EPISODE 938

[ASK FARNOOSH]

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FT: Friday the 13th. Oh my gosh, I just realized this. I'm not scared. I'm not superstitious. Welcome to the show, everybody. I'm your host, Farnoosh Torabi. It's Ask Farnoosh Friday. Freaky Friday. Hope everybody had a good week. On Monday, did you check out Monday's episode? Christina Stembel, she's the founder of Farm Girl Flowers. She has turned this into an eight figure business, over $20 million in sales last year. Flowers and she is not a flower expert. You have to listen to this episode. It's absolutely mind blowing and super inspiring.

And then on Wednesday we had Diane Harris, who was the first and only, to this date, female Editor in Chief of Money Magazine. Diane was my editor for a while there when I was working as a contributor. She's now with Newsweek as an editor at large, and we talked a lot about her passion for reporting on personal finance, where she gets it from. It has a little bit to do with her upbringing, a lot to do with her profession and her recent cover story for Newsweek debunks some of the big myths out there about student loans. I was shocked to learn some new things about the state of student loans. Some good, some worse. But you've got to check out those two episodes this week. If you're playing any catch up, check out episodes 936 and 937.

Just a little personal update on my daughter, two years old, she completed her first week of preschool phase-in. So next week she will start her full half-day schedule, going to Pre-K2 a couple days a week, few days a week. But so this week was just phasing her and like she's never been dropped off anywhere by herself, mommy says, "Goodbye. Sayonara. See you in two hours," or whatever it was, and I'm happy to report she did fantastic. She didn't cry, no meltdowns. I can't even make this stuff up. The first toy that she went to play with was the cash register and she was simultaneously playing with this while toasting some bread. Fake toaster, fake bread, but still, because she's gonna be what? What is it? She's going to be a bread winner. Yeah. So that's my daughter, okay? What you expect? So she follows the money and she makes the bread. But we're really excited for our kids in the back to school season is always a nice time, right? It means I have to also go back to work. I mean, I've been working, but really like the fall is here, and it's looking at me kind of with a side eye, because I've been, you know, I've been relaxing a lot and I've been in denial that there are only three months left to the end of the year and I've got some big, big goals.

I had asked you guys if I should start a YouTube channel. Many of you via email told me that it's a sounds like a good idea. You encouraged me, but to be honest, you're not sure if you would watch, and I get that. A lot of you who are on my email list are podcast listeners. That's your medium. You like to listen to your shows. You don't have time to watch videos. I get it. I anticipate I'm gonna be finding a whole new audience on YouTube if and when I launch. I'm leaning more towards yes. It's It's a lot of moving parts, but I'm really excited to get back in front of the camera, which was where I began my career.

But I understand if you are not gonna be one of the audience members. I think the audience is going to skew younger, and we're gonna talk about some, maybe more basic principles when it comes to personal finance. Like had a budget, what's a credit score, how do I switch banks? I hear that YouTube is all about search. Just figure out what people are searching for and if you answer those questions, you're bound to get some viewers. So that's part of my homework is figuring out what people want to learn on the YouTube?

All right, now it's time to hit the iTunes reviews. Drum roll. Thanks, everybody who commented that you liked my debate, my one person debate last week. I read a review that wasn't very kind or, you know, it was just upset. This woman was very upset with me. Mommy War supporter, is what she called me, anthrochic77. And so I responded to that and I think it's important to address criticism. This week we don't have any of that. We've just got nice reviews, and I want to be extra generous this week and give shoutouts to two reviewers. These reviewers will receive a free 15-minute money session with me. I've been holding them for the last few weeks as I've been kicking off this sort of mini campaign to boost reviews.

We're at 949 reviews. I'd like to get to 1000 on par with kind of like the number of episodes we're going to be having soon. But I think also reviews are a great way to just share with maybe new people that are falling upon the show, stumbling upon the page like, "What is So Money all about?" Your reviews go a very, very long way. Also in the Apple iTunes algorithm. I'll be honest, I mean, it counts. There's a bit of a weight given to reviews and therefore where you rank in the store. So for all these reasons, I'm just shameless when it comes to asking for reviews. But I do want to try to give back a little bit and show appreciation.

So I'm gonna pick two people who left reviews to get free 15-minute money sessions with me and how you get in touch is you can either email me, farnoosh@farnoosh.tv. Or you can go on Instagram and follow me there @farnooshtorabi and send me a direct message. Our two reviewers this week, Smeagol2018 left a review called *Practical Money Advice Anyone Can Understand*, and this person says, “I'm a new grad in the Allied health field, working my first job. Everyone else in my family/friend group works in finance and asking them my questions can be intimidating. Farnoosh breaks down common money questions and gives her personal advice without assuming listeners are financially illiterate. I particularly enjoy the Ask Farnoosh episodes as the questions and answers are easy to apply to my own life. I recommend this podcast to anyone that is interested in money but hasn't been able to find all the answers just by poking around.”

Well, thank you very much Smeagol2018. This review was left on September 9th. I want you to get in touch if you've got a question for me. Any question. I'm sorry your friends and relatives are a little intimidating, but I'm sure they're just really passionate about personal finance and so they may just over share or over educate you when you ask questions. And if they're giving you the side eye, well, whatever! I'm always here for you, okay? I am here for you. So let me know that you are the Smeagol2018 who left the review when you get in touch and then I'll send a link that takes you to my calendar and you can pick a time for us to connect and come with your question. Thank you.

And then the next review is from bootsRVA left on September 10th, five stars calling the podcast so helpful and bootsRVA says, "This podcast has finally made me less intimidated by finances. As a divorced mom of two, this podcast has helped me get my finances in order and make progress towards securing a better future for myself and for my children. Farnoosh rocks!” Wow, thank you so much. So we got a college student or rather, a college graduate and a mom of two. The spectrum here, right, of listeners. This is why I love what I do. I get to reach so many people, such a widespread audience, such diversity. It's so — it's such an honor to know that the show can speak to people at all these different stages in their lives and I would love to connect with you, bootsRVA, and talk about all the things. I'm a mom of two. This might be more than a 15-minute session. That's okay. Get in touch and like I told Smeagol2018, either email me or direct message me on Instagram. Let me know you are the lady who left the kind review and we'll get in touch and we'll figure it out. But I'm really happy that you're in the community, that you're in the audience, and I hope the advice continues to serve you.

All right, a lot of questions this week about retirement. What is going on? Is it because it's almost the end of the year and we're like, kind of, you know, freaking out a little bit about whether or not we've done a good job saving for our futures? Is it because maybe there's a looming recession and we just don't know? We just want to be sure we're protecting ourselves. Whatever it is, I'm here to help. So let's go to the mail bag and all these questions came in through Instagram. You know, I do offer this "Ask Farnoosh" button on the website too at SoMoneyPodcast.com. You can also click there and send me your question. But fewer people are using that and they're going to instagram. That's fine by me. I think, whatever works for you. But Instagram, I'm on there quite a bit and in some cases I answer your question right on the spot. You might get lucky, but I will mostly hold them for the show.

Question here on Instagram from domesticated. That's a pretty cool handle on Instagram. What's your real name? Caitlyn. Caitlyn. Okay, Caitlyn says, "Podcast listener question here; asking for a friend, really." So her friend has stock options that come from a previous employer, Coca Cola. The total value is roughly $4,500. They're currently saving 12% of their income towards retirement but still have some lingering credit card debt. Is it a huge mistake to cash out the stock to pay off the debt? Or just smart because their credit card debt is at a 16% APR?

So, Caitlin, you can let your friend know that I feel as though it's probably a good idea to take this $4500 apply it towards the credit card debt. 16% APR isn't the worst I've seen. There are definitely credit cards out there with much higher interest rates in the twenties. But 16% is not nothing and if you have credit card debt, it's always great to get that out of the picture. This $4,500 worth of Coca Cola stock when they cash this out, they will have to pay probably some taxes, right? Some capital gains tax on that amount. So it may not be a full $4,500 withdrawal. It maybe a smaller amount. Nevertheless, if this is not money that they need for any other reason that is more imminent, I'd say wipe out your debt with it. It's kind of a nice resource at this point in their lives.

I would also give you one more tip to send back to your friend. So you say they are saving currently 12% of their income towards retirement. I'd like them to do even more. That's a lot for maybe one person. But for two people, I'd like that to be closer to 20%. So 10% each. Imagine, you know, you're both gonna be retiring, you're both going to need money. So when this debt is out of the picture, can they put a little bit more towards their future savings? Just a thought. You're a nice friend, Caitlin. Thanks for your question and thank you for listening.

Okay, now Kevin's got a question about Roth IRAs. He said that, "On a recent episode, Farnoosh, you recommended that a woman contribute to a traditional IRA and a Roth for tax diversification." He says, "I hear this recommendation from financial institutions a lot, but what do you recommend if you're married and your household income exceeds the allowable limit to contribute to a Roth? A couple of years ago, my wife and I made a combined $128,000 and we were penalized for making a contribution to a Roth. Are we missing something? Is there another Roth out there? What do you advise?"

Kevin, you're not crazy. There are two different kinds of Roths. There's the Roth 401(k) and a Roth IRA. You're probably hearing more about Roth IRAs. They're more spread out — they're more out there. Roth 401(k)s are typically provided by employers. Not every employer offers Roth 401(k)s and as you might imagine, a Roth 401(k) is a hybrid of a Roth IRA and a 401(k) kind of taking the best of both of them and applying them to this one retirement benefit, retirement savings vehicle. A Roth 401(k), unlike the Roth IRA, does not have any income limitations. So you can contribute to a Roth 401(k) via an employer, regardless of how much you make.

A Roth IRA, however, does have income limits. So if you say are a married couple, as you are, in 2019 if you make less than $193,000 you can contribute the maximum $6000 to a Roth IRA $7,000 if you're 50 or older. If you make between $193,000 to $202,999 then at that point the contribution is reduced. If you make $203,000 or more, you are no longer eligible for contributing to a Roth IRA. All this info is at the IRS website, irs.gov. You could also just like do a search engine surge for Roth IRA income limitations and you'll get tons of different websites with their -- with the accurate charts. I'm looking right now at actually Nerd Wallet's website. They're one of my favorite go-to's, and it says here, "Roth IRA Incoming contribution limits for 2019". Boom. You get it all there.

But you're not crazy. It's confusing sometimes because people talk fast, there are nuances, and you might have heard a conversation about a Roth 401(k) that doesn't have income limitations when you thought we were talking about Roth IRAs, I don't know? But sorry for any confusion. I do like having a traditional IRA and either a Roth IRA or a Roth 401(k) simply for the tax diversification, if for no other reason. I think it's great to be able to be in retirement and not be so exposed to income tax that you could have some of your money that is shielded from taxes. So I still stand by that bit of the advice. I hope is cleared things up for you. Thanks for listening.

Okay, Laurie has a question about investing in a 401(k) when you're not a US citizen. So Laurie says that, first of all, she listens to the podcast every week. That's commitment, Laurie. Thank you so much. It's really great to know that people are consistently listening and even people who may not be from here, you know? I hope that the advice is still applicable to you. I'm sure it is. You're looking to settle down here. She says that she got married more than a year ago and still waiting for her green card. Not a USA resident just yet, but the firm that she works at is giving her a 401(k) with a 6% match starting in the second year. But she's still on a work permit and doesn't know if she can contribute to a 401(k) having only a work permit. She says, “If not, I'll have to tell my bosses to not contribute anything for my 401(k) until my papers get through.”

Well, I do think you can contribute to this for 401(k), based on everything that I'm reading online and I had some financial experts on the show in the past from places like Schwab, who we've talked about, you know, how foreign nationals can still contribute to workplace retirement accounts. There's a little bit of a risk in that if you leave the country and you go back to your homeland, then you don't lose the money in the 401(k), but it becomes a little harder to manage, essentially. But it sounds like you're here for the win and if your company's offering this to you, they probably know that you're on a work permit. That's another sign that to me says that this is probably kosher. This is probably okay to do, and if you can do it, you should absolutely do it.

A 6% match is fantastic. Not every company — most companies don't offer a match and those that do, you know, sometimes it's not as generous as 6% So this is pretty generous in my estimation and it sounds like your green card might come in just in time. When the 6% match kicks in in your second year, you might already then be a US resident. So even more likely that you can contribute to this 401(k). But I think you're good, I think you should do it, and I wish you all of the best and thank you for listening.

All right, this question coming up now is an anonymous listener. But it's a really, really good question that I think many people who have children who are also thinking about retirement grapple with. So here we go. Says, “The next few years has some extra costs for us as our son is going to private high school. My work puts away 10% of my salary toward retirement, and I have additional opportunity to contribute to a 403(b). I've been contributing about $6,000 per year to that. My husband maxes out his 401(k) because he has a match. Other than these retirement accounts, we have a whole life insurance policy," which this person is groaning at, “not planning to touch that *groan* and about $50,000 in the traditional investment account. My question is, to be able to pay for his school we are deciding whether to sell some of that stock or as an alternative, I can put less of my money away toward retirement. What do you think?”

I think that you're great parents. I think that this is really thoughtful considerations. You know the decision to put your child in private schools a personal one, and I'm sure this is going to be a great investment for him, especially in high school. You know, if you're not thrilled with the public school, high school's a really important for years. So I hope that this is a place where he can thrive, and I think it's totally worth the money. Education is always, I think, a great investment as long as you can make the investment and so, “How do you do this?” is the question. Just know that if you take the money out of your brokerage account, you will have to pay capital gains tax on that. And that may make a big difference for you. Do you want to pay the 15% or whatever? Can you just maybe dial down retirement savings?

But here's what I would say about that: dialing back retirement savings, I would not dial back the 10% that you're putting away towards retirement. I would not dial back what your husband's contributing to his 401(k) because, as you said, there is a match and that's really, really gold. I would perhaps dial back or pause this $6,000 per year to the 403(b). I just sort of see that as extra, and I think over the next four years that $6,000 a year could go a lot further in helping you with monthly cash flow, helping you with your budget, giving you guys breathing rooms that you can make this high school private tuition affordably and comfortably. I think you're doing pretty well as far as retirement savings goes, just based on what you're telling me. These percentages air really healthy and then you've got this long — you have this whole life policy, excuse me, which I'm sure is not cheap just by guessing how much average whole life policies are. But that's also a bit of a nest egg for you in retirement, potentially.

You've also got the $50K in the investment account. I wouldn't touch it. I would probably take the $6,000 per year that you're putting towards the 403(b). You're gonna lose a little bit of a tax benefit there because you're not gonna be able to deduct that contribution from your taxable income. But I will say this, you didn't mention whether or not you have a 529 college savings plan? If you do, there's a new law now, right there? The tax laws have changed. So as of 2018, according to the IRS, you can now make withdrawals from your 529 plan for tuition at elementary or secondary schools. Withdrawals from 529 plans traditionally had to be so called "qualified higher education expenses". That now includes up to $10,000 in annual expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. So your son's private high school, that tuition would be eligible, would qualify as a 539 expense.

So if you've got one of these plans, a way to potentially pay for this without having to pay taxes? The withdrawals would be tax free. Thanks for your question and thank you very much for listening to the show. We wish your son of a great time in high school. And that's a wrap. My friends. Thank you so much for your questions. Thank you to all the folks who are following on Instagram. If you're not part of the community yet, what's keeping you? Go to instagram. Join me there @farnooshtorabi. Start sending your questions and let's get this party started. Thanks again for tuning in everybody, and I hope your weekend is So Money.

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