

Age 30 Financial Model Insights

Introduction

I had never developed a budget so this is a work in progress.

Income

Two incomes are better than one. At Age 22 my income only consisted of what I could earn. My vision of having a family and buying a house probably means my wife will have to continue to work.

I used conservative Age 30 income targets - \$100,000 for me and \$40,000 for my wife. I hope to be in management by age 30 and making more money than I assumed. Of course I could marry someone who earns a lot more than me (e.g. \$250,000) and I could work part-time, staying home to take care of the kids.

Taxes & Take-Home-Pay

Even though I have worked summers in a professional job for two years and am in one now I never realized how much of my income goes to taxes. Our Spendable Income is not quite 70% of our combined income.

One reason is I have also decided to put 5% of my income into a 401K plans. At age 30 I need to be saving money, tax free, for my later years. I will also have to think about how we are going to pay for college for the two kids we want. The optional exercise demonstrated how I could make Pre-Tax contributions to build up funds for college, but I did not factor that into my Age 30 budget. It will have to be included in the Budget when we start having kids.

Lodging

As a % of our Spendable Income just over 30% of it is going to Lodging Expense (mortgage payment, property insurance and property taxes).

We qualify for a \$300,000 loan based on just my income. The bank would probably not take into account my wife's income because they are concerned she will quit working when we have kids.

It is clear I will have to save a lot of money for a down payment if we are going to buy a home at Age 30. I have assumed a \$375,000 house, which means a down payment of \$75,000 (20%). The down payment is driving the price of the house we can buy. To save that much down payment I need to save 10% of my income every year and my wife needs to also save 10% of her income in the 2-year period we are living together.

Buying a home at Age 30 in Manhattan Beach, CA may not be realistic. According to the Home Fair Web site www.homefair.com/real-estate/city-profile/index.asp the average

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house price there is \$1,440,000. I checked on other LA beach towns and they are also in the \$1,000,000 range. Thus I will probably have to buy a home in a less desirable location in Southern California for my starter home.

Expenses in General

According to the Home Fair Web site www.homefair.com/real-estate/cost-of-living.asp the cost of living in Los Angeles is 58% higher than Terre Haute, IN; while the income is only 28% higher. This reduces my Take-Home-Pay by about \$50,000/year. To maintain the same standard of living as Terre Haute we would need to earn \$170,000 (rather than the \$140,000 I am assuming). My vision of living in Los Angeles means I have picked an expensive location compared to the Midwest.

Discretionary Expenses

As a % of our Spendable Income, about 35% is going to Discretionary Expenses.

The three largest categories of Discretionary Expense are: Savings for down payment, Food and Vacation. I budgeted \$14,000 for the down payment on a house. We need at least \$75,000 so this means I will have to start saving money long before Age 30. While I thought I had budgeted a significant amount of money (\$5,000) for vacations, it is clear that is not enough to do more than some local vacations and not any exotic ones.

Non-Discretionary Expenses

As a % of our Spendable Income only about 35% of it is going to Non Discretionary Expenses. This probably is too low. If we turn out spending more money on the Non Discretionary expenses than we will have to cut back on the Discretionary Expenses.

Our biggest Non-Discretionary expenses are Transportation (our two cars), Medical and Student Loan Payments. Deciding I want to live in Southern California means we have to have cars because there is basically no public transportation. I took out a life insurance policy to take care of my family if I should die prematurely.

Summary

Getting the budget to have a surplus, i.e. spending less than we make, is a real challenge. It took several passes to get it to zero. I would like to spend more on Discretionary, e.g. Vacations, Fun and Personal (my wife and I).

It is really hard to believe that a couple making \$140,000 still has to be careful about what they spend. And it is only going to get worse as we have kids. It gives me a new appreciation for my parents.