EPISODE 305

[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!

FreshBooks has created an amazingly simply invoicing tool designed for small business owners who need to focus on their work, not their paperwork. Oh, and invoicing is only the start! FreshBooks lets you know instantly when your client has viewed your invoice, and even imports your expenses directly from your business chequing account. Get ready to say "goodbye" to searching for receipts when it comes to tax time.

If you do have questions, just contact the award-winning FreshBooks support team and get help from real live humans, no phone tree, no "let me escalate that", just helpful service at the drop of a hat. To try FreshBooks for free for 30 days, just go to FeshBooks.com/somoney and enter "So Money" in the "How did you hear about us?" section.

[ASK FARNOOSH]

[0:01:39]

FT: Welcome back to So Money everyone. It is Friday, TGIF and joining me for a special Ask Farnoosh episode is my friend, you know him, he's a friend of the show, Alan Moore. He is the founder of XY Planning Network and a certified financial planner. By the way, XY Planning Network is a fee only RIA. Its location is independent so for those of you who don't want necessarily find someone in your town, can't find someone in your town, check out XY Planning Network.

Alan, you've been on the show before as a subject. I've picked your brain about money and now, happy to have you back on for another round of Ask Farnoosh. How are you? Happy post holidays.

[0:02:22]

AM: Thanks so much Farnoosh, it's a pleasure to be on and happy holidays to you as well.

[0:02:28]

FT: How was your Thanksgiving?

[0:02:30]

AM: It was wonderful. It was relaxing, which is always the goal.

[0:02:35]

FT: What do you find this time of year is what people get really antsy about, financially? What's top of mind right now, besides of course how to score the best shopping deals?

[0:02:47]

AM: Black Friday deals are always fun. I see taxes really being the stressor around holiday season because you're running up on these like, "What are the deadlines? Can I still contribute to an IRA? Can I not? What do I need to do?"

But ultimately, what ends up happening is really from Thanksgiving to Christmas people just kind of shutdown and just turn it off. They want to turn it back on at the beginning of the year which sometimes is too late to make some decisions. The end of the year is always a weird time for financial planners.

[0:03:15]

FT: Yeah and it's weird for me sometimes too. I am sometimes one of those people that tries to shut down because there is so much going on and the thought of, you know, that taxes are looming. If you own your own business, you have to file earlier than most people. If there is an extra couple of hours to myself, I try to just kind of do or at least lay the foundation, the overlay for my taxes so I know at least what the categories are that I have to go back and fill as far as expenses and every little bit goes a very long way once the New Year rolls around. Because once it's the New Year, you've got other priorities. And money sometimes still…

[0:03:53]

AM: Absolutely.

[0:03:54]

FT: …gets to the end of that list. And so, we have a number of questions today Alan. We've got questions about student loans obviously, retirement and so excited to dive into these with you. The first question we have is from Chow. This person says:

C: "I am married. My husband was previously married and has joint student loans with his ex. He pays roughly now $200 monthly toward the loan and I believe that he once told me it was $30,000 in total but I'm not sure if that was just his part of both or combination, because at some point in the past they did refinance the student loans together. How does he get out of this student loan and break away?"

[0:04:37]

FT: She says:

C: "I can help him pay off his loans but I don't want the risk of having to pay off hers, the ex-wife, on top. How does he get out of this loan mess essentially? Thanks so much."

[0:04:48]

FT: You know, it's nice if you could able to get out of your student loans if that were only the case. I think that this is a road that he is going to have to stay on with his ex-wife for some time until this is reconciled and because they refinanced jointly, it is now both of their responsibilities and I think that the best that really as the wife that she can do now is to continue talking to him about it and not interfere financially or otherwise. And just make sure that he is doing what he has to do to get out of this appropriately as oppose to dodging it, right?

[0:05:25]

AM: Yeah, student loans in divorce are really tricky. They have not written a lot of rules to make it possible to split student loans. So I think the important part is when anytime the student loan is going to be tied to the student because their name is going to be associated with it. It sounds like since these were refinanced, it's possible these are private loans?

[0:05:42]

FT: Yes.

[0:05:43]

AM: So, you have private loans and publicly backed loans; private loans you may actually be able to refinance your half and basically split these into two loans. So let's say there is $30,000 in loans, they could possibly go in together and refinance individually so they each have $15,000 so that Chow's husband can pay off their portion of loans without having to worry about what the ex-wife is doing with her portion.

That is possible and there are some new companies that have come out like Common Bonds, SoFi that may be able to facilitate that. So there may be some possibilities to at least separate them so you know how much are your loans and how much you get to deal with them once they get paid off their off.

If these are public loans and they're all tied up together, it's basically impossible to refinance your half out of them but what you could do is pool the money together. Go and basically make one big payment, probably with the help of an attorney. Be sure that the ex-wife signs something saying, "I am relieving you of your responsibility of the other half of these subsequent of the divorce or whatnot." So there are probably some ways to handle this.

[0:06:48]

FT: Sure, yeah. That's what I'm going to suggest too, is that they can't go in the lender route to refinance equally or somehow divvy it up legally. They could do that on their own essentially with a lawyer and both parties have to be in agreement that, "I'm going to take care of 50% or 60%, you can take care of the rest," but it's a process.

I think as far as the wife, I think the most she can do, the best she can do is make a suggestion and say that you heard this on So Money podcast. Throw me under the bus, okay? Just tell him that was my idea and Alan's idea and so you can kind of avoid any awkwardness there but good luck and I'm glad you're asking this question.

It's important for spouses to be involved to some extent, to at least be in the know of what's happening and I know with marrying for the second time, there's a lot "baggage" that can come from the previous marriage that will impact your new life together. It's important to really be on top of it.

Meg says:

M: "Hey Farnoosh!"

[0:7:48]

FT: Ah here we go Alan, a question about taxes.

[0:07:51]

AM: There they are.

[0:07:51]

FT: Yeah. She says:

M: “My husband and I got married this July,”

[0:07:56]

FT: Well congratulations, newlyweds still.

[0:07:58]

AM: Yeah, congratulations Meg.

[0:08:00]

FT: Yeah, so great. Her husband is self-employed, he’s a musician. He has variable income and expenses. She says:

M: “I work a pretty reliable salary job. We’ve each always filed our own taxes separately and I’m wondering how do we know which is the best way to move forward to file? Is there an estimate that can show us pros and cons or should we talk to someone?”

[0:08:21]

FT: Well, I will say just really quickly Meg, my husband and I are in a similar situation where I have very sporadic income like your husband, the musician. Because I’m self-employed. I also don’t have a consistent paycheck and my husband has a very consistent paycheck, which is nice for the relationship but at least there is some certainty financially.

But when it came time to figuring out our taxes, I was in the same boat, and basically I consulted with our financial, in that case, our certified public accountant who ran the numbers and essentially the bottom line is you want to figure out are you going to save money or pay more money by filing jointly or separately?

Now, you have to file married, that's obvious, but whether you file separately or jointly is still up to you and I don't know, there is like, Alan, you can go into this a little bit more because I don't want to make this more confusing but basically, that is the math that you have to do. It is to figure out as far as the exemptions go and there is also the marriage.

How does your income combined put you in a certain tax level, which might mean you are exposed to a higher tax bracket. There are all these things to consider. What would you say Alan?

[0:09:37]

AM: Totally agree, so really we are trying to make the decision. Do we do married filing separately, married filing jointly? And generally speaking, married filing jointly is going to be the way that you'll end up going. <arried filing separately can make sense if one party has really, really high income and the other has really, really low income.

The variable income usually isn't that big of a deal but you can do one other couple of things. Meg asked about a calculator, the IRS actually has an income tax calculator on their website. You go and type in all your income sources, deductions and all of that and you can click, "we're going to do married filing separately," see what the bottom line number is and then "married filing jointly," see what the bottom line number is.

The trick to married filing separately is that there are a lot of tax credit and tax deductions that you're not eligible for if you file married filing separately. So the question is really are you eligible for any of those credits and deductions and every credit and deduction has a different set of rules so we can't do it on this podcast but if you go through a tax calculator, it's going to grab all that information.

But I will say, I think CPA's are worth their weight in gold. They are generally not that expensive so paying them two, three or four hundred bucks especially if you have someone that's self-employed. So there is a lot of deductions that self-employed individuals get that salary, employees do not. I think it will be absolutely worth talking to someone but you can do this online if you chose.

[0:10:56]

FT: Awesome. Yeah, it's definitely worth it in this case, you could just go in like you said for this a la carte question. We need to know what to do, but that's great to know the IRS has a calculator as well.

What do you know about back door Roth IRA's Alan? This is regarding our next question. I did touch on this on the last episode, last Ask Farnoosh last week, which is somebody was saying, "I make basically too much money to contribute to a Roth IRA. Is there any other way that I can get investing in an IRA of some sort that would be tax beneficial?" And so we talked a little bit about backdoor IRA's, Roth IRA's but this person, Omead, who writes in, he says:

O: "First of all, I love your podcast."

[0:11:37]

FT: I just want to say those are his words not mine, he says:

O: "I absolutely love your podcast!"

[0:11:41]

FT: Thank you Omead and he says:

O: "Thanks for educating and empowering the masses. I've always been a good saver but not a good investor. I recently learned about Roth IRA's, however I make too much money to contribute directly. I've been reading a lot about backdoor Roth IRA conversions, not sure of the consequences. Is this just too good to be true?"

[0:12:01]

FT: Now first, to explain what a backdoor Roth IRA is, it's a way to contribute to Roth IRA when your income exceeds the contribution limit because there is no income limit and contributing to a non-deductible traditional IRA, you do that first and then you convert to a Roth IRA and that's the backdoor represents. Is it too good to be true what your people be aware off as far as any maybe drawbacks or complications?

[0:12:34]

AM: Yeah, this is a tough one. We've been doing this for years. We've been doing this since 2010, it was really when these became popular, and so far I'm not aware of anybody that has gotten in trouble for doing it but we do have a couple of recommendations. There is this concept that the IRS has called the "Step Transaction Doctrine", which is a really fancy way of saying that they can basically look at all of the steps that you took and basically consolidate them in and say, "Does this follow the rules?"

So you contribute to a non-deductible IRA, you convert it to a Roth IRA using a backdoor Roth conversion, so therefore we combine it all and you contribute to Roth IRA which is non-permissible. From a purely legal standpoint, I generally don't recommend these unless you're working with a CPA or a financial adviser that can help you kind of navigate the process.

But if you insist on doing it, generally what we recommend is you make the IRA contribution in one year and do the Roth conversion in a separate year so that hopefully, the IRS would not look at that as a single transaction and combine them all. They would look at it, "Okay, in 2015, you made this contribution and then in 2017, you did the conversion later on." So if you're going to do a backdoor Roth conversion, at least try to separate the years in which you did the contribution and the conversion.

[0:13:56]

FT: And then also, it doesn't look like you're trying to basically capitalize on a loophole.

[0:14:00]

AM: Right, don't try to gain the system because the IRS is notorious for going back and then grabbing folks for doing this. These are generally so small. I mean honestly, a $5,000 Roth conversion is just small dollars to the IRS but if you are in a position where you've been contributing for years and years and years, you have a really big non-deductible IRA and then do a conversion, it's a question as to whether or not that's a good idea. Anyway, it just depends. There is no right answer on this one, it's just a tough one.

[0:14:30]

FT: Yeah but I will say, you mentioned like the IRS doesn't go after small money, they do. There's always that headliner around taxes and that's like, "Tax representative, IRS representative shows up at someone's door for like an 18 cent."

[0:14:42]

AM: This is true, you're absolutely right. I mean it just depends on who shows up in their system as a red flag.

[0:14:48]

FT: Yeah, oh my gosh. Alright, that's a good point. To mention that, I didn't know that waiting the year is the way to go. Alright, so Carl now is wondering about starting a blog or a website, developing a profitable online income stream. He says:

C: "How do I start from scratch? Whom can I use to work on…"

[0:15:08]

FT: Hold on a second, I think he has a typo here in his question so I'm going to rephrase. He says basically,

C: "Who can I use or what resources can I use to help me build my business from scratch since I don't even know where to begin learning how to blog/build a website? There's just so many people out there with books and services that I don't know where to begin or how. Please let me know how to get going and who to contact as I trust your judgment."

[0:15:33]

FT: Well, thank you Carl. I appreciate that you have this trust in me and I would say, don't worry, and I'm curious to know what you think Alan too. I would say that because both of us are part of the financial blogger community. I would say to Carl, don't worry so much about who's doing what and if you're getting sold and marketed a bunch of products and courses, just put those to the side right now.

Your first step is to figure out what interests you enough to write about consistently? Because one of the key ingredients to a successful blog is consistency. It's to be able to interact with your audience, engage with your audience and share regularly. Why people come back for more and more and more and they know what to expect.

Similar to this podcast, I knew that at first it was seven days a week and I was crazy. Then I went down to five, people still refer to me as that daily podcast. They know that I'm here pretty much every day and they can come to me almost every day. They like that and you're building a very specific audience in that way.

So first, figure out what it is that interest you that excites you enough where you wouldn't mind working through lunch. You wouldn't mind working and writing about your ideas through the wee hours of the evening. Start with your passion. I know that's cliché but really start with what interests you and then obviously, you've got to make sure that there is a market for that too.

Usually, there is if you're willing to be really specific about what it is that you want to be a voice in, what you want to be a leader, a thought leader in. And then from there, there is a lot of people that I personally like to watch and learn from and many of the people that I've had on my podcast. So Ramit Sethi is really great as far as teaching people how to build an online business. And his website is a great demonstration of also how to build a really compelling, rich website, how to write to your audience in a way that matters and is influential.

I like Jeff Goins is great — G-o-i-n-s. Natalie Lussier is someone, again not names that you might know, but L-u-s-s-i-e-r, she talks about how to build engagement on your website through your list and how to really write to your audience in a way that is compelling.

And so I would say, identify the people that you like and the subscribe to their websites to then learn kind of passively/actively through them as oppose to first putting out all these money to buy a course or to buy coaching. Just kind learn through your experience and your observations. That's where I would say you start.

How about you Alan, what do you think are some good resources for him?

[0:18:23]

AM: This is such a good question and it's one that I'm seeing more and more as more bloggers that have been successful, and have sold blogs for a lot of money and have created these great side income streams but I would say there is a couple of pieces. First, I would lay out just a little bit of caution and the caution being in my opinion, and this is only my opinion, a blog is not a business.

A blog is a marketing tool for business and so ultimately, blogs don't make money. You sell things using your blog. Now, maybe you sell affiliate links or you sell e-Courses or you sell a recipe book if you are a food blogger or you sell coaching, consulting, speaking or maybe there's a bigger business behind it. As a financial planner, I may use blogging to drive ultimately the readers to become clients of my financial planning practice.

So the first thing that I always recommend to folks who are looking to start a blog is, "How are you going to make money with it? What's going to be the business aspect?" Because if you get into this and it's not right because you love it and it's awesome but they're going to have this massive community of people that just enjoy your free content and then getting them to pay for something later on can be a bit of a challenge. It's just something to think through.

Another resource is a group like FinCon, which is something that Farnoosh, you and I are involved in and this is a group of bloggers that focus on money topics and that is obviously a very wide range of folks. But there are other organizations out there but FinCon is a really good example of a place that you can come, it's an online community, they have a private Facebook group that you can ask questions, you can learn, you can get opinions, you can come to the conference and just learn a ton of awesome information.

And non-money bloggers come to FinCon. I've seen people have mattress companies or have food blogs will come out but try to tap into other communities that are doing similar work in kind of a similar area because it's a really great way to learn. It is also good to see what's out there and how you can differentiate yourself. What is going to make you different from all the other blogs that are on the similar topic? What is going to make people come and read your content? That's another idea in terms of just getting involved to learn.

[0:20:32]

FT: Yeah, Facebook is a huge resource, as long as you know there are organizations to tap into. And a lot of times, they will lead you to more rich resources whether it's a conference or a meet up, so I would say there's no need to really invest your dollars right now into anything.

[0:20:50]

AM: Agreed.

[0:20:50]

FT: Yeah. Alright. Amanda writes in and she says that she was listening to a previous Ask Farnoosh earlier in November and we were discussing the importance of term life insurance and it raised a question for her. She says:

A: "You noted that it's important for parents, what are the most important steps for singles to be taking for insurance? I have medical and dental insurance, I have renter's insurance, my work gives me short term disability at 50% of my salary, long term disability at 60% of my salary and I get a life insurance amount that is 50% of my salary. Is that enough for someone unmarried and childless? Is there anything else I should do?"

[0:21:29]

FT: Well, she sounds like she's got a lot of her bases covered as far as health and dental and even disability. I don't know Alan, I feel as though if you're single, if you don't have any financial dependents, it may not be children but maybe you're taking care of an elderly parent, you might be taking care of a nephew or a niece, there is really no immediate need for this robust life insurance policy, right?

I mean arguably, you don't need any life insurance if you're single, unmarried, childless, no financial dependence, or am I wrong?

[0:22:00]

AM: I completely agree. There are two schools of thought out there when it comes to life insurance and one school of thought is really pushed by the folks that are selling insurance and then the other one is pushed by those of us that aren't selling insurance. I would say that my belief is that you use life insurance to protect someone in the event of your death financially.

Meaning that if someone is depending on your income to be coming in and they would be harmed by your death and loss of income, then you need to have life insurance. So to your point, that could be a parent that you're taking care off, it could be a child, it could be a significant other. Whatever it is, if there is someone that will be affected by your death financially, then it makes sense to have insurance.

Based on this question and what it sounds like you've got going on, I would say having the through work that's 50% of your salary would be enough to cover things like funeral costs, some burial expenses, things like that that do come up whenever a person passes away. But beyond that, I don't see a need just based on the information that we have that you would need more life insurance. I agree with what you're saying.

[0:23:03]

FT: Alright Amanda, you're off the hook for now. You're doing a great job though with other types of insurance.

[0:23:09]

AM: Agreed.

[0:23:09]

FT: And then finally, Maggie says:

M: "Do children inherit their parent's debt in the event of their passing?"

[0:23:17]

FT: Now, I just did my estate plan a little while ago and I believe I recall our estate planning attorney mentioning that our debt would basically go to our estate, and depending on the debt. Some debt is no longer required to pay off in the event of your death, but you have to read the fine print. Some of the debt like credit card debt could go to your estate and if you're leaving your estate to your children, then ipso facto they're sort of not inheriting it but they are — now they have to deal with it.

[0:23:55]

AM: Absolutely, so this is again to your point, it depends on the type of debt. For instance, student loans that are backed by the government go away at death. No one will ever be responsible. It doesn't matter if it's a partner or a child or a parent, no one else is going to be responsible for paying off your government backed student loans whenever you pass away.

But a credit card debt could potentially be paid by the estate, so what that means is if you have a million dollars in net worth and you have a $100,000 of debt, basically $900,000 is going to pass to your heirs. For the most part though, if you have no net worth but you do have this $100,000 in credit card debt, generally speaking that's going to go away. They're not going to come after the children for money that they didn't get.

So that's what Farnoosh means whenever you say tax, basically the estate gets taxed or not taxed, I'm sorry. The estate becomes responsible for paying off the debt not necessarily the children. It depends on the net worth and what's actually being passed but most debt ultimately does need to be paid. A mortgage, they would require the sale of the home in order to pay off the mortgage or refinance the mortgage, things like that.

So every debt is just a little bit different but student loans are honestly the one that I hear the most confusion about because people think that someone else is going to get stuck with that. That is not true unless they are co-signed private loans.

[0:25:16]

FT: Right, right. Well Alan, thank you so much. This is a lot of clarity for all of our listeners and myself as well. Tell us a little bit about what you're up to these days? What's on your radar? What are you working on?

[0:25:28]

AM: Great question. Really my focus has been on the XY Planning Network, which you mentioned on the intro. We are basically a network of financial advisers that are serving Gen X and Gen Y clients. Historically, the financial planning profession has always been about helping rich people essentially spend and save their money and invest their money.

And so they were only helping folks that already had assets. We wanted to figure out how do we bring financial planning to younger clients who don't have assets yet? That do have student loan questions and mortgage questions and all the questions that we're answering on this podcast today. And so, we now have a 175 advisory firms that are underneath our umbrella. We've been fighting a lot of battles in the advisory world because we were told that young people don't need financial planning or they don't want to pay for financial planning and we're finally starting to see that breakdown and see more and more advisers shifting their focus.

Our focus is "how do we bring real financial planning, is what I call it, but fee only. Which means no commissions, no insurance sales, just a focus on financial planning to younger clients and so, that's kind of been my focus over the last few months and will continue to be going forward and how do we continue to expand this network to bring financial planning to more clients.

[0:26:40]

FT: Awesome, I love it and I love that you don't have to also work with a planner. You're not locked in. You can go and ask your question and go away and come back and use the resources on them on an as needed basis. Hopefully, eventually in a more continual basis but I know when you're just starting out, you just have these really tough questions and you don't want to hunker down thousands of dollars or pay fees up the wazoo.

You just want to learn slowly but steadily and I see that really fitting a need here so thanks for the great work that you're doing and happy holidays to you and your family.

[0:27:15]

AM: Thank you so much, I appreciate it. And you as well.

[END]