**EPISODE 1689**

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**FT:** So Money episode 1689, Ask Farnoosh.

[INTRO]

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**FT:** Welcome to So Money, everybody. I'm Farnoosh Torabi. It is June 28th, 2024, and I want to start today's episode by sharing with you what I shared on television this week. I was a guest on the Kelly and Mark show. Kelly Ripa, Mark Consuelos, Emmy Award-winning duo, hosts of Live with Kelly and Mark. They wanted me to come on and give my best advice for college grads. Are you ready? Pass this on to any of your loved ones who are recently graduated.

Firstly, I recommended that young people start loud budgeting. It's a TikTok Trend that I actually like, and it works like this. You have a financial goal that you're working on. Whether that's getting out of student loan debt or saving up for something special, you talk about it. You share it with your friends. You let it be known. This is different than when I was in my 20s. We did not talk about our financial struggles with our friends. We pretended like we had money. Then we went to the brunch. We went on the vacations and used our credit cards and came home broke, broker than we were when we left.

This generation on TikTok knows how to be with their money in a social setting. You talk about what you're working on and what your goals are. When you loud budget, if your friends say, “Hey, let's go on this ski trip,” but you know that's going to set you back financially, you're honest with them. You have other financial priorities.

What came up on the show, too, is I was telling advice to the audience and to Kelly and Mark was that they recognized just how much you might be helping a friend out by loud budgeting because you're inspiring your friends who probably also should be saving their money to do the same and not for nothing. But the American Psychological Association says that having social support can increase someone's likelihood of reaching their financial goals. When you share your financial goals with friends, family, a support group, it provides encouragement, advice, and accountability, and that pays off. All right. So budget loudly, graduates.

Secondly, understand your student loan payments, and then plan around them. Too often, when I visit college campuses and I talk to students about their financial concerns, of course, student loans come up. The first question I ask naturally is what is your student loan payment on a monthly basis? They may know that it's going to amount to $80,000, but they don't know actually how that's going to break down, and that's a problem. You need to know before you can solve the problem, right?

Know what you owe. Know the details. When you graduate, there's usually a grace period with federal loans. There's about a six-month grace period before they kick in. That's a good time period to get your financial ducks in a row, get educated, get the knowledge you need. Then you discover, “Oh, my gosh. My student loan payments are going to be $800 a month.” That will inform the rest of your budget, and it might help you decide where you're even going to live because you're realizing that's a lot of money. I should probably save on my housing or live with a family member if I can for the first year or two until I get ahead of it.

Tip number three for college grads, don't wait to invest. If you are one of the lucky ones to get a job at a college with a 401(k), invest in the 401(k). I know it sounds foreign like, “What is even a 401(k)?” Then to suggest to a young 20-something that you need to be investing your money when they can't even save their money or pay off the debt, it feels audacious and outrageous and out of touch for someone like me to say this.

Here's what I want to say. You don't need to start with a lot of money, right? This idea that we have around investing, that we have to wait until things are perfect, until we have all the money is what gets us into trouble, is what gets us to never actually invest. Do you have $10 a day? I'm not saying don't have your latte. But do you have $10 a day that you can sneak away and tuck away into a retirement account, whether that's your 401(k) at work, which by the way, might have a match. So it's really like you're putting away $20.

Or if you don't have that, can you open up a Roth IRA and put away $10 a day, which is $300 a month, which is $3,600 a year? That little bit will, and I did the math on the show, by retirement, when you're in your 60s, over $700,000. Okay. I think we can do that. I think that if you have a job and you're in your 20s, you can afford, most of us, $10 a day for this purpose. It's not something that we prioritize because the benefit is not immediate. We don't like that, and I get it. But no one will arrive in retirement with $700,000 and go, “Oh, I wish I hadn't done this.”

Tip number four, automate everything. I was a mess in my early 20s. I would forget to pay my bills. You don't have to be me because these days we can automate literally everything from paying our bills to saving our money, to investing, which I just talked about, to paying off our student loans. You can do it automatically. You never forget. Then cherry on top, for those who automate their student loans, you actually get a discount on your interest rate, usually a savings of about 0.25 %.

Then my last tip for everybody, if I was giving this commencement speech, I'd say stay curious, people. Ask all the questions. Take ownership of your financial life. Having a healthy curiosity is what separates a lot of people in this world from achieving financial freedom and not achieving financial freedom. Those who think that they have to wait for a miracle or the lottery or someone else to walk into their financial life and rescue them, that is a sad state, and it's not empowering. It doesn't suggest that you have any role in this.

I know that there are a lot of systemic issues. I know that the world is unfair. Things are not equitable. Especially for young adults right now walking into this real world with student loan debt and the cost of living where it is, I get it. There are restrictions and restraints. You also play a role. There is some accountability in this. I think that I will say for myself I remember distinctly when I was coming home from graduation, and I was in my parents' car. All during college, I would say to myself, “One day, one day, someday.”

Then it hit me in that car ride back to the hotel where my parents were staying at Penn State. I realized I can't say one day anymore because, well, that's now. What am I waiting for? I have my diploma, and this is it. This is my moment. I'm going to step into this and own this. I want that for everybody graduating. I want them to feel like they're a player. They play a role in their financial success.

It starts even before you get that first paycheck because, I tell you, asking questions, doing the research, that goes a long way. Most people don't do that stuff. Most people don't do that stuff. You can get a leg up, and you can be ahead of things just by equipping yourself with knowledge and surrounding yourself, too, with the right people who are going to support you and give you advice and understand that you have financial priorities that you want to meet.

All right, in case you missed any of our shows this week, on Monday, we talked about how to retire by 40 with a million dollars. This was a special re-airing where we talked to Katie and Alan Donegan, a financially exceptional couple who has managed to quit their day jobs and retire when Katie was 35 and Alan was 40 with a million dollars in the bank, which sounds like a lot. But is it really? How is that going to stretch for the rest of your 40 years? They had answers, and I think it's worth a listen, Katie and Alan Donegan on Monday.

Then on Wednesday, we caught up with my friend, Kate Northrup, who is a financial expert, author, and the host of the podcast, Plenty. If you know Kate, she's been around for as long as I have pretty much in the personal finance world. She's an OG. What's really special about Kate's philosophy and approach to personal finance is that she believes firmly in the importance of paying attention to your body, to nature, to your biology. From there, she helps clients and her community make informed choices about money and career and personal growth, when to scale and when to scale back. That was on Wednesday.

All right, we're going to hit the mailbag soon. But first, I want to go to the Apple Podcast reviews to pick our winners this week who are going to receive a free copy of *Thank You, More Please,* the amazing book by Lily Womble, which is about dating in the modern world, the feminist take on dating. This is important because some of you I have announced as winners, but you have not gotten in touch with me to let me know where to send these books. If you hear your name called, you want to email me, [farnoosh@somoneypodcast.com](mailto:farnoosh@somoneypodcast.com). Let me know that you left this review, and let me know where to send your book.

All right, erioapilado left review saying, “You're missing out if you don't listen to this podcast. So very thankful to have been recommended this podcast on my let's get my debt in order era. The information on this podcast is not only helpful but is presented in a compassionate manner where I really feel understood as a woman of color. Thank you for the work that you do in advocating for women and providing a platform for us to learn and connect with one another.” My pleasure, erioapilado. Get in touch with me, [farnoosh@somoneypodcast.com](mailto:farnoosh@somoneypodcast.com). Let me know you left this review.

Then Jane from Maryland, I think, says she loves the show. “Every interview episode I've listened to has been revolutionary for me. This is just such a fantastic show. I wish I found it sooner.” Jane and erioapilado and I think – is there one more? Nope, that's it for this week. Email me, [farnoosh@somoneypodcast.com](mailto:farnoosh@somoneypodcast.com). Let me know you left a review. If you want a free copy of *Thank You, More Please*, very important to send me your mailing address.

All right, let's go to the mailbag. Who's out there trying to buy a house? Raise your hand. The question that we have this week about homeownership is how to be a competitive buyer in this nutso market. I actually just did a whole webinar on this for members of the So Money Members Club. If you want to learn more about that, just follow the link in our show notes. But we dedicated our March workshop to how to prepare yourself for the home-buying season and some of the ways that I and others have played competitively in the buying market.

First things first, find yourself a very experienced agent. As a buyer, navigating a suburb or a city without the help of an agent is practically impossible these days. I mean, they're the ones who are going to get you in. They know the other real estate agents, so they can do a little bit of background research for you. They know the market really well. They know what homes have sold for, and so I highly recommend working with an agent.

The second thing you want to have already, you don't want to do this after you make a bid, is you want to have a preapproval letter from a bank and put that with your offer. This is different than a prequalification. We often use these words interchangeably; prequalification, preapproval. But they're different. In terms of being competitive in a bidding war, a prequalification is not going to get you very far. You want a preapproval which carries more weight than a prequalification letter, where the prequalification letter, it's a really simple process. You can usually do it over the phone or online with a lender. They'll roughly estimate how much you can borrow.

Versus the preapproval process takes up to 10 business days, and the bank asks for more financial information, and they will give you a more precise borrowing limit and even the interest rate on a letter that you attach to your offer. It is essentially saying to the buyer, “I'm good to go. I've got this preapproval from a bank. If you allow me to buy this house, the closing process should go pretty quickly or should go pretty smoothly.” Make sure that if you are looking to buy in the next month or two that starting soon you go and conduct this preapproval.

To also be competitive in this market, to get a seller to choose you over somebody else is not just how much you're offering but how much you're offering to put down, 15 to 20 percent minimum. But the more you put down in cash, the more that is favorable to you and also to the seller. For you, that means you're going to get a great loan. Banks love when you have more skin in the game. It's less risk for them, so they might give you a better interest rate. For the buyer, it suggests that you're very serious, and they don't have to worry about maybe the financing not coming through because you're somebody who's, obviously, stated that you want to have a lot of skin in the game.

I would also suggest playing to the seller's needs. You want to find out what the seller wants, what their timeline is. There's no easy way to figure this out. But if you do, again, have that experienced agent working with you, they may be able to talk to the seller’s agent and get a little bit more information about the seller’s hopes and dreams.

This comes in handy because if you find out that the seller doesn't want to move out of the house right away, maybe they want to stay until June because they want to wait the school year to end and have their kids finish the school year and not be kicked out of their house before that, that maybe you can accommodate for that and put that in your offer letter. Maybe you discover that they want to offload their furniture and that they're looking to maybe have an estate sale. But wouldn't it be nice if the buyer just took it all off their hands?

I know a lot of people think that being competitive means foregoing an inspection. I would never suggest somebody forgo an inspection. Why would you do that? Why would you do that to yourself? You will probably find yourself in a situation very regretful. Living in this home and realizing, “Oh, my gosh. The plumbing's a mess.” Or, “Oh, my gosh. The roof needs replacement.” Getting an inspection, I think, is not something that I would forego. Instead offer to cover some of the expenses, some of the repairs in the event that an inspection finds the need for it.

If you do an inspection and they're like, “Everything's fine,” but there are some electrical problems on the third floor, or the windows on the second floor aren't great, and maybe it's going to cost you between 5 and 10 grand to do that, don't shake down the seller to get all that fixed before you move in. Offer to pay for up to, say, 5,000; 6,000 dollars’ worth of repairs on your own, and that, again, suggests to the seller that you're willing to be flexible and that you really want the house.

Real estate transactions are emotional. They're emotional for you as the buyer and for the seller. The seller likes to feel like they're giving their home, especially if they lived in it for a long time, to someone who's going to take care of it and is a nice person. To the extent that you can relay this to the seller is not a bad thing. Again, having a good experienced agent who has friends in the real estate market, who's friendly with other agents, can help you communicate this.

Okay, next up, Amy wants to know how to invest in a Roth IRA when her household income exceeds the limit. She says, “I'm getting married, Farnoosh. I'm getting married this year, and I'm most likely not going to qualify for a Roth IRA. That is if my fiancé and I combine our incomes and file our taxes jointly. Both of our salaries combined are under the maximum income limit for contributing to a Roth IRA, but my fiancé gets annual bonuses, which could bring us over the income limit. If we do go over the income limit, what would be the recommended step to avoid getting penalized if I want to contribute to a Roth IRA?”

Okay, Amy. Thanks for your question. We love Roth IRAs. The most significant benefit being that the assets contributed to a Roth IRA, along with all the future growth, will never be taxed again. You pay – you essentially fund the Roth IRA with dollars that have already been taxed, so the benefit is in retirement. You can withdraw tax-free. The caveat being that there are income limitations for who can participate.

My advice to you, Amy, is that you might want to wait until the end of the year to see how your combined incomes total and what that bonus will mean for your combined incomes. If it does, in fact, exceed the limit for 2024, then take the time between January of 2025 and April 15th of 2025 because you have until April 15th of 2025 to fund an IRA for the previous year. If your income is too high, consider doing a backdoor Roth IRA during that time frame, where you first open up a traditional IRA, you fully fund it, and then you very quickly convert that traditional IRA into a Roth IRA.

Very important, make sure the contribution to the traditional IRA is non-deductible, meaning that you're not going to use it to reduce your taxable income. You get to fill out some forms in that tax return to indicate as much, and you want to work with the financial firm that you're opening up the Roth IRA to facilitate this for you, to help you and make sure that the Ts are crossed and the Is are dotted. But this is how people who exceed those income limitations for the Roth IRA can still participate in the benefits of a Roth IRA by doing this backdoor Roth option.

The other thought I have for you is maybe you just decide to file separately. But that might be more of a disadvantage tax-wise for you. So talk to an accountant about that scenario and play that out and see how things shake out financially. But I think a backdoor Roth IRA is probably your best move.

Okay, and last but not least, our friend in the audience, I'm going to keep her anonymous, just call her Kay. She wrote in with a question about what to do with her career. She's in her 40s, she's a single mom, and she's not enjoying her career anymore and wants to pivot but isn't sure about how to afford the risks.

Here's a little bit more about Kay. She's a mid-senior-level tech worker, works in a big tech company. She actually has survived multiple layoffs. But as a result of all those layoffs, the culture, she says, has worsened significantly in the past 12 months. The company is rewriting operations. There doesn't seem to be any sort of career pathway in the future for her. She says that generative AI and related automations are hurting these trends and hurting the viability of her career path.

Interestingly, she said that the company, the organization, lost 10% of its staff last year. Of that 10%, 70% were middle-aged women who were laid off. Now, Kay is 46. She has four teenage children. She doesn't have endless flexibility regarding her career and finances. She has got a lot on her plate at home, health issues, custody challenges.

Get this, everybody. Her manager turned to her and said, “Kay, you need to overcome the limitations of your family situation and stay competitive at work.” Yes. Kay said that this manager urged her to work around the clock, like many of the junior associates and the childless members of the team. Now, she's thinking like, “Okay, maybe I got to get out of here.” I think that's the right instinct.

I'm going to give Kay some thoughts but just a little bit more about her background. She actually pivoted once before. She used to work in fine and performing arts and then pivoted to tech. She says she's about 10 to 15 years “behind” most professional women her age. She has picked up a few tech credits and certifications along the way. Her resume feels very mixed. She has capped out in her current profession but hopes to work for another 20 years. She calls her finances stable, but she recognizes that she may have to save aggressively for retirement.

She's considering going back to school for another master’s, maybe an MBA, or even an engineering degree. But she's stopping herself. She says, “The trade-off feels really risky at my age.” Bottom line, she wants to know which painful path is going to be the healthiest and most productive long term. It's funny that we just assume it has to be hard, that there is no easy solution, that everything's going to hurt. What's my advice?

All right. Kay, I mean, first of all, you do have a lot on your plate, and I'm not trying to little or undermine all that you have going on. It's a lot, and I'm right there with you. I mean, being in midlife as a mother with a full-time career, in your case also in the midst of a custody battle, post-divorce, it's so much.

If you're not regularly working with a therapist, I would say start there. Start talking this through with a therapist, investing in your mental health because you're not going to be able to make any clear decisions amidst all this chaos and stress, that you want to be able to get to maybe a quieter place in your mind to be able to think more clearly and creatively about your next steps.

You're at the early stages of what is going to be, I predict, a career shift. I mean, you want this, right? That's going to be frightening because there's a lot of unknowns. There are a lot of what ifs. To me, it sounds like you're looking for a role that, one, pays well, pays hopefully as much as what you're making currently, if not more. Two, allows you to be present for your family and not have to work around the clock and, PS, not work for a company that is sexist and ageist. Because, I'm sorry, laying off – 70% of those who get laid off, having those people be mid-level women, that reeks of discrimination. I wonder what HR would feel about that.

Finally, I think you're looking for a job where you can feel passionate again about what you're doing, feeling fulfilled. There is a growth trajectory that you can enjoy. You deserve all of that, and you should have all that. My guess is, of course, you're going to have to look outside of tech for this most likely. I don't think jumping into an MBA program or a costly graduate degree is the solution. You have pivoted once, however, so you're going to pivot again, and you're going to do it well. Remember who you are.

Mid-40s, there's so much going on, especially for women. But this is where I also see many women taking those big leaps and doing it beautifully. I don't think investing in an MBA is the right move, but I do think that what could help you instead of spending six figures potentially on an MBA, maybe take like a small four-figure amount and invest it in a professional business coach or career coach. A lot more affordable and I think a lot more meaningful and impactful for what you're trying to get and figure out.

You want help identifying your next move. You don't know yet what you want to do. Jumping into an MBA program, maybe you don't want to work on that track, right? Maybe you do want to work in the arts. Maybe you do want to start a business, but it's not going to be in tech. Working with a professional, paying for professional advice to come up with the new blueprint for you is where I would spend my time and my resources.

This person should help you figure out not just what you’re passionate about but what you're really good at doing; looking at all of your work and all of your experiences, skills, your network; and creating concentric circles. Where does your power lie? What does that mean in the workforce? How does that translate? What are the roles out there that would benefit from all that you have to bring to the table? It might be something you've never even thought of, but the coach can help you.

Now, parallel to this, parallel to getting some therapy, getting a professional coach to help you with your business plans, your career plans, I think parallel to all of that, I would begin saving more. Really looking at your budget and what's coming in and what's going out and being ruthless about how you spend for a little bit, for the next six months or so to the extent that you can. Let's imagine that in six months you either get laid off or you leave. You want to have financial runway. You want to be able to give yourself, afford yourself time to put a plan in place and then execute on that plan.

I think you came to me hoping that I would give you some ideas about what you could do next like actual jobs or actual pivots. I think before you get there, there's a few steps, and that involves your self-care, your mental health, getting to work with a professional who can take inventory of all of what you've done, all of your experiences, and helping you rewrite and reroute where you're going to go next. Identifying what those opportunities could be, saving your money in the meantime.

The last piece of this is as you're thinking about what to do next, and I know that I assumed you wanted to make as much or more than what you're making now, but what if you were making less? But it would be the kind of career that would give you more time back into your personal life, to spend time with your kids, to rediscover the things that you like to do for you. I guess I'm just saying to try to have an open mind about it because money is not everything, and I know you feel a little bit behind.

If you find yourself back in a job where the pay is good but the circumstances around that job are not, you will burn out, and you'll be back in this position again. So thinking more long term and how can I adjust my lifestyle, how can I adjust the way I'm thinking about applying my skills to find a much more sustainable career path for the next 20 years. Let us know what you think, what you decide to do. I would love to hear from you, and I'd love to follow up with you.

All right, everybody. Thanks for tuning in this Friday. I hope your weekend is So Money.

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