

# Saving 50% of After-Tax Income - The Rule That Now Governs Our Financial Life

This blog has proved to be a great source of accountability, for both my wife and me. There is something about laying it all out in the public (or “on the line” ) that creates a sense of duty and motivation to deliver positive financial results. Even my wife, who is only a passive reader of the blog, told me the other day that she thinks twice about spending money because she wants me to be able to publish financial reports that prove that we practice what I preach.

Isn't that cool that Mrs. GYFG is thinking about our community?

She realizes the importance of the platform we are building together. Although she doesn't write for the blog (one day I hope to convince her to do so since she is wicked smart and has her own perspectives on things), she has an active role in the story we are creating and sharing in this awesome little space we've carved out on the internet. **Most of all, she realizes that we have a responsibility and moral obligation to set a good example for all you faithful readers.**

It has us both super conscious of our money, which I think is the only place to be when building wealth (and especially when blogging about it).

Although I haven't talked about it much on the blog, there is another dynamic that I have to consider when putting together all the financial details and goals I publish on the blog. That's the dynamic between my wife and me. It is super important that if you're married you're on the same page as your spouse, especially when it comes to money (#1 cause of divorce, or so I've read).

Mrs. GYFG and I have had a lot of conversations about money since I started the blog. In the early days they didn't always end well, because I couldn't really communicate what it was we needed to do in order to reach our financial goals. I was getting frustrated because I thought we could be spending less money, and she was getting frustrated because I couldn't give her a simple rule to govern our financial lives.

The best I could do was tell her that we needed to save as much as we could (what does that even mean?). Because I lacked the ability to really articulate what that meant, it was misunderstood as me saying we couldn't spend any money. I admit that the first couple of months that I published the financial reports on the blog, it created a bit of tension. Not because I was putting our financial life out in the open, but because no matter what the results, to me they were never good enough.

I started to be consumed with a scarcity mindset when it came to spending, when in reality, I have always operated with one of abundance. I never intended for this to be a blog about frugality and clearly, it's not. I even stated this in one of my earlier posts about how [there was a limit to how much you could cut expenses, but no limit on the amount of income you could earn](#). I clearly addressed that keeping expenses low was important, but it was figuring out ways to increase your income that deserved most of your mental energy ([see my post on relative frugality](#)).

I would slip in and out of that scarcity mindset until finally, I realized that something had to change. Being expense-focused didn't fit my personality and was in direct conflict with my operating system. It is way more fun to figure out how to make more money to pay for things than to cut expenses to the bone.

Something had to change for my own sanity and to get my wife and me onto the same page financially.

## **The Simple Rule That Now Governs Our Finances**

I was determined to find a simple rule that would allow me to maintain a state of abundance, while at the same time coming up with something that would ensure that we stayed on track to reach our financial goals.

If this rule were to be effective it could not be so restrictive that we would hate life. To be honest, we enjoy spending money on things that bring us joy. Anyone that has been reading this blog for any length of time should know by now that I'm not a huge fan of delaying all gratification for "someday." It's prudent to plan for the future, but since no one is promised a tomorrow, I think that you have to figure out a way to both enjoy the present and prepare for the future at the same time.

Thus a balanced approach was born.

After realizing that we were traveling two paths at once, it hit me that the two paths

should get a 50/50 split. That's only fair, right?

Our present selves would get to enjoy 50% of our after-tax income. And our future selves would thank us for saving the remaining 50% for the future.

### **That is where saving 50% of our after-tax income came from.**

The original goal was to save 50% of our gross income, but I shortly realized that with our tax burden that wasn't really feasible (yet). It was a nice idea, but not very practical at this point in our journey. So, we quickly pivoted...

### **The Rule: Save 50% of after-tax Income**

*Note: We include the expense of healthcare insurance for medical, dental, and vision as a tax. So these expenses come out along with income taxes before we calculate our savings rate.*

This rule works very well for the GYFG household. I know most bloggers are against any sort of lifestyle inflation, but I like that this rule allows for a proportional amount of lifestyle inflation. That's not to say that as our income grows that we will always spend the full 50%. I actually envision an inflection point where our spending will not be able to keep pace with the growth in our income.

Two major items we are currently spending on that I see falling off significantly or going to zero are:

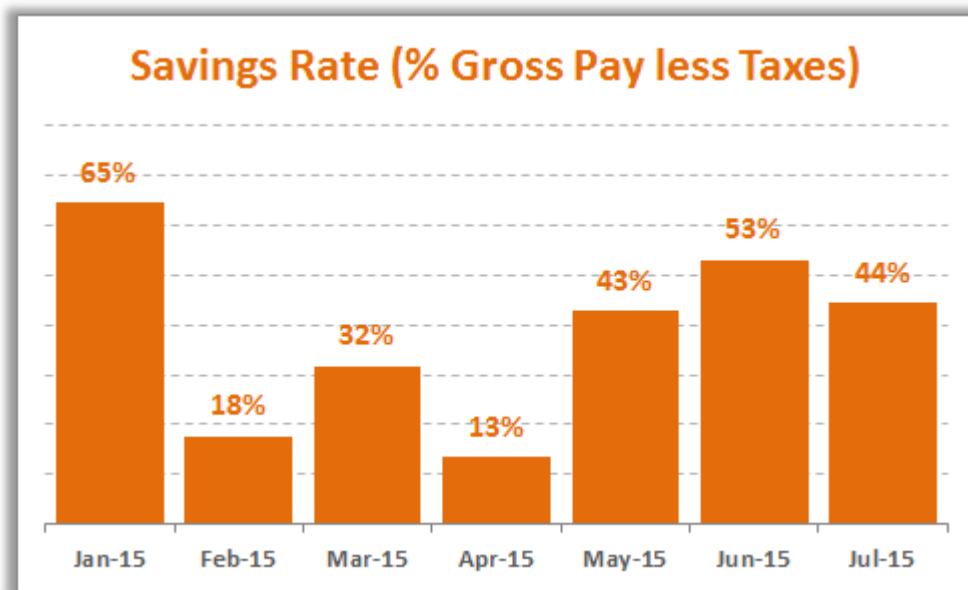
1. **Our Mortgage** – We are currently [executing our plan to have our 30 year mortgage paid off in 7 years and 3 months](#) (before we are 35). Based on our current spending in 2015, this would cut our spending by \$2,400/month (combination of the regular mortgage payment and an additional \$800/month in principal reduction).
2. **Home improvement projects** – Our list is getting smaller. We have averaged about \$2,000/month for the first 20 months of home ownership. Yep, we have spent about \$40K on projects since buying the home in February of 2014.

## **Tracking Progress**

Since we didn't develop this goal until late in the 2nd quarter of 2015 we will likely not hit the 50% savings mark for the year. I have created a forecast in order to

allow us better visibility and accountability in achieving this goal going forward. Before this post, we were just kind of winging it.

In my [August detailed financial report](#), I will start to include a savings rate section in order to create another level of accountability. Here is a quick look at what it will look like:



**Note:** Our current savings rate on a year to date basis through July is 42%. Our plan is to pick up the pace through the end of the year in order to hit our 50% target. More details to come in the near future, with all the numbers that go into the calculation.

While we are on the topic of savings rate, it is probably a good time for me to define my definition of how I calculate *savings*, and thus *savings rate*.

## Savings Formula

**Gross Income - Taxes - Living Expenses + Amortizations = Savings**

*Note: Taxes in the equation above includes expenses for health, dental, and vision insurance. Amortization represents the amount of principal reduction from paying down a mortgage as this is just a balance sheet transfer (your mortgage payment would have been picked up in your living expenses, so we are just backing out the amortization piece).*

## Savings Rate % Formula

$$\text{Savings} / [\text{Gross Income} - \text{Taxes}] = \text{Savings Rate (\%)}$$

You may be asking yourself why we chose to have our savings rate govern our financials. It's actually a rather simple answer: it's really the one variable that we have the most control over.

*Do you have any rules that govern your finances? Can you distill it down to just one? Do you think I am totally crazy? What would you do differently? Any and all thoughts are welcome in the comment section below.*

- Gen Y Finance Guy

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### Gen Y Finance Guy

**Hey, I'm Dom** - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)