EPISODE 431

[SPONSOR MESSAGE]

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[ASK FARNOOSH]

[0:01:21.7]

FT: Welcome to So Money everyone. Ask Farnoosh time, which means it is Friday, June 17th, 2016. Yesterday was my anniversary, fourth anniversary. I'm actually recording this on Monday the 13th of June, just so you know a little behind the scenes here at Ask Farnoosh. We don't actually record it on Friday for Friday because then we would always be behind schedule. This has to ship and be done before Friday. So I'm actually recording this on Monday the 13th. So looking at the week, I got my anniversary on Thursday, which I'm really excited about, four years, can't believe it, I know that's like nothing compared to people who have been married for 40 years, 30 years.

We just had Howard Eisenberg on the show who was married to his wife for I think 40, 50 years. He's approaching 90 and that was an incredible interview. If you didn't hear that, go back and listen to episode 429 with Howard Eisenberg. He is a poet laureate, he was married to one of the authors of *What to Expect when You're Expecting* which if you have ever had a child, you probably read that book or are familiar with it because it's so popular and of course they made a movie about it.

But Howard came on the show on Monday and gave a lot of advice around money but also relationship because of course if you meet somebody who is married for that long you want to know how to make it last and his whole thing was don't go to bed angry but also when you have a fight or you have a dispute with your partner, it helps that you understand who in the relationship would it mean more to this person to actually win or get their way.

If it's not you, you should allow that other person to have their way in that scenario and then hopefully it will all even out over the course of all your fights and your relationship but as he said, it's a good way to kind of — to make peace. Sophia's been listening very quietly all this time as I've been rambling. I meant to say hello to you from the beginning but I just went off on my soliloquy here.

Sophia, thank you for joining.

[0:03:35.5]

SB: Yeah, thanks for having me back.

[0:03:37.7]

FT: Of course. I mean, where else would I have you? I'd have to have you back, people are really liking our back and forth here on Ask Farnoosh, you're doing a great job of sifting through all the questions that we get and being patient as I try to finish my sentences. But yeah, Tim and I had our anniversary or we will as I'm saying this. You'll have heard it and our anniversary will have passed but I'm looking forward to Thursday. I'm also looking forward to interviewing Ariana Huffington this week.

[0:04:07.8]

SB: That's huge, I'm excited for that one too.

[0:04:10.7]

FT: We've been trying to get her on this show since day one and she's very kind and has very kindly said, "Not right now, I'm too busy," but as I always say and as my guest have said on this show who have been very successful in connecting with people. When they "no", it doesn't mean "no never", it just means "no, not right now". Really it's just about not giving up and we did not give up and I want to also thank Anthony, one of our bookers for finally convincing her to come on this show.

But I think she has a lot of exciting things to share including a whole movement around health and wellness which of course started with her book *Thrive* and then after that it was about sleep, really curious to hear from her finally and we've had her sister on the show.

[0:04:59.0]

SB: Yeah, Agape.

[0:05:01.9]

FT: Who loves you. Sophia met her at a speaking event in New York and she came back and she was like, "We've got to interview Agape, she's nothing like her sister, she's loud and hilarious and was trained as an actor," and so listen to that episode, you'll see what we mean, she's fantastic and they actually are roommates, Ariana and Agape.

[0:05:24.4]

SB: They are.

[0:05:25.6]

FT: I think Ariana and I imagined her like getting into bed around 9:30 with her beautiful pajamas and her…

[0:05:32.2]

SB: An eye mask.

[0:05:32.7]

FT: An eye mask,

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SB: Lavender scents.

[0:05:36.1]

FT: Exactly. Puts her phone away and then there's Agape like raging until one in the morning. They make it work those two, they're fun. All right, Sophia, we have a lot of questions as usual. Just curious, I mean you go through the emails, you know how many we get, are we like a month behind here, two weeks, I want to give people a sense of how quickly we can respond to them.

[0:05:58.7]

SB: At this point, we've been getting a lot recently so thank you to everyone writing in but at this point, I think we're probably about maybe two to three weeks behind, we've just been getting a crazy number of people following up which is great, I know that you love hearing people can come back and share if your advice is great and how it ended up panning out for them. But so yes, I would say probably two to three weeks.

[0:06:23.5]

FT: All right, not bad. It would be ideal if you could ask a question on Monday and by Friday you'd have an answer but stick with us, we're determined to get through every single question so that means we have a little bit of a back log. But two three weeks I hope is not too long for some of you to wait for a question. If it's super urgent, maybe include it in your subject that it's urgent like if you have to make a decision in a week or two. We'll try to put you up higher up on the list.

We have a question here from Dylan I'm looking and not the first time Dylan's asking a question, this is a follow up.

[0:06:54.6]

SB: Yeah. Dylan said:

[0:06:56.6]

D: "You helped me get caught up on the pressures of buying a property when my income was only $40,000 annually but I'm reaching back out because as of yesterday I got promoted, which puts my salary at $47,000 annually. Is there anything immediate I should do with this bump in pay?"

[0:07:14.6]

SY: He wants to know if he should maybe contribute more to his 401(k)? He has about $20,000 saved so far and no credit card debt.

[0:07:22.5]

FT: Well, congratulations on your raise, that's fantastic, $40 to $47. I would say that since you don't have any debt and you have about $20,000 saved in your 401(k). I believe that Dylan's in his 30's that he should definitely, you should definitely be more aggressive with the 401(k), with retirement. I think by now if you have crossed 30, I would like to see more in your 401(k) at this point. There's no real hard and fast rule of thumb but I think that sounds low to me so if you can increase your retirement savings that would be great with this raise.

You could also thing about emergency savings. I believe in his question, he mentioned too, I'm looking at it, $39,000 in cash Dylan has, which is great. I don't know what your expenses are every month Dylan but if that equates to approximately six months of expenses in cash. I think you're fine, you're more than fine with your emergency account, it's really the retirement that could use the kick in the pants.

Not to say that you won't ever be a home owner or you shouldn't ever be a home owner. But I think that down the road, once you make more, you've saved more, you'll be able to really buy the home that you want to live in for a while, that if whatever you buy now, it could be a stretch, it's not forever home and that's fine, you don't need to buy your forever home, but I just don't want you to be in a situation where you're really stretched thing just for the sake of saying that you own a property.

You have other priorities like your retirement which I think maybe at this point because you only have about $20,000 saved so far, would be more important to focus on. There's nothing wrong with renting and I think we've gotten more comfortable saying that these days. I know back when I first started writing about personal finance like 15 years ago, back when interest rates were also very, very low and everybody in their dog was getting a mortgage, I'm not even joking like there were animals that were getting letters in the mail, "Pre-approved!"

That was the prime time to get a mortgage and everyone was like, "Got to buy a house, it's the ultimate American dream, buying a home, being a home owner," but of course it didn't make sense for a lot of people but they did it anyway and you know, I don't have to tell you how that worked out. I love this topic. Anyone on the show listening is curious about home ownership, renting, pros, cons, write in. I think there's a lot that we can still say about this. Good luck Dylan and congrats again.

[0:09:57.4]

SB: All right, the next question comes from Polly, she's buying a house for the first time and wants to avoid paying private mortgage insurance or PMI and that's usually tacked on if you don't put down 20%.

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FT: Right. Okay, so there's a few ways that you can avoid PMI. The most common way is to put down 20% or more and PMI is pretty common when there is a smaller down payment. The banks just don't want to be on the hook in the event that you have to foreclose or you can't make your payments. They are putting more skin in the game. To avoid it, obviously pay 20% or more towards your down payment.

But also I would say that depending on your income, you might qualify for certain programs that will allow you to avoid paying PMI and you can usually find these programs through community banks, credit unions, I would start by looking there and just asking lenders flat out, "Are there ways where I can avoid this PMI outside of course paying 20% or more, are there other ways that I might be able to qualify?" The only other ways I've heard about are perhaps programs for veterans, people in the military, first time buyers with some income limitations, may also qualify for specific programs, but you have to ask. They're not wildly advertised but you know.

The financial nerd in me would say that if you want to become a home owner and you can't put down 20%, maybe you should wait. A part of me might be wondering if you're ready financially to really take on this purchase and just like I was talking to Dylan about, this is a major investment, this is a major financial threshold that you're going to cross is to become a homeowner and of course the more money you can put down, the better for you in the long run. The more equity you're going to have in the home and if the market takes a turn, goes down, you'll just be better off because of it.

The problem that many of us ran into in 2006, seven, eight, nine, 10 was that people were buying homes, zero percent down, five percent down and of course when the market fell 15% and their home value fell 15%, that meant that they were, in some cases, under water which in that case you can't refinance, it's really hard to sell your home and you just don't want to ever have your home be a major liability for you in that way. The one way to avoid that is to just wait until you can really put down more and have more skin in the game. Yeah, there's a lot to consider when you're becoming a home owner, Sophia.

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SB: Oh I believe that.

[0:12:41.2]

FT: I'm a home owner but I will say that sometimes it's just nicer to rent because you can pick up and go, you don't have to wait till you find someone to buy your home before you can move and there's a lot more flexibility that comes with renting and depending on your stage in life and what your goals are, it may make sense to just be free of all that.

[0:13:00.1]

SB: The next question comes from Mark. Mark writes in saying:

[0:13:03.1]

M: "I'm looking to settle some debt with lump sum payments."

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SY: Are there any tips that he can use to negotiate these transactions so they work a little bit more in his favor?

[0:13:14.1]

FT: It's been a while since I've talked about this topic or have offered any advice on this. What I remember from my days working on the show Bank of Mom and Dad, which maybe two of you or three of your listening ever heard of it. It was a show back in 2010 that I hosted and it was cool, I got to work with a lot of young people who were in debt or had spending problems or all of the above and helping them to kind of get back on track or just on track as it were.

There was an episode where I was helping a young woman basically do what you're trying to do Mark was to close out, settle some of the debts on some of her credit cards with lump sum payments and I think what we discovered back then and it's probably true now is that some of the best ways to do that so that you come out, paying as little as possible is by being quick to pay off this debt.

Essentially you call up your credit card company, you say, "Hey, my name is Mark, I have this much debt but I would like to settle, I would like to settle 50 cents on the dollar, 40 cents on the dollar and I can pay this immediately." Lenders and banks and credit card companies like to hear that. As painful as it may be for them to accept a smaller settlement, if you can do it rapidly, that helps take the band aid off a lot faster for them.

But just know Mark that when you settle your debt and you probably know this, and just everyone on this podcast who is listening who is curious about debt settlement, when you settle debt, that does negatively impact your credit. But of course if you're in that situation, you're just trying to get head above water and you'll take the consequences as long as it means you can now maybe have a clean slate and start to rebuild savings and avoid this cycle of debt.

But know that if you want to go out there and maybe take out another credit card or a loan, it may be a while until you qualify because of this stain on your credit report. I would say speed is your best asset here if you can settle quickly, I don't think you're going to get anything better than like 50 cents for every dollar of debt that you owe, you pay 50 cents for every dollar of debt you owe or 40 cents, I haven't heard anything less than that.

It might be a little bit more because you know, bank's not hurting that much right now. This was back in 2010 when a lot of banks were in trouble so they were kind of taking what they could get and let me know because I like a refresher on this too. It's been a while since I've explored the whole debt settlement thing. We don't talk a lot about debt on our show but good luck Mark and thank you for subscribing to the show.

[SPONSOR BREAK]

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[0:16:55.0]

SB: All right, well, unfortunately the next question is kind of about debt too.

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FT: Oh great.

[0:16:59.6]

SB: It comes from Darly. He has a question about paying off debt versus savings, he or she has about $16,000 in credit card debt that was consolidated onto one card and he or she's looking to pay it off by middle of march of next year but Darly's worried about having enough in savings and living paycheck to paycheck in the meantime. So n ot sure if you should stick with his aggressive payoff plan or maybe cut back a little bit while also trying to save in the meantime.

[0:17:31.3]

FT: I love getting out of debt quickly. I think that if you've gone this far without much in savings, cross your fingers, what's another six months? But here's the thing too, you continue this aggressive payoff plan and let's say in four months you do need a quick $2,000 to do something that was unexpected. So maybe you go back into credit card debt a little bit and now would be not ideal but I think that you if can be super aggressive with this debt payoff, hopefully nothing comes up between now and march.

And then by march, pretend as if the debt still exist and whatever you're putting towards that credit card debt, that aggressive amount that you're putting towards credit card debt, now put that in a savings account. So you can just as quickly be aggressive with your savings, as soon as the debt is paid off. You could try to do a little bit of both and maybe that means that you pay off debt two months slower, six months slower but it may mean having a little bit more of an emergency.

I would be very honest with myself, what are the chances that I would actually need some quick money in the next six months? And you know, if you're going to be laying low and your car's in good shape and your job's in a good place and you're current on all your bills and rent then maybe you don't really need like a sudden amount of money but I know, emergencies happen.

So just make sure you have something in savings so you're not going entirely back into credit card debt. Just try to do the best you can with that credit card debt, you'll thank yourself for it. I think there's nothing like being out of credit card debt and the sooner we can do it, the better, have a little bit in savings. Hopefully nothing happens between now and March, but like I said once March arrives, it's all about savings at that point.

Sophia you've never had credit card debt but what would you do?

[0:19:24.0]

SB: I think I'm with you. I think I would want to pay it off quickly and hope for the best over the next year like you said that you don't need anything to find a reason that you need to come up with a quick $2,000. Maybe your next year you're not doing anything that exciting, but as you said I mean once you pay it off, think of how great it will feel and then once you start saving afterwards, maybe in a couple of months' time, you'll be able to treat yourself to something a little bit fun like a really nice dinner with friends or going to a play or something cool.

[0:19:57.5]

FT: If I were you, I would just focus on the debt and cross my fingers about savings and gosh, because if something does happen, you can always slow down the credit card repayment. Just put pedal to the metal, is that the expression?

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SB: Yeah. That's correct.

[0:20:13.4]

FT: I got it right. I publicly told everyone on twitter this weekend that I was terrible at last weekend that I was terrible at idioms.

[0:20:20.9]

SB: I saw that.

[0:20:21.9]

FT: There was an article that I came across that was like, "If you're bad at idioms then that can really set you back in life." I was like, "Oh my god, what?"

[0:20:30.2]

SB: Oh I don't believe that.

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FT: I was like, “I don’t think that means,” — because think about it, most people I know who have trouble with idioms is because they grew up bilingual or English is a second language and usually maybe their parents were immigrants so we didn’t really speak a lot of English in the home and so American idioms are not quick to remember or even understand in some cases for us.

But having an immigrant family is sometimes like your best asset, your best precursor to success because those people work really hard and I don’t think that it’s fair to say, “Oh because you don’t know how to say killing two birds with stone is going to be your ultimate demise.” Who kills birds anyway?

[0:21:16.9]

SB: I totally agree and I relate to you because my dad’s Greek and when you say an idiom, he’ll just sit there and be like, “What the heck does that supposed to mean?” You know what? He’s doing pretty well for himself and as are you Farnoosh. I’m not too worried about it.

[0:21:31.3]

FT: Oh thank you. I try. I try to learn the idioms too, I haven’t given up on them entirely but it’s become a source of hilarity in my household. My husband corrects me all the time, he thinks it’s cute. All right, so Darly, I hope I gave you the answer you were looking for. There’s really no wrong way to approach this, at the end of the day, as long as you’re focused on that credit card debt, you’re serious about it, you prioritize it, that’s what’s important.

If it takes you an extra two months or four months, in the grand scheme of life, it’s not going to be life altering but I would just try to be as focused and aggressive with the credit card debt as possible without running too many risks.

All right, we have time for one more question, let’s take this one from Sarah.

[0:22:12.0]

SB: All right. So you actually might be able to relate to this one. She says, she's 26 and works in print magazines in New York City. With the magazine industry being unstable at the moment, she's looking to save and invest wisely while she still has her job. She's recently debt free and her company has a 401(k) and she also has a traditional IRA but she wonders if maybe it's worth her while to open a Roth IRA as well? She says her income is poultry.

[0:22:43.5]

FT: Poultry. Oh I know all about that, you're right, I do. My income now is not poultry but when I was 23 working in magazines, making $18 an hour before taxes, yes, I relate to you Sarah and unfortunately the magazine industry, the pay hasn't escalated quite as much as the cost of living in the past 10, 12 years since I've worked at Money Magazine and since I've worked in publishing in mag.

So you have a traditional IRA now, might want to look into a Roth IRA and just contributing to the Roth IRA because that does have a pretty nice tax advantage for people who are in your shoes, not making a whole lot of money, probably in a lower tax bracket now so you sort of pay the tax now and then when you go to withdraw a retirement, those withdrawals will be tax free at a time when likely your taxes will be higher. You're hedging your tax exposure today by doing a Roth IRA. I would rather than having like the 401(k), the traditional and the Roth, maybe just roll over the traditional into a Roth.

Then continue to invest in your 401(k) at work especially if there is a match and one thing I will say about working in an industry like magazines and these industries that are changing and they're becoming dinosaurs and they're not really paying their employees a whole lot, sometimes they have good benefits and that is the reason people stay, for the health and the health benefits and the 401(k), maybe there's a match. If that's the case with you Sarah, I would say definitely take advantage of your 401(k) up to the match at least.

Then the rest in an IRA whether it's you stick with your traditional IRA or you do what I would do which is to roll that into a Roth Then contribute to the Roth. Good luck and definitely in the meantime, work on getting that new job or a raise or both. Get the raise and then leave so that the next job you can ask for more and now is a really good time to take advantage of the Roth IRA if you can because, you probably know this, but once your income grows, I believe this year is if you make more than $116,000, you start to phase out of your eligibility for the Roth IRA. You begin to phase out of being able to contribute. So taking advantage of it more now when your income is lower is great and the more you can save in that Roth now, means when you retire, the more you can withdraw tax free.

That's a wrap guys, thanks so much Sophia.

[0:25:19.1]

SB: Thanks so much for having me.

[0:25:21.2]

FT: Next week we have two incredible interviews. One with a woman who went from being divorced, broke, losing her car, losing her house, to now running a multimillion dollar business, you'll hear all about that on Monday and then on Wednesday, we have a guest who is going to talk about how to easily achieve wealth, like the easy steps to wealth and he's done it 10 times over and it's really basic.

I mean we talk about a lot of the basics here on the show but he really streamlines it for us. So don't miss out on Melissa Keeling on Monday and Jim Collins on Wednesday and then of course next Friday another Ask Farnoosh, get your questions in, we're a little behind but we'll get to you sooner than later.

Thanks so much. Sophia, have a great weekend.

[0:26:08.2]

SB: You too.

[0:26:08.9]

FT: Hope your day is So Money.

[END}

