

Age 22 Professional Job - Financial Model Insights

Introduction

Having developed my Age 30 Financial Model, updating it for Age 22 was not too hard. I started with my Age 22 information and first made the appropriate changes to Income, Before Tax Savings (e.g. 401K) and Taxes to arrive at my Spendable Income. I then changed the three expense categories (Lodging, Non-Discretionary and Discretionary), with the goal of a close to \$0 for the Surplus/Shortage.

Income

I assumed my first job out of college provided \$40,000 income. My income fell from \$140,000 (Age 30 and two wage earners) to \$40,000 at Age 22 (single and first job out of college).

Taxes & Take-Home-Pay

Income taxes are almost 20% of my income, a lot lower than the over 25% at Age 30. Federal and State income taxes are graduated, i.e. they are a higher % the more you earn. Social Security Taxes and Medicare Taxes are not graduated in my income range, e.g. I pay a 4% Social Security tax at either of my Incomes (\$140,000 or \$40,000).

My Spendable Income is about 80% of my Gross Income. This is a lot higher than the approximately 70 % at Age 30, so I get to Take Home a larger % of my Gross Income.

One of the reasons is I have decided to not put any money into a 401K plans at Age 22. At Age 30 I was putting 5% of my Gross Income into a 401K.

Lodging

As a % of my Spendable Income about 30% of it is going to Lodging Expense (rent payment and renter's property insurance).

I have assumed I am sharing an apartment with 2 other people so I only have to pay 1/3 of the monthly rent.

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Discretionary Expenses

Just over 30 % of my Spendable Income is going to Discretionary Expenses. While it is lower than at Age 30 it is probably still too high.

The three largest categories of Discretionary Expense are: Savings for down payment, Food and Fun. I have budgeted a much smaller amount of money for Vacation, so small it no longer makes it into the top three expenses because I had to cut back somewhere. I budgeted \$3,000 (almost 10% of Spendable Income) for the down payment on a house. I wonder if I will really set aside the money for a down payment now or put that off.

Non-Discretionary Expenses

Almost 40% of my Spendable Income is going to Non Discretionary Expenses. This is a much higher % than at Age 30 because so much of my Spendable Income has to go toward these kinds of expenses (not as enjoyable, but required). Again if I turn out spending more money on the Non Discretionary expenses than I will have to cut back on the Discretionary Expenses even further.

My biggest expenses are Transportation (my car), Student Loan Payments and Medical. I have not started paying for Life Insurance so that saved some money from Age 30.

Summary

Getting the budget to have a surplus, i.e. spending less than I make, was a real challenge again. My income fell from \$140,000 (Age 30 - 2 wage earners) to \$40,000 (single & first job out of college). I had to cut out a significant amount of the expenses I had in my Age 30 Budget. While \$40,000 is a lot more money than I have been making in college it is amazing how little it seems when doing this exercise.

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