Right now, we're used to these like four or 5% savings accounts, but extrapolated over 10, 15 years, you're averaging still like 1%, or maybe even less. The stock market historically does do better than 1% over 10 years, right, on average. So, that's why I would just question your interest in a high yield savings account right now versus maybe a brokerage account. Even if you take the money out, let's say in a year or two, you're going to be paying long-term capital gains on that, which is still less than income tax for most people. Just something else to think about. Maybe you split it between high yield savings and something a little bit more aggressive if you are committed to not needing this money for at least another seven to 10 years.

That's our show everybody. Thanks so much for tuning in this Friday. It's Super Bowl weekend. I don't know who you're cheering for, but I'm pretty excited for Usher. I'm excited for the commercials. I might even try some new recipes, not so much into the sport, but into all the periphery. All the peripherals of a sports game. I hope you consider signing up for the So Money Members Club. Enrollment ends on Monday night. I was going to make it Sunday, but then I thought, oh, Super Bowl, people might forget. I'm giving everybody another 24 hours on Monday.

If you have any questions, DM me on Instagram, email me farnoosh@somoneypodcast.com. Hope to see you in the group. I hope your weekend is so money.

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