EPISODE 345

[SPONSOR MESSAGE]

[0:00:32]

FT: So Money is brought to you today by Wealth Front, the most tax efficient, low cost, hassle free way to invest. Visit Wealthfront.com.

[ASK FARNOOSH]

[0:00:43.1]

FT: Happy Friday everyone, welcome back to So Money, it's Ask Farnoosh time. I'm your host Farnoosh Torabi, thanks for joining me and thanks to everybody for sending in those questions. How's your week going? This week has been quite eventful here in New York, of course we had the blizzard and we were snowed in completely on Saturday, I did not step out of the apartment. Sunday, hoping it was not going to be a work day for me but the show must go on, the CNBC show that's airing March 23rd called *Follow the Leader*, we're in the trenches right now.

Filming for that show and Sunday we began day one of one of our profiles so the point of the show is that I follow these entrepreneurs one new entrepreneur every episode for about 72 hours, three days more or less. And this week I was following a very famous record executive, I'm not going to name names, but a very famous record executive and we went from a fitting for tuxedos for one of his bands that's on their way to the Grammys, we went to Spotify, we went to YouTube, we went to his office, we were driving in his car, we stopped at Cat's deli because the man likes to eat whenever her likes to eat.

It was me just chasing down this guy for three days, went to a rap concert on Tuesday night, never really done anything like that. Met a lot of R&B and Hip Hop and rap people and that was so cool because when else am I ever going to be able to do that? Stay tuned for that show, I'm really proud of the work that we're doing and for me this is the job of a lifetime besides of course hosting this podcast.

Which I think has really allowed me to be someone who can now take on a show interviewing really interesting and experience and successful people about how they work and how they invest and how they make money and how they execute business. So stay tuned for that show, I've been teasing it nonstop on this podcast, it's called *Follow the Leader*, March 23rd on CNBC at 10 PM.

Okay let's get to our questions here, we have a question here for Mike. He says:

[0:02:49]

M: "Hey Farnoosh I know I just missed college week with this question but it's something I've been pondering for a long time. Currently I'm paying back $27,000 on graduate student loan debt at six and a half percent. My payment is $174 per month with 14 years to go. Currently about $30 a month goes to principle.

The lender service claims I cannot pay additional to the principle and this has led me to other options, one option is I have a home equity loan at 4% for 15 years and the ability to pay down sooner. I also have $110,000 in equity in my home, my job pays me a salary but also quarterly commission. I'd like to start applying that commission to the student loan."

[0:03:39.5]

FT: Mike, I think here you raise a really interesting point, you want to pay down this loan. Some lenders, you got to read the fine print and it's not common but in some cases they will say, you can't pay extra towards the minimum. They want you to keep that loan for the duration that they have lent it to you, or you just have to pay it off in one fell swoop. Which still may come with a bit of a pre-payment penalty.

But if you're paying it all in one fell swoop, maybe it's worth the small penalty that you have to pay considering al l the interest you might pay over the life of this loan. If I had to kind of look at the pros and cons to each of these options, the home equity loan that you have, 4% for 15 years, if you have whatever it is, $27,000 that you can take from that home equity, the pro I should say first is that it's a smaller interest rate.

You're going to pay less interest over time and you can make as many payments as you want towards that home equity loan, perhaps there's not a prepayment penalty there. The risk though is you may want to sell the home at some point and if you do and you still have this outstanding home equity line of credit, you're going to have to pay that off relatively quickly. Just keep that in mind if that is something that is in your near future, this may not be the best way to go.

Option two is that your job pays you a salary with commission. I kind of like that route better. If you maybe strike it big one year or over the course of a couple of years can save up to the amount of your student loan debt and then just use that to pay it down then that might be a really smart way to go. I think that there should be something to be done because six and a half percent is pretty high and if you have 14 more years to go, that's just too slow.

Think about also the interest deduction, that could be helpful but if this is something that is weighing on your conscience and the interest is adding up to be quite the number over 14 years and you're rather have that money saved then yeah, find a way to refinance this loan somehow or more or less pay it down using another source of debt that is of a lower interest or just straight out cash to pay it off. I kind of like the cash route better. You're not transferring one loan to another loan, it's just paid off and you can move on with your life.

Aubrey writes in and says:

[0:06:01.5]

A: "I inherited $70,000 in index funds and I'm using that to pay for college and I'm pulling these funds as I go to pay for living expenses and to support my parents. I buy my own insurance through Covered California which I pay each month, it's based on my declared income for the year. I signed up for the silver plan and I quoted my income for the next year as $26,000 and I pay $200 a month for insurance.

My question is, should I get student loans to cover tuition because without it, I fear that my expenses for 2016 will quickly go over what I told the insurance companies. I have very little understanding of my tax obligation now that I've inherited this money and I worry about it going over what I declared.

[0:06:46.5]

FT: Aubrey, definitely you want to talk to a certified public accountant for this question because I don't have all these answers for you. I think that income should not include obviously student loans and you figured that out. So I think having the student loans to cover tuition because they don't count as income will be a good thing and will allow you to maintain your monthly insurance rate.

However, you do have this inheritance and that may be counted as income for 2016, you just need to go and talk to an accountant about maybe there's a way to defer that income, maybe there's a way to shelter that income from tax exposure but that's really where maybe paying a few hundred dollars for an accountant to sit down with an accountant for a couple of hours or an hour or whatever you can afford to answer this question for you, I think it would be money well spent. You probably will save money with the advice that you get.

Elizabeth says:

[0:07:47.8]

E: "Hey Farnoosh, I just received a huge raise, $20,000."

[0:07:50]

FT: All right!

[0:07:51]

FT: "Pinching myself," she says. Not me, but I'm pinching myself too.

[0:07:55]

E: "I immediately changed my 401(k) contributions so I would max out my contributions this year."

[0:08:00]

FT: Well how So Money of you Elizabeth. She says:

[0:08:04]

E: "However, I just started a Roth in 2015 with some bonus money but I didn't max out the $5,500 limit. I was thinking that I should lower my 401(k) contributions through April and stick the extra money each paycheck into my Roth? I don't think I have many years left of being eligible for the Roth."

[0:08:24.7]

FT: Yeah, Elizabeth I like the strategy, I like the ability to diversify your retirement savings while you can. A Roth as you said and it's true, you'll max out at some point based on your income, you'll be ineligible to save for a Roth once you make a certain amount of money. I believe it's like over a hundred thousand dollars not the specific amount off the top of my head, the IRS updates that every year.

But yeah, I think if you have the ability to invest in a Roth, do that to the best of your ability and then with everything left that you have to save for retirement, put that towards 401(k) contributions. At best you're investing your 401(k) to earn at least whatever match if there is a match that your company will generously provide. Make sure you're also taking advantage of that simultaneously but I like your strategy, I like where your head's at, you're So Money. Congratulations on the raise, congratulations on having a more secure retirement.

Okay, Ralph writes in and says:

[0:09:24.5]

R: "Farnoosh, very short question, how do I unsubscribe from the podcast?"

[0:09:32.6]

FT: Very simple Ralph. You go to iTunes or wherever you've downloaded the show, you're subscribed to the show whether it was sound cloud or iTunes. Go there and go into your app or go into iTunes and I believe there's an unsubscribe button or you can delete it I should say from your playlist. That should do it, I'm very sorry to lose you, Ralph butt hopefully you'll find another show that makes you happy and thanks for sticking with us for as long as you did.

[SPONSOR BREAK]

[0:10:04]

FT: Time now to shed some light and say thank you to one of our sponsors on the show today Wix.com. Need a website? Why not do it yourself with wix.com. No matter what business you're in, wix.com has something for you. Used by more than 70 million people worldwide, wix.com makes it easy to get your website live today. You need to get the word out about your business? It all starts with a stunning website.

With hundreds of designer made customizable templates to choose from, the drag and drop editor and even video backgrounds, there's no coding needed. You don't need to be a programmer or designer to create something beautiful. You can do it yourself with wix.com. The site empowers business owners to create their own professional websites every day.

When you're running your own business, you're bound to be busy, too busy. Too busy worrying about your budget, too busy scheduling appointments, too busy to build a website for your business and because you're too busy, it has to be easy and that's where wix.com comes in. With Wix, it's easy and free. Go to wix.com to create your own website today.

[CONTINUED]

[0:11:08.5]

FT: Here we go, Question for Lindsey:

[0:11:09.7]

L: "My husband and I both have retirement accounts open from previous employers, I quit my job last year and my husband started a new job that he couldn't open a retirement account with until you've been there for a year, which is now."

[0:11:21]

FT: That's a long time.

[0:11:23]

L: "We're wanting to start contributing again but I'm wondering if we should contribute to our existing accounts or if you should open an account with his current employer? I don't believe his new employer has a match or that would answer our question. Also, should we contribute to both of our accounts or just one?"

[0:11:41.4]

FT: So Lindsey, to answer your first question which is, "What should you do? Should you contribute to the old accounts or the new accounts?" Without knowing the inner workings of each account, what the different investments are, I think there is something to be said about simplification here. Rolling over your previous 401(k)'s into your new 401(k)'s at work or rolling your old 401(k) into an IRA. Do some sort of roll over because what I found, at least in my experience, when you have an old 401(k) and you move on, you get a new job, you switch jobs, it's easy to forget about that account.

You want to act quickly and do something with it so that you can maximize the potential that account to grow and grow well. Usually that means rolling it over into an IRA or your new 401(k) at work. Letting it just sit there and you do nothing with it, I'm not really sure you can just keep contributing, you have to do something with it so that you can now reactivate it essentially and start contributing to it.

Another thing you want to keep an eye out for as far as where to put the money is which of these accounts, whether it's the 401(k), the IRA has the most options? The most variety of investments and in some cases it could be the IRA but the caveat there is of course that the contribution limit is smaller than a 401(k). These are the sort of things you have to weight but I do like the idea of moving that money out and doing something else with it, rolling it over and in some cases you have to act within a timeframe, you know, 60 days.

Otherwise if you do nothing then sometimes depending on the amount of money that's in your old 401(k), if it's less than $5,000, the bank might send you that money in the form of a check and if that happens then that money is going to be exposed to taxes and you might have to pay an early withdrawal penalty. So do something with the money, roll it over, whether it's in to the IRA or the 401(k) and whether or not you should put the money into both of your accounts or just one.

I just got finished by talking about how consolidating is good and streamlining is good, but for me as a woman too, I like to know that I have my own retirement account and my husband has his own retirement account and we have transparency within those accounts but we each have our own. And if I have the opportunity to have a retirement account then I want to take that opportunity. That's just my thinking, it's kind of a personal question but that's how I would answer to that.

Amber says:

[0:14:18.8]

A: "I've been loving your podcast since I discovered it last summer. You and your fabulous guests have given me so much inspiration to grow personally and explore my interests. I'm 24 and I've spent my entire life planning to be a scientist."

[0:14:31]

FT: How cool Amber.

[0:14:33]

A: "Recently I've had an epiphany that this isn't where I would like to be long term. What fires me up is personal finance. I love reading about it, watching documentaries, learning about investing, podcast binging, I just can't get enough.

The idea of sharing the knowledge and helping people improve their money management skills puts me over the moon. If I have no formal education in finance but I already have a bachelor's, where do I take my first step? There's so many certifications, I'm not clear on where to begin, any advice?"

[0:15:05.8]

FT: Amber, you know, I think that you might want to look into perhaps getting certified as a financial planner. This is one way that you can directly help people learn about money, give them advice and get paid for it. The CFP exam is a couple of times a year I believe. I actually started to study for it myself when I was pregnant but then I was pregnant and I was coming out with a book and it was just really hard to keep up with my self-paced studying and I just didn't have the capacity to complete the course work.

I might even have the books left so if you're interested, let me know, I can ship those to you. No cost. Or maybe, I dunno? Did I donate them? I think I gave them to a local library already, sorry, I spoke too fast. Anyway, it's not a big investment, I think given that it could be a long term investment in yourself, I think you can take the course, it's a few thousand dollars, the materials are another thousand and you study for it, you take the exam and boom, you're in business essentially.

You have to periodically renew your license and keep in within the parameters of the CFP guidelines in order to continue your practice but this is a way for you to be entrepreneurial, start your own business, go direct to your people and teach them about money and along the way I would suggest that you develop your personal brand in the space. Have a website, have a blog, do videos, have a Twitter handle, establish your approach.

What makes you different than others in this space? The fact that you're young and female, I think are two wonderful attributes that would make you particularly attractive to a younger millennial audience that's still trying to figure their own financial life out. I'm inspired by your question, I think that I love hearing that you've had this epiphany, hopefully this show has helped you a little bit along the way and let me know what you're thinking.

I know there are a lot of certifications but I think the CFP is sort of the real deal. If you want to help people and get paid for it directly with financial planning and advise giving. I don't have one but that's okay for me because I don't actually get paid to give people specific investment advice in their portfolios and I don't help people plan their estates and things like that. I just give you my opinion based on 15 years of covering this landscape and interviewing people and having my own experience.

But I by no way make any claims that my advice is better than a certified financial professional. They're the ones who can give you the real granular advice and actually give you strategic advice within your portfolio, there's that whole aspect of financial advice giving that I don't really go into because I don't have the credentials and I don't find that it's necessary for me to have that. People come to me with plenty of other questions that I can happily answer. But good luck to you Amber, love the direction that you're taking your life.

Maya says.

[0:18:27.1]

M: “My question is about investing as a rookie, I’m 25 and I have $50,000 in savings. $39 of it in a high yield savings account and the rest in regular savings. I have no debt because I went to college on a full scholarship and I pay off my credit cards in full. I have about $1,200 in a fledgling 401(k) but I recently quit my job and I attended a three month interior design certificate program as well as to obtain a real estate license.

In total, that set me back about 10,000 which will come out of my savings. So what do you think is the best way to invest the rest of my savings? Should I open an IRA or invest in stocks and mutual funds? What are some good platforms for rookie investors?”

[0:19:19.2]

FT: So Maya, I think that you should definitely have an IRA, absolutely. Maybe it’s a Roth too, if you are eligible given your income and maybe now you are in the best place to open up a Roth because you don’t really have a lot of income and as we know, there is an income cap to Roth IRA contributions to eligibility to make Roth IRA contributions and definitely and within that IRA, you can invest in stocks and mutual funds, I like that plan. If you got money left over which you probably will because the IRA is capped at I believe it’s $6,000, you could look into opening up a portfolio that has some index funds, some ETF’s.

You can do that via a number of online platforms whether it’s Betterment, Wealthfront, E-trade, Scott Trade, there’s so many ways. I think the real decision will come down to the fees. So do a quick apples to apples comparison, there are a lot of articles out there too. I’m not going to give you recommendation but I will just say those are a lot of the big players in that space and listen to some previous podcast that I’ve had with Tim Sykes, with Frank Curzio, these two guest are really plugged into Wall Street and they can, maybe if you follow them or listen to our podcast, give you some more granular advice for as we talked a lot about rookie investments on those shows.

Thanks so much and good luck to you. That’s a wrap everyone, thanks so much for tuning in. It’s been a very hectic week for me and I actually have been joking that before we started the CNBC show, I had a very kind of structured schedule where I would do most of my podcast on a single day during the week. Now I’m podcasting whenever there is a chance to podcast because I’ve been filming so much, I’ve been podcasting at night, I’ve been podcasting during lunch, I joke that I podcast in the shower. Just whenever I have a spare moment, I’m hoping a book people. This is a daily show after all, I got to keep up with my schedule.

Thanks again and if you have any questions for me, as you know, the protocol, go to Somoneypodcast.com, click on “Ask Farnoosh” and that’s how you can connect with me. Thanks so much everyone for tuning in, thanks to all my wonderful question askers today. Hope to hear again from you and keep me posted. In the meantime, hope your day is So Money.

[END]