EPISODE 295

[SPONSOR MESSAGE]

[0:00:34]

FT: Creating opportunities by starting your own business is one of the most empowering things you can do for yourself. However, it can also be overwhelming at times. The secret to getting more done isn't about finding more time, but rather finding the right tools. Our friends at FreshBooks couldn't agree more!

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[INTRO MESSAGE]

[0:01:38]

FT: Welcome back to So Money everyone. Thanks for joining me! I'm your host, Farnoosh Torabi. Well ahead of introducing today's wonderful guest I have to quickly share with you the charity fund raiser and competition that's going to be going on all month here at So Money, the entire month of November, in tandem with a charity fund raiser/competition going on with Joe Saul-Sehys's podcast. Stacking Benjamins

To tell us all about that, I brought on Joe and Joe, here you go, take the mic, you invited me on to this little fund raiser of yours and I am excited but also a little nervous.

[0:02:14]

JS: Farnoosh, I'm way excited that we're doing this together, we can raise a bunch of money for charity. And I love this, at the end of the year with Thanksgiving, for people in the United States, we end the month of November with Thanksgiving. And I thought, "What a great way for our community to help another community that might need it."

So we are going to be raising money for the Texas 4,000, which is a 4,000 mile bike ride that University of Texas students take to raise money for cancer research and cancer related causes. I know that they give a lot of money the M.D. Anderson Hospital, one of the premier cancer treatment clinics in the United States, in Houston Texas and then they also give it to worthwhile research or facilities around the nation.

We're going to be raising money at Stackingbenjamins.com/texas4000. It's cool because our organization Farnoosh, has a lot in terms of where the money goes, a lot in common with what you're raising money for. Talk about that for a minute?

[0:03:13]

FT: Yes! Well thank you that was a nice transition. So I have chosen, your team here at So Money has chosen the largest student-run philanthropy in the world near and dear to my heart as well because I was a part of this when I was in college. It's the Penn State IFC Pan Hellenic Dance Marathon. It's affectionately known as THON and it's a year long effort to raise money and awareness for the fight against pediatric cancer.

It's raised over $125 million for the Four Diamonds Fund at Penn State, Hershey Children's Hospital. Next year's THON, 2016 is what we are fund raising for now and that will be taking place February 19th through the 21st. It's a 46 hour dance marathon, I did it and I survived. It was life altering but of course it's for an amazing, tremendous, and important cause.

Thon.org/somoney is where you can go to contribute. I know it's high season for canning and this is a way to join in on the fun, anything you can do, know that it will be well spent. Over 95% of funds go to the families.

[0:04:22]

JS: That's so great. And the rider that we're riding for, who is riding in the Texas 4,000, her name is Shelby Schreiber, her father was a single dad raising her Farnoosh and when she was in high school, he started feeling bad. Went to the doctor, it turned out he had terminal cancer and he passed away when she was just in high school.

Here she is without a dad and now she decided she's going to ride this 4,000 mile bike ride in honor of him. They spend no money on the bike ride. All the food along the way, all the housing along the way has donated too. So I love these organizations but, Stackingbenjamins.com/texas4000 and I hope together we can raise a lot of money.

[0:04:58]

FT: I think we will. Thanks Joe.

[0:04:59]

JS: Thank you.

[ASK FARNOOSH]

[0:05:04]

FT: It's ask Farnoosh time, Friday, November 20th. Welcome everyone. Coming up later on the show, questions about cashing out an old health savings account, HSA, buying a home while paying down debt and out-earning your husband by a mile and preparing for a baby at the same time. How to create more income stability for you and your family.

But first, I want to catch up on our fund raiser total so far this month. As you know, all month long So Money and Stacking Benjamins, the two podcast are competing against each other to raise money for their reserved charities and here at So Money, we reserved THON which is the largest student-run philanthropy who raises money for families stricken with childhood cancer so that they can receive free medical care.

All the money goes to the Four Diamonds Fund in Hershey, Pennsylvania. We've raised $400 for THON so far this month which is fantastic. Thank you for everybody who's given, I cannot thank you enough. The Stacking Benjamins team has raised close to $1,200, three times as much as we have and of course, Stacking Benjamins their charity is the Texas 4,000. It's a 4,000 mile bike ride that the University of Texas take to raise money for cancer research and cancer related causes.

Joe was on the podcast earlier talking about that and why he is passionate about it. So we both have really amazing charities to encourage you to donate to and I am going to be donating to Texas 4,000 and Joe is going to be donating to THON but hopefully we'll win. I mean it will be nice for So Money to be the winner of the month, to say that we raised more money than Stacking Benjamins because here's what happens, if we lose then I have to read an introduction to this podcast that Joe writes. He's very good with his words and that won't go well for me.

So I would love if you could do what you can and let me know when you donate because I would like to thank you sincerely. Switching gears now, if you're someone who recently paid off college debt and a lot of it, e-mail me at farnoosh@somoneypodcast.com because I am preparing a week-long series dedicated to college in the New Year and I would like to interview someone who listens to this show who has triumphantly paid off their student loans. E-mail me at farnoosh@somoneypodacst.com, tell me how you did it and why you'd like to be a guest.

Alright, let's move on to our questions here. First up is Chelsea, she says:

C: "Hey Farnoosh, my husband and I live in California. We have an infant son and right now, we both work and make over $200,000 jointly so we're not eligible to contribute to Roth IRA's. I'm looking for ways that I can invest money but not be hit with so many tax implications. I believe we cannot invest in Roth or traditional IRA's and I don't think we can invest in non-deductible

IRA's but I could be wrong. Do you have recommendations as to how we should invest money to defer or reduce our tax bills? We have 401(k)'s, brokerage accounts, a 529 for my son and some old Roth IRA's from when we were eligible to contribute. Thanks."

[0:08:25]

FT: So Chelsea, it's a very, very good question and I think that many people are in your boat where you earn too much in order to be eligible for the Roth IRA and you're not ineligible for a traditional IRA but you are ineligible to get the tax deduction. That is the differentiator there, and just to clarify for everyone listening, when you're married filing jointly, you have to earn less than $183,000 to fully contribute to a Roth IRA. That's in 2015 according to the IRS.

If you're married filing separately, you have to earn less than $10,000 to fully contribute to a Roth IRA and if you're single or head of household, you have to earn less than a $116,000 and like I said, you can still contribute to a traditional IRA but you may not be eligible for the income tax deduction.

There is a loophole that will allow you contribute to a Roth IRA given your income. It's called the backdoor Roth IRA. You contribute to a non-deductible traditional IRA and the limits for this year are $5,500 or $6,500 if you're 50 or older and then you convert that account to a Roth IRA. It's a weird loophole but one that a lot of higher-earning investors are using to get access to a Roth's potential for tax free retirement income.

You can make the conversation, I believe the day after you fund your traditional IRA. The conversion is pretty quick and there usually isn't a tax bill and if there is, it's not very big because taxes would be only due on the conversion where your contributions have grown in value. So in 24 hours, it's not like your contributions has grown in value unless you've had some major rally that you did during market hours.

The earnings would be taxed as income at that point of the conversion but again, because it's done quickly, it's relatively small. But to make sure this goes smoothly, I highly advice you work with a financial adviser to make sure that this is done without a hitch because there are exceptions to this of course. I'm not going to get into them but straight forward, simply this is something that can be done quickly and it's one way to access a Roth IRA when you make too much money.

[0:10:46]

Jose says:

J: "Hello, I love your podcast. I have a quick questions, which is better to start, a business or invest in the stock market?"

[0:10:54]

FT: Oh my goodness. Jose, well I don't think you have to look at starting a business and investing in the stock market as an "either or" scenario. I look at this as two great options in life that you should tackle both. And I would say, start the business and think about having some money go towards long term investments like retirement long term investments in an IRA, a Roth IRA or if you're currently working in your employer's sponsor retirement account like a 401(k) or 403(b).

These are two big goals, two important goals and I don't see one necessarily taking precedence over the other. Your future is important. Investing in the stock market is important for your future, for your retirement. If you're asking this simply from an ROI standpoint, return on investment, gosh, if I had a crystal ball I would be in a different line of business. I wouldn't be doing a podcast, I'd be answering people's questions about everything and anything.

This is a question that is a big question mark and depending on the kind of business you want to pursue, the risks you're willing to take, it's anyone's guess. I love that you think that I have the wherewithal to know the answer to this but I don't. I don't know Jose, but I would say if you're interested in starting a business, go for it and make sure that all the while you are being attentive and respectful of your future and you needs in the future by opening up the appropriate accounts to get you on a long term savings strategy towards retirement.

[0:12:31]

Next, we've got a question from Britney. She says:

B: "I'm a regular binge listener to the show. I love the stories and the advice you offer. My question is regarding what my options are for dealing with an old health savings account. Since changing jobs and enrolling in a non-high deductible health plan, I no longer qualify to contribute to it. I have however continued using it for medical expenses and the balance is approaching the minimum level required by the bank servicing the account in order to avoid a monthly maintenance fee. I really don't like the idea of the bank tapping those funds because I am taking advantage of the intended benefit yet I am barred from keeping the balance above a certain level in order to avoid the penalty. Is there anything I can do with that account so that I can continue to use those dollars to my advantage without incurring any taxes or penalties? I appreciate your advice."

[0:13:25]

FT: Well Britney I feel you. I wouldn't like the idea of being charged a fee because I can no longer maintain the minimum balance because you're prohibited from contributing to the setting any longer because you're no longer with the employer.

Listen, I would just try to find a way to use up all the funds once and for all within a very short period of time to avoid the maintenance fee. Just deplete the account, spend it all. You can use your HSA funds for IRS qualified expenses, as you know, and it's everything from dental treatments to vision care, visiting your therapist, acupuncture believe it or not.

So there's a lot that you can do with this money, that's your money and I would say to work around this, you've got to work fast. You got to get those funds used up into your benefit, hsabank.com has a whole list of qualified expenses. Use this money well and quickly. It's kind of unfortunate but there is a way around this and that's just spending quickly.

[0:14:22]

Michael says:

M: “An active listener from London!”

[0:14:25]

FT: Well hello Michael!

[0:14:26]

M: “Learning off you amongst other finance experts, you all work for yourselves, I would love to start learning and ultimately be my own boss but I have no idea where to start. I currently work for a prestigious university earning a decent salary, cutting my credit card debt and likely to purchase a home in the next five years. Can I do these things simultaneously or take one thing at a time? Thank you so much. Love the podcast and I recommend you on this side of the pond.”

[0:15:54]

FT: Well on this side of the pond Michael, thank you so much for your loyalty to the show and for sending in this great question. You’re clearly super ambitious. Love to know that my listeners have so many great goals. And I would say, call me optimistic, but I definitely think you can accomplish all of this as long as you give yourself time and you plan appropriately. I think you can slash debt and buy a home in the next five years, sure.

It depends on how much debt you have but as long as you are not in a big rush to buy that home, as long as you’re prioritizing your debt payments and not just paying the minimums but really putting a huge chunk towards that debt every single month. Remember, your credit will be critical in your ability to qualify for that mortgage and in the future, if you want to start a business, credit will also play a role as you maybe go out and try to find loans for your business or opening up business credit cards.

Priority is to get out of debt. If you're looking to take these baby steps or one at a time, it's a debt that has to get out of the picture ASAP. Take it off the plate and then from there, you're going to have more options and you'll have the disposable income that you didn't have before, that's no longer going towards the debt, that you can use towards more aggressively in saving for the home and for the business.

There is nothing that will prevent you from planning. You don't need to have savings to plan. You can be in debt and plan. So if there is one thing that's going to happen simultaneously, it's paying off the debt and planning because once the debt is gone, then you can hit the ground running and you've got cash in your hand.

Good luck to you and let me know how the business goes. If you've got any questions as you are paying down this debt or about to embark on buying the home, let me know. I love hearing more and more from my listeners as they evolve and as their lives progress.

[0:16:47]

FT: Sharon says:

S: "Hey Farnoosh, I'm loving your show. I think this question speaks a lot to what inspired you to write your book, *When She Makes More.* I have a very sweet supportive husband but I find myself in a dilemma. We are newlywed, I am 35, so we need to plan our family soon and I vastly out earn my husband. He doesn't even earn enough for childcare and I'm self-employed so when I don't work, I don't earn. I definitely don't have the savings to fund a maternity leave either. I'm wondering what are your tips for professional women like me who feel attention to have to work as much as possible to support the family? I feel a lot of anticipatory stress about having a family and having all the financial responsibility on me plus that naturally with breast feeding and childcare, a lot will be naturally be my domain as well. Help!"

[0:17:38]

FT: Alright Sharon, I wrote my book for you really because I feel your pain, I felt your pain and I have to say one of your advantages right now is that you're not pregnant, in a way, because once you're pregnant, things move very quickly and it feels like you don't have time to plan but you know what you want. And so take this time to plan accordingly, and it may be making some huge shifts and changes in how you're running your life with your partner. And that's a conversation or a series of conversations that you need to have. Planning is even more important for you and your partner at this stage.

You have to really talk about how to bring a baby into your family will require more financial stability, it absolutely will. You're going to need some security blankets in place and at the very least, you want to start saving every single penny right now. You mentioned the income disparity and I know it's huge but your husband still earns something and it can help if he dedicates the next year or longer to just banking his income.

Imagine that, banking your entire salary, living off of just what you make. It will require reducing your budget obviously a little bit but if he can just put his money to the side and use that as your emergency fund, your security fund to help through uncertain financial times once the baby is born to help support you during the maternity leave and the family. Giving his money this meaning will be major. And I think as a man, he'll feel really positive about that because this is a way for him to really identify his financial contribution in a significant way and it is significant.

He may not earn enough to pay for childcare on a monthly basis or the everyday bills but saved over the long term starting today until that baby is born and even when the baby is born, continuing to put his money aside to be there for the family in the event that there will be a need for it and there will. That's, I think that's step one.

You also want to talk to your husband about if he's not making enough money today, can he look to make more money in the future, in the near future? Start looking for higher paying work. Start developing the skills now, taking the night courses now to then be attractive to those employers that are paying their employees more money and at the very least, if you can find a job that has substantial health care benefits.

Because pre-natal and delivery expenses are not cheap if you're not covered by insurance. My hospital bills, just the two days that I was in the hospital was $13,000. Of course, I had insurance so it paid everything. I did not pay a penny, but imagine I had to pay $13,000 just to bring my baby home? Lock that down and protect yourself by getting that insurance and if it means your husband has to switch jobs to get to work for the company with a better benefits even if his salary doesn't change, that could be your saving grace in some ways.

Finally, yeah childcare. What kind of set up is ideal for you? Take the time now to think about what kind of arrangement would be ideal for you? Would it be a full time nanny? Would it be a part time daycare situation? Would your husband want to stay at home for the first six months? How much time do you want to take off? And be honest with yourself. I felt this pressure to go back into the workplace as soon as I had Evan.

I just felt that I was going to immediately lose relevancy. I don't know, I had this impatience and I think that was wrong. I think I should have been a little more patient with myself and my body healing and the experience and the bond with Evan. I think you can't replace that. And so ass an entrepreneur and as someone who works for herself, that's a challenge but also an opportunity because you have the opportunity to make your own schedule in some way.

If you know and you can anticipate that you want to have this family, you might be able to take those steps now to be able to arrange for that once the baby arrives. So lots to think about, lots to plan for but you're asking these questions at the best time possible, when the baby is not in the picture yet and when you can actually think and reflect and plan and change and shift gears and change your life in a way to be able to make room for that baby and to be able to feel secure as a family once you're a bigger family. Good luck and thanks for your question.

[0:22:12]

Natalie says:

N: "Hey Farnoosh, I listen to your podcast every day and I am excited to have a question for you. My husband recently accepted a new job and his income is increasing by 80%."

[0:22:23]

FT: Wow, high five!

[0:22:25]

N: "As our income increases, we would like to re-evaluate our budget and our goals. Would you suggest we meet with a financial planner or a financial advisor and if so, how do you suggest finding one? I'm not looking to buy a lot of products. Thank you."

[0:22:40]

FT: Natalie, I think if you just want budgeting advice, you don't necessarily need a financial advisor. Although I have a financial advisor, I find them very useful if you talk about budgeting but also retirement planning and insurance and investing and estate planning. You're saying you don't want to buy products but maybe you do need life insurance, maybe you do need that will and you don't it yet. A financial planner can help you connect those dots.

A few guests that I've had on my show before, Sophia Bera of Gen Y Planning, Alan Moore of XY Planning Network, both financial professionals who may be able to help you with this single question of budgeting around a higher income and I would say that your impulse may be to add more to your life because it's exciting. 80% increase is huge. You might want to buy the house, get the better car, more vacations.

But take a step back and just think about how you can use this money to create more security in your life. If you're looking to find a financial planner outside or Sophia and Alan whom I mentioned already, check out Napfa.org, that's the National Association of Personal Financial Advisors — N-a-p-f-a.o-r-g. I also like Garrett Planning Network — garretplanningnetwork.com. These two sites will hook you up with a certified financial professional in your area. These are fee only advisors, they don't make commission off any products they sell you and that's a good thing.

Wow, are we at the end of that? That was it. That was a lot of stuff, right? Thanks so much everybody. I got a little carried away there. Natalie, Michael, and Britney and Jose, thank you everyone for sending in your questions. I have a really smart audience. You guys are asking really intelligent questions. It feels good.

Thank you everyone. I hope you have a great weekend. Just a week until Thanksgiving, what are your plans? I'll be going to Pennsylvania to visit my in laws and we're going to have a great turkey day. I'll be back in New York on Black Friday for a Today Show segments. Stay tuned to NBC on Black Friday morning because hopefully, you won't be in the stores. I will be talking about what deals to avoid and what might be some good buying opportunities on Black Friday and the weekend.

So in the meantime everyone, thanks again and hope you have a So Money weekend.

[END]