EPISODE 542

[ASK FARNOOSH]

[0:00:32.7]

FT: It's Friday. Welcome back to So Money. It's Ask Farnoosh time. March 3rd, 2017. We have some audio questions, come people who've written in, questions about how to make the most of a rental property, saving for retirement, saving money when you're just in college still, and much more.

Joining me, as always, is Sophia. Welcome to the show.

[0:00:55.5]

SY: Welcome. Are you still pregnant?

[0:01:00.3]

FT: Right now, yes, although this is airing March 3rd, and which means I'm technically four days away from my due date. I'm not recording this on the air date, so I have a little bit of a window, and I just hope that if I am still pregnant, that I'm still in a good mood. I haven't exiled my husband and son from the house entirely. It's been a tough road these last few weeks. I don't know.

Anyway, I'm not too borry with all my pregnancy woes. It's going to be over soon. It is what it is, my homestretch. It's always nice to reconnect with you, Sophia, and, also, you listeners with your great money questions. We're going to start us off here with a SpeakPipe question. As you know, we have a little widget on the site called SpeakPipe. You can send in your audio question, that way we can hear your beautiful voice and get to just make the show a little bit more dynamic that way.

We have a question here from Jennifer, she has a couple of questions. Let's hear.

[0:02:03.9]

J: Hi Farnoosh, this is Jennier in Portland, Oregon. I just had a couple of questions about our investment for retiring. My husband and I are in our early 40s and we're just now really starting to make retirement my priority.

I wanted to let you know what's in our investment accounts and get your opinion. We have about 40,000 in this IRA with our employee. Both my husband and I each have a Roth IRA with about 15,000 in each of those. Currently, we're only contributing about 5,000 a year and we're kind of just dividing that up. Should we instead focus on maxing out one Roth IRA? So that was one question.

We do have a rental property that's worth about 350,000. There's about 200,000 in equity. I'm always thinking, "Maybe we should sell the rental property and take that 200,000 and invest it in index fund," or I don't know if we should just keep it, or what. Any thoughts, I'd love your opinion. Thanks so much.

[0:03:02.0]

FT: Thank you Jennifer. All right. Sophia, it sounds like the first thing they're trying to tackle is retirement, right? They feel a little bit behind.

[0:03:09.2]

SY: Yes. That's what it sounds like.

[0:03:11.4]

FT: Yeah. A good rule of thumb if you're in your 40s and you're trying to figure out, "Am I on track for retirement," is to look at how much you've saved. Ideally, you want to have about three times your salary saved in retirement account accounts. If you make 50,000 a year, you want to have about 150,000 saved. By the time you hit 40, 45, that may sound like crazy to some people, but it is a benchmark that a lot of the investment firms use, and I've been starting to take that more seriously in my own life and apply it in my own life.

If you're not there, that could be a sign that you need to play some catch up. In this case, I don't know what they have in totally. It sounds like they have 40,000 in IRA, great that they're getting an employee match with that, an employer match rather. They both have Roth IRAs as well with about 15,000 in each. They have about 70 grand, it sound like, in total in their retirement funds, and they're in their 40s. Which I would guess is not three times their annual salaries and they probably should have more at this stage. She has a right to be concerned.

The question really is that should she be putting more in one IRA, one Roth IRA, or 50-50 in both Roth IRAs? I think that a 50-50 approach is fine. I would guess that each Roth IRA is individualized. She has a Roth IRA where she is the beneficiary, and that her husband has a Roth IRA where he's the beneficiary. In that case, I would feel more comfortable knowing that we're both splitting the money between the two of us and it's not just going in one person's Roth IRA, even though the intention is that when they retire, they'll both benefit from all the money.

Technically speaking, if they just put all the money in one Roth IRA, then it's technically only that person's money. She didn't really asked anything else about retirement, but I would give some additional advice here, which is that you really should start to put away at least 15% of your income towards your retirement every year, and so that could be spread across the IRA that you have through work, the Roth IRA that you have outside of work. If you exceed the limits on those IRAs every year, because the IRS does limit you in terms of how much you can contribute, and this year it's $5,500, you want to think about maybe opening up a brokerage account, and you can do that in a number of ways. You could work through a financial planner, you could open one virtually online at a number of platforms that we've talked about on the show here; Wealthfront, Betterment, Ellevest, where the fees are very, very minimal relative to working with a financial planner.

I think that maybe even work with a financial planner could be helpful even if it's not something long term for the two of them, but something where they're investing. At least in the next three to six months, working with someone to help them come up with a more realistic and doable financial plan, keeping in mind that they do need to place and catch up with retirement.

Normally, I say just put 10% away towards retirement. That's assuming you are in your 20s, you've just started, and you're going to commit to that for the next 35, 40 years. If you're in your 40s and you wake up and you're like, "You know what? I don't have enough if I want to retire in my 60s," then you want to start to really ramp that up and look more to putting away 15, maybe 20%.

Now, they've got this rental property that has a decent chunk of equity, $200,000 in equity, and then they have their primary home with $300,000 in equity. That does actually add to their net worth. They have about a half a million just in real estate equity contributing to their bottom line. Of course, real estate fluctuates, so it's not a guaranteed thing, unless of course they sell both properties and cash in today.

Will it be better to sell the rental and invest in an index fund instead? That really depends on what the cash flow is with that rental. How much are you pocketing every month as you rent it out throughout the year? If it's very, very fruitful and you're making hundreds, maybe a thousand dollars in a month. That's really incredible. I think if you wanted to put that money to better work, that's money that you can then invest in the stock market, or in an index fund as you say.

Think about maybe keeping the rental property, taking the proceeds and investing those monthly proceeds in an index fund or a brokerage account that has multiple index funds. I think the longer you hold on to your real estate, chances are the better off that equity will become. Time has always worked on the side of real estate. It's always the people who bought and sold in a short period of time that risked, sometimes, losing a lot of equity or dealing with a market disaster and then selling it because they had to and then taking a loss as a result.

If you can maintain that second home — Look, that second home could become where you end up living in retirement, and then you sell your primary residence. It's nice to have those options if you can float it. If you are actually cash flow positive — If you're not cash flow positive on this home, meaning you're not making any rental gains, then you might want to consider selling it and just taking that equity and putting it in the stock market, putting it in investments and being relatively conservative with it. You don't want to put it all in risky stocks. I like the idea of index funds. That will definitely get you caught up. That said, if you have positive rental cash flow, that's money that you could be using to put towards the stock market as well.

We appreciate the audio question, Jennifer. One of my goals is to buy a vacation home too, but I don't know. I think that's a waste in the future. One thing at a time, baby first.

[0:09:17.7]

SY: Our next question is from S. Cannon. Right now he's trying to teach his college student about better managing his money for this semester. He wants him to better manage it in terms of paying his rent, and afford groceries, and gas for his car, et cetera. He's wondering, is there a favorite young generation app that you can recommend that he can advise his college student to have on his phone so he can start tracking how he's spending his money?

[0:09:45.2]

FT: Can you guess, Sophia, what I'm going to say?

[0:09:47.1]

SY: I was going to say, I think I know the answer.

[0:09:50.7]

FT: Starts with an M, and it's Mint. Full disclosure, I blog for Mint, but I love Mint that's why I have partnered with them, and I've been a user — I'm not just a blogger, I'm a user as well. I have been with Mint for— Gosh. Ever since, I think, they started, which was one of the — They were literally the first financial website that allowed you to see all of your accounts on one dashboard, and it really inspired so many more other financial applications and tools.

They've been hacking away at it for, I think, at least 10 years, and they really do a great job of letting you check your spending, check your budget, see how you're doing against your own threshold, spending threshold.

What I love is that you can set spending thresholds for every category, so that throughout the month, you know where you stand. If you are — If it's the first of the month and you've already eaten up half of your food budget, then that tells you that for the next 30 days, you really need to start cooking some pasta at home.

Also, it will tell you if you're under budget. That's always encouraging and good to know where you stand, and you can now check it, of course, on your phone, on their website. It's totally secure. I like Mint. While he's there, he can check out my articles and, of course, send me questions as well. I answer questions on the show, but I also answer questions on Mint. I do these monthly audits as well, if he'd like me to check out his finances. We could get him to submit his Mint profile and we'll take a look at it.

I like Mint. That said, there are so many different kinds of tools out there, I wouldn't want to just limit you to Mint. If there's other things you want to get help with, whether that's on student loans, or saving, or investing, there's other kinds of apps that can help you with that too. For example, we've talked about Digit, which is a great application that helps you save money on the. Essentially, what Digit does is it looks at your bank account and understanding how much you're earning, how much you're spending, et cetera. It does this weekly, or a couple of times a week alert that will send you an alert that says, "Hey! Sophia, I think maybe based on this week's spending patterns and earning patterns, we're going to save $4 for you, which is very nominal. Who doesn't want to save — Who can't save $4? You say, "Okay."

These little bits of money over the course of the month are adding up for its users and to the point where Digit has saved millions and millions of dollars for its users. It's a great way to kind of save painlessly, banking on technology.

Acorns is another cool app that does similar thing to Digit, but it's investing your money instead of saving it. It looks at every transaction that you make, rounds every transaction to the nearest dollar. Takes that change and puts it in a diversified portfolio for you for the intension of retirement. It's a great way to — As a college student even, get a head start on retirement.

Introducing him to these tools, it's really great. I think that's a smart thing for parents to do. As supposed to lecturing your kids, introduce them to these cool apps that you're using anyway. They're using their phones all the time so why not bring those into the mix? Good luck. If he has any questions, let him know we're here for him.

[0:13:13.3]

SY: All right. Our next question is from Megan, and it's a career question. Right now, she has the opportunity to join a young company as their first employee, and the founder is a successful industry leader that could teach her a lot, but she's unsure if it's a good risk to take. She's 30, but has only been in her field for two years and she's anticipating a promotion come this April.

She hasn't formally received a job offer, but it's likely that this new opportunity would match the salary that she get once she's promoted at her current job. This new opportunity would improve her quality of life and give her more experience, so she wants to know if you have any tips about weighing out these two choices.

[0:13:57.6]

FT: She hasn't really given me any negatives to this new job opportunity, other than perhaps if I can read between the lines. It's a younger startup and she's the first employee, so there's really no track record. Maybe because it's a young company, they may not have — I'm assuming here. They may not have all the benefits that she may have at this current job, where maybe it's a more established company.

Younger companies are not so quick to giving you 401(k)s and a ton of paid vacation. That's something that may be she has to think about. From what she's telling me, she seems really excited about the opportunity, because she's brought up a lot of positive benefits. She says they'll probably match her salary once she gets the raise on the current job, it would improve her quality of life and give her more experience. I don't know. I think that's pretty much the answer for me, right? It's not just the money sometimes, which she seems like she's going to get, but it also sounds like it would help her feel better and more fulfilled.

Just going off on what you're telling me Megan and the way that you're telling me, I think it sounds like you're really excited about this job opportunity. You're still really young, so take these risks now. This doesn't even sound like that big of a risk, so I don't know. I think I'm all really in for this new job opportunity.

What do you think, Sophia?

[0:15:15.5]

SY: I agree, and I think because she'll be learning from an industry leader, like you said, it's great experience. Hopefully, one of the great things about working with someone like that is you'll just meet so many new people, you'll really widen out your network a little bit more, and it will just, hopefully, to lead to even cooler and greater opportunities in the future.

[0:15:36.3]

FT: Yeah, you're basically zero degrees from the founder. Not many people can say that when they work for a company, right? They usually have a chain of command, there's a bureaucracy, but you're going to be working in very close corners with the founder, with the CEO. Presumably, this is one person. They picked you, which is a great honor.

I don't know. It sounds — If you want to send us, maybe, some more information, maybe there's some other things that you didn't mention that are rather important to weigh, but just based on what we've seen and heard, I think this sounds like a great opportunity. Not to say it's totally risk-free, but nothing is risk-free. Staying at your job, they could lay you off tomorrow. Not because you're terrible at your job, but just because the economy could tank. Who know? We just don't know the forces that are beyond our control.

I would say if you're going to take this job, try to have some savings in the bank in the event that it doesn't work out for whatever reason; you take it, you don't like it, the company folds. You want to be able to have at least a three to six-month savings cushions so that you have the opportunity to afford yourself the time to find your next opportunity.

Let's do one more question here, and it's from Sindee. She has a question about her mortgage.

[0:16:56.8]

SY: Yes. She wants to know what she can say to her second mortgage company to lower her 8.5% interest on a $55,000 loan. She's been paying it for 11 years and it hasn't gone down.

[0:17:09.9]

FT: Yeah, 8.5% is very high. Typically, second mortgages have higher interest rates. Two things, I think, Sindee, you could say. One is, "I've looked around. I've shopped around. Better yet, I have an offer from another bank who's willing to take on this loan from me for a lower interest rate. I think that when you are trying to negotiate, you want to go in with something very compelling, which is that, hopefully, if you can find better deals out there, that you've done the research, that you can show them. Then, it's going to be a little bit harder for them to ignore you.

Something else you could consider is refinancing if your first and second mortgage is together, if this is the same property, you might be able to combine the mortgage and then try to get a lower interest rate in the process. This is something that your primary bank might be able to help you with, or this second mortgage might be able to help you with.

I feel your frustration. If in the end nothing can be done about this rate, about this loan, then you want to try thinking about paying more than just the monthly minimum on this loan. It's a very high interest rate, so putting even just one extra payment towards principle every year can — You could try and calculate it online, that can chop down the loan's term and also the amount of interest that you pay over the long run on this loan considerably.

Good luck with that, and let us know. I'm actually in the middle of a refinancing right now, and with good credit — With excellent credit, I should say, which is anywhere is like the 750 plus zone, to 850, you can get a very good interest rate right now on a primarily loan. Now, I don't know about secondary loans, but I know they tend to be a little bit higher, but 8.5 sounds really high.

You can get something in the 3.8 to 4.5% neighborhood on an interest rate on a primary mortgage with a very good credit rating, which is great. I don't think it's anything that was different than last year or two years ago, but we do know the interest rates are headed north. Sindee, the time to act is now, but 8.5 still sounds quite high, and I would be surprised if you don't find something elsewhere that would be even a point or two lower. Go to bankrate.com, go to norwela.com. it might even be worth talking to a mortgage broker where there might be a small fee associated with working with a mortgage broker. Hey, if this person can knock down your interest rate by 30%, 40%, it will be well worth it. Consider all those options.

That's a wrap. Thanks for tuning in everyone. Not to race you out of the doors here, but things are a little imminent around the household.

[0:19:49.3]

SY: I was going to say, anything could happen any minute now.

[0:19:52.5]

FT: Right. Can you imagine? We wouldn't edit that out for you just for your tuning pleasure. Just for your listening pleasure, I would keep that in. Seriously, thank you all for tuning in and for your questions, keep them coming. I'm going to try to work as much as I can, and I really appreciate the support, the letters, the e-mails that I have been getting. Of course, your questions every week.

Sophia, have a great weekend, and everybody else. Hope your weekend is so money.

[END]

