EPISODE 461

[SPONSOR MESSAGE]

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FT: Here on So Money, as you know, the goal is to help inspire and empower others to live a richer, happier life and here's a financial reality: If you're an entrepreneur who's not on top of your business finances, your personal finances are likely suffering too. That's why you need some FreshBooks in your life.

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[ASK FARNOOSH]

[00:01:39.5]

FT: Welcome back to So Money everyone. I'm your host, Farnoosh Torabi, what a week it's been. Yesterday, I was in Brooklyn Heights hosting an event with Chase Slate and featuring Rondae Hollis-Jefferson. He is a star player for the Brooklyn Nets. Rondae attracted a huge crowd. I like to think it's because of me but let's be honest, it was because of Rondae. He's very popular and it was a really nice night.

We had a great conversation, it kind of was a live So Money episode where we talked about his rise to fame I guess and of course, playing for the Brooklyn Nets, making over a million dollars in his first year and what that really amounts to when you are a New York civilian and how he's been really smart with his money. I think he has at this point learned through some of his peers that it's really easy sometimes to lose your wealth. To lose a handle on your money so how is he going about managing his money, how is he going about mastering this goals?

I mean this guy is 21 years old, just got drafted for the NBA, still plan to finish college while playing ball. That's a lot of multitasking and so I have a lot of respect for Rondae and was very privileged to have the chance to sit down with him and again, the event was sponsored by Chase Slate. We held it at a Chase branch in Brooklyn Heights, this beautiful old bank. Got to hang out with some friends, meet some new people meet some neighbors, we'll be posting about that in Facebook soon so stay tuned for those pics.

All right, this week we've got a number of questions from listeners asking about college savings, paying for a car, asking for raise at work, let's start with Amy here. She says she's been saving for her two year old daughter's college with the goal of having enough money to pay for 100% of her college cost. I think that's pretty cool. If there is a gift you can give your kids, it is the gift of college. Even then I think it's important for kids to pay a little bit of their way through school just to understand the real stakes. So she says:

[00:03:38.2]

AMY: "What's the best strategy for investing?"

[00:03:39.2]

FT: She finds 529 plans to be too restrictive, because her daughter may not go to college. She's being realistic, and she had thought about making addition contributions to her Roth IRA and making qualified withdrawals for college expenses but currently, she is contributing money into a brokerage account in her name invested in index funds with the intent of using this as her daughter's college fund.

Amy says:

[00:04:06.2]

AMY: "I realize I will not have the tax advantage of the 529 or the Roth IRA. However, I find this route to have the best flexibility and it won't impact my retirement. Is this a good route to take?"

[00:04:19.6]

FT: I think so. I think you have to look at the big picture and if you're being realistic and thinking, "My child may not go to college and I don't want to compromise my retirement, I want to compartmentalize my retirement, compartmentalize college savings." Then the next solution is perhaps a brokerage account, in this case a custodial account where you are the owner of this account as parent but eventually, you can hand this over to your child once college arrives and withdraw that money.

You will have to pay probably capital gains on that, just like any other investment, but it seems to be the best solution given Amy your predictions for the future and we can't predict everything. So this does buy you ultimately more flexibility. It comes with a price, you don't get the tax benefits as you would with a Roth IRA like you said or a 529 so that's the tradeoff but if it's worth it to you to have that flexibility, then I think you made the right choice.

This week actually I interviewed Catherine Alford. You will listen to this episode later in September, she is a financial blogger and mom of twins and she is working on behalf of Alliance Tuition Insurance and we were having this conversation of how do you save for college, how to protect your college investment? And just you know Amy, maybe this will make you feel better, she's a mom of two and they're two years old as well, her twins boy-girl and she is doing exactly what you're doing.

She doesn't have a 529, she doesn't have money going into her Roth IRA for college. She has, like you, a brokerage account and she's like, "You know maybe in the future, I'll roll that into a 529 once my kids are older and I can have a better sense of where they're going." But for her, this also bought her a lot of flexibility and by the way, a lot of people are looking now into college tuition insurance plans because what's happening is that not everyone is graduating on time.

They're taking breaks because of illnesses, because of injuries and some colleges are very stringent on their reimbursements. So they use their insurance plans, their tuition insurance to get back the cost of their investment. So if this is something that you're just in, sit and station for that episode that airs later in September.

Okay, Adeline says:

[00:06:34.9]

ADELINE: "Hey Farnoosh, looking to purchase a car with cash in order to avoid loans. Is it better long term to take cash out of my emergency fund and replenish those savings slowly each month or liquidate funds from an investment account?"

[00:06:51.2]

FT: Okay, so I think it is best to pay with cash from your savings account and the reason is that in that investment account, that money, I assume is earning some nice interest. Overtime it will have earned some nice interest and by taking the money out, you are going to have to work a lot harder to regain that money as oppose to your savings account which is probably earning nothing. It will be a lot easier and faster to replenish the savings.

It's not going to be as easy to earn back those investment gains and so I think for that reason alone, I would say savings and not to mention if you take money out of the investment account, you will have to pay some taxes on that. By the way, I paid cash for my last car but going forward, I don't know, maybe I will take out a loan because for this one reason, not because I can't afford to pay with cash. Cash is king but it's not so much of a negotiation tool any longer when it comes to buying a car these days.

Interest rates are so low that the car companies are trying to get people to take on financing. They make money when you take out a loan, they make more money in fact than when you pay cash, obviously. So they may be able to actually offer you a better price on the car because you want to go the financing route.

That's what happened to me a couple of years ago. I thought I was a baller walking in there with cash and I thought it was going to help me bargain much more if I were to take out a loan. Oh no, they in fact told me that if I was willing to take on their auto financing that they might be able to negotiate with me further and so, it's a tradeoff. It's like, do I want the loan so that I can get the savings on the car, the depreciating asset? You have to crunch the numbers and figure out how long you're going to have this car. It's something to think about. Cash is not a bargaining chip as it once was.

Kelly says:

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KELLY: "I was offered a new job at my company. The new job is more difficult and significantly more stressful."

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FT: Well that stinks. She says:

[00:08:55.6]

KELLY: "I know this position is a step in the right direction for my career but they only offered me a 10% raise and an opportunity for a salary review in six months. This new position would also decrease my bonus eligibility from 20 to 10%. I will be getting commission with this new position but I'm wondering if I am leaving money on the table by not negotiating. My company strictly does not negotiate on vacation or 401(k) contributions. Should I try to get more money or will I ruffle feathers in upper management?

[00:09:27.6]

FT: Okay, first of all, there's a myth out there that when we negotiate, we disappoint people. No, I mean I think that's something that maybe upper management wants you to think but the fact is employers are aware that negotiation is just part of the onboarding process. It's part of being an employer and having a relationship with an employee. It is business.

So Kelly just get that out of your mindset. I think you need to change your perspective and just get that thought out of your system. Ruffling feathers? No. Don't be afraid of asking for a raise, don't be hesitant to ask for a raise, don't worry that it's going to lead to not getting the job or getting demoted. I think that's a psychological barrier and if you can't over that, then you're not going to be open to any advice.

And my advice to you would be to negotiate and if you can't negotiate vacation or 401(k), I get that. Sometimes those are set in stone but you can definitely negotiate salary. Now what you want to remember is that, you actually might be able to make a lot more in this job because there is a commission factor and that might be what you'll come back to you with. So think about what your employer, what upper manager might say in response to you asking for a raise.

Go in there with your homework done, understand what the market values you add, do the research online. Comparably.com is one site, another site, Pay Scale, Monster.com, all these sites have really interesting and wide ranging salary information. You should be able to do some quick research that way but also remember to talk of your skills, talk up your experience, talk about the value that you're going to add and go for it.

If you're wanting extra 10% or 20%, ask for 30 or 40% more. You have to start higher than where you actually want to land because you got to leave room for some negotiation. Don't be worried about whether they're going to think you're asking for too much, being selfish, no. Okay, that's all in your head. This is business and if your employer doesn't get that, then they don't run a good business.

They don't run a smart business and in fact, if they don't appreciate that you are speaking up for yourself and this is the point to do it before you accept the job. Once you accept the job, it's a little too late. You've got to wait a little bit longer to talk about salary again but this is your moment. So rise to the occasion and talk to them about getting paid more. Explain where it came from, see what they say.

If they still pass on this, if they still say no, I think what you have to look forward to is the commission if you still want this job. I think that this job in some ways is encouraging you to be very entrepreneurial, which is where you're going to grow and so take advantage of that and I think you might surprise yourself.

[SPONSOR BREAK]

[00:12:09.5]

FT: 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 84 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.

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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.com, it's easy and free. Go to Wix.com to create your own website today. The result is stunning!

[CONTINUED]

[00:13:10.4]

FT: And here's another question about salary from Sindu. He's 26, data scientist, works for a utility company. He says:

[00:13:17.0]

SINDU: "Farnoosh it's my first job after grad school and I asked for $80 grand during my interview and I was offered it. However, now I've discovered that I am being underpaid as per industry standards in the work that I do. It's been two months since I started, should I go about asking for a raise? Is two months too short of time to ask for a raise? How shall I go about it? I am exasperated and I started looking for jobs outside the company."

[00:13:45.0]

FT: At this point, I think that it's not about how long you've been there, it's what have you done. If in two months, you've brought tremendous value, you've increased the bottom line, you've hit your goals, you've hit your target, then it is very appropriate to ask for a raise at this juncture but if you've yet to do much, it's just two months, maybe you've just learned your lay of the land, you've gotten some goals accomplish but hardly anything to really write home about, then I think you need to wait and understand that this was your mistake.

It's not cool that they didn't come back to you and say, "Well actually $80,000 is lower than you should be getting paid." Who does that? No employer does that and that's why they always say, "Never reveal your number first." You should have asked them knowing at first what the market commands saying to them, "What is the salary range for this position? Given also that I have a master's and I have all these experience," and see what they say and then maybe work your way up from there.

But it's hard to say who's going to reveal their number first but try to hold out as much as you can. That's a lesson. But the other bigger lesson is that you should have done your homework before you got the job and I think now is not knowing how much you've accomplished, I can't really say if it's an appropriate time to ask for the raise. But I think in six months, make it a goal that if you haven't yet then in the next few months, you're going to really kill it and you're going to accomplish the goals that you set out to achieve and then some and you'd better start tracking this progress and start tracking this added value.

Then you make it an appointment, you want to have the topic of the meeting be compensation. First discuss all the added value you've brought to the company in just six short months. And then mention that you also have done some external research, discovered that given your experience and the industry standards that you are slightly underpaid or whatever it is, 15% underpaid. Do some math and go to them with the facts and then power of negotiation, stay quiet, let the silence sit in and see what they'll say in response and hopefully then you'll get it.

Don't hold a grudge, don't be upset at the company, they are just playing ball. You goofed up a little bit at the beginning but now you're making up for it. Now you know what you have to do. Keep us posted, let us know if you do ask for the raise, when you do it, how it goes, how it works out, what they say and any lessons learned. Thanks Sindu and good luck.

All right, finally Emma says:

[00:16:22.1]

EMMA: "Hey Farnoosh, so inspired by the topics you talk about and you have a voice, I love to listen to you."

[00:16:28.3]

FT: Well, thank you. Thank you for saying that Emma because I did get a very nasty tweet the other day. Someone said, "Farnoosh you have significant vocal fry," that I "talk like this". I was so disgusted by it, you know that vocal fry that there had been articles about this sort of modern vocal new ounce that's going on that they think started with the Kardashian generation and I'm like, "That is just not who I am," and I am really upset and I blocked this person on Twitter.

I didn't even respond because I am kind of a coward like that. I don't like to start fights on Twitter and you'll see that if you say something nasty to me, rarely will I respond. I'll just block you because I don't need that energy in my life. So Emma, I appreciate that. I do think I say "um" too much and I think I probably need to get to my points a little bit faster but yeah, I'm trying.

All right, so Emma says:

[00:17:20.3]

EMMA: "Here's my question, do you think my husband and I need to get life insurance? We are both 29, we have similar decent incomes, have pretty good emergency and retirement savings, neither of us want to have kids. I am positive each one of us could support ourselves if the other one passed away but maybe having some life insurance would make things a tiny bit easier if something terrible happened. What do you think?"

[00:17:44.7]

FT: If you don't have kids, at what point in your savings have you essentially self-insured in terms of life insurance? Kind of a downer of a topic, I know, thanks. All right Emma so the rule of thumb is that you want to get about eight to ten times your income in life insurance. So if you make $50,000 a year, that's about a half a million dollar life insurance policy assuming then too that you have someone to give this to or that you have costs that you will have to pay for even after living.

That may include supporting someone like a child, a dependent, it could be a parent, it could be a loved one but also there's funeral costs and there are maybe some expenses that you had outstanding, debt, things like that insurance could cover. There are a lot of considerations. Firstly, we think if we have children then we obviously want to have some term of life insurance. If we have a dependent spouse or even a somewhat dependent spouse or family member, the life insurance could definitely benefit that person in the event that you unexpectedly passed away.

But then there's also the cost unfortunately of settling someone's passing away which includes funeral cost and sometimes medical costs. So it's really about taking an inventory of a hypothetical scenario which is what God forbid one of us passes away, what would be those costs that we would need to cover that suddenly would be shouldered on this one person who's left. If you have enough in savings, if you calculated that would be enough and then some for those unexpected cost at the minimum, funeral cost, maybe some health care cost but those things are wild cards. So it always helps to have some life insurance a little bit even if it's not 10 times, maybe it's five to six times and then the rest you can supplement with your own savings.

No one would regret not having left their loved ones some money in the event that they passed away unexpectedly because that money could really come in handy in ways that you may not even anticipate. So it's worth talking it through with your partner, maybe you don't get it now. Maybe you get it in a few years, if you're both healthy this isn't something you have to rush to do but I think it's still a consideration for people who aren't the obvious candidates.

You don't have to, but if you have debt, if you anticipate funeral cost, if you anticipate some medical cost in the event that you passed away, it might be good to have a little bit of a nest egg in the form of a life insurance there, waiting there to relieve some of the financial burden of whoever is in your life who is managing the aftermath. Emma, I commend you for asking this question. It's hard.

Your head is in a good place, it's important to think about these things and I appreciate you asking me but also maybe it's worth talking to a financial planner as well and they will be able to take really good inventory of your finances and talk to you very seriously about your goals and see if it does makes sense to have a small policy. It may and it could buy you peace of mind, which in my book is priceless. All right, thanks Emma.

Sindu, thank you. Good luck asking for that raise. Kelly, Adeline and Amy, that wraps our Friday edition of Ask Farnoosh. Thank you so much for tuning in. I got some great guests coming up later this month, almost the end of the month. We have Dan Ariely on Monday. He is the author of Predictably Irrational, foremost behavioral economist. He teaches at Duke University. Later in September, we have some amazing authors as well as Jillian Michaels from Biggest Looser Fame. Thanks for tuning in and I hope your weekend is So Money.

[END]