

2015 Annual Expense Review [We Spent \$137,542]

It has been written on this site many times before, but is probably worth reminding everyone. We don't put that much focus and energy into the expense side of the equation as we prefer operating within [the 50/50 law](#) and spending our energy increasing income. For those of you that are new to this blog, the 50/50 law allows us to approach our finances with a very balanced approach, whereby we spend 50% of our after tax income (guilt free) and save the other 50%.

We particularly like focusing on increasing our income due to the fact that the upside is unlimited. There is a floor as to how much you can cut your expenses. Compared to others in the personal finance community we are not very frugal when you look at our total monthly spending (average \$11,462/month in 2015) to that of the community...and that is for just two of us. However, that number is probably a little misleading because it does include loan amortizations, which are balance sheet transfers from one account to another (i.e Net Worth Neutral), and the full payment on our investment condo.

I notice others in the community only include the net cash flow for investment properties. The reason I don't do this is because it would increase our savings rate and would be misleading in the efficiency of turning gross income into net income. For example, we have a rental condo that we rent out for \$1,350/month, yet after expenses it is break even (and actually slightly negative until we refinance it in 2016).

I also include the amortizations of both loans (primary residence and investment condo), because it is money leaving our accounts that we can no longer spend. We do however add back loan amortizations when calculating our after tax savings rate.

So, although we do not spend a majority of our time trying to cut expenses to the bone, where is this going?

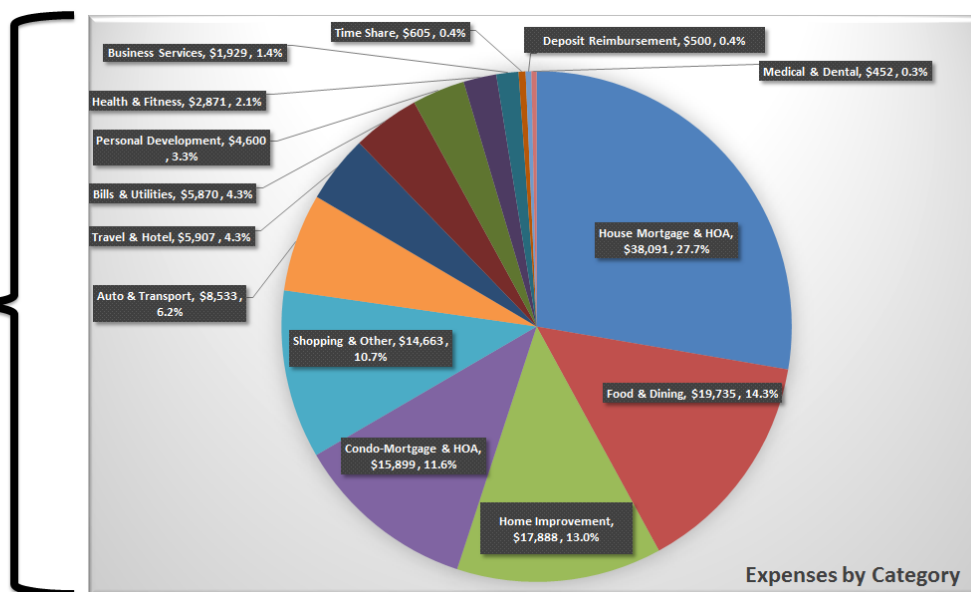
We still believe that the prudent thing for anyone to do is 1-2 reviews of expenses. For us that usually happens in January and then again in June/July. This forces us to

review where we are spending our money and decide if we are still getting the joy we once did. And if not we eliminate it. It is also an opportunity to review expenses and see if there is any room for better prices and/or savings. A perfect example is our Internet Service with Verizon Fios, I just signed a new 2 year contract that will decrease our monthly internet expense by \$10/month.

Spending in 2015

Below you will find a summary of the major expense categories that I report in my [monthly financial reports](#). You will notice that in total we spent \$137,542. But I think for this exercise I would like to briefly point out that we had loan amortizations in the amount of \$22,329 (from regular payments and additional principal pay down), which would make our “real spending” \$115,213.

Expenses	2015	%
House Mortgage & HOA	\$38,091	27.7%
Food & Dining	\$19,735	14.3%
Home Improvement	\$17,888	13.0%
Condo-Mortgage & HOA	\$15,899	11.6%
Shopping & Other	\$14,663	10.7%
Auto & Transport	\$8,533	6.2%
Travel & Hotel	\$5,907	4.3%
Bills & Utilities	\$5,870	4.3%
Personal Development	\$4,600	3.3%
Health & Fitness	\$2,871	2.1%
Business Services	\$1,929	1.4%
Time Share	\$605	0.4%
Deposit Reimbursement	\$500	0.4%
Medical & Dental	\$452	0.3%
Total Expenses	\$137,542	100.0%



Let's take a deeper dive into each of the 14 major categories:

House Mortgage & HOA [\$38,091 or 27.7%] - This includes Principle, Interest, Property Taxes, Home Owners Insurance, and HOA dues. In 2015 we paid down the loan on our primary residence in the amount of \$16,414. As a part of [our early pay off strategy](#) this annual amount will increase by another \$9,600 in 2016, since we will be increasing our additional \$800/month payment to \$1,600/month.

- We are expecting an increase of [**\$9,600**] in 2016.

Food & Dining [\$19,735 or 14.3%] - We entered 2015 with the goal to reduce this expense category. In 2014 we had spent about \$14,000 on dining out and about \$6,000 in groceries (or about \$1,667/month). Our goal was to trim this a bit to about \$1,250/month or \$15,000 for the year for a \$5,000 savings. Yet here we are at the end of the year and we have essentially spent the exact same amount of money. We really enjoy going out and hosting dinner parties.

I would still love to see this category come down a bit. In all honesty we could still eat out with the same frequency, we just need to choose a few less \$200-\$400 meals out...yes, we ate at some really amazing places this past year.

- I am going to call for a cut of [\$2,735] in 2016.

Home Improvement [\$17,888 or 13%] - The two big projects we tackled this year were cabinets in the garage (\$4,500) and a hot tub in the back yard (\$9,000). My wife painted the entire interior of our house (\$600). Oh, and we put in a rod iron gate on the side of the house (\$700) to make a dog run that sectioned off our main backyard. The rest was spent on miscellaneous landscaping and decorating the interior (\$3,088).

In 2016 we plan to refinish our cabinets and upgrade the flooring from carpet to the tiles that look like beach washed wood. We have already priced everything out and have a budget of \$10,900.

- Therefore we can expect savings of [\$7,000] in 2016.

Condo-Mortgage & HOA [\$15,899 or 11.6%] - We are going to work on refinancing our investment condo to try to make this thing cash flow positive instead of breakeven (slight loss before tax benefits). This property turned us into accidental landlords, as we actually lived in this as our first place of our own out of college. It was actually bought back in 2005 before the crash for \$250,000 and we were under water for a long time. We currently owe \$163,000 on it and our mortgage is \$900/month.

This is 10 years into the amortization schedule and is an ARM. It was a 5/1 ARM. When we refinance it we will likely try to get a 5/5 ARM on it like we have on our primary residence. I looked at rates and they are 3.44%. This would give us a new mortgage of around \$700/month, freeing up \$200/month in cash flow or \$2,400/year.

This probably won't happen until the end of May if I had to guess.

- We will plan for savings of [**\$1,400**] in 2016.

Shopping & Other [\$14,663 or 10.7%**]** - This is really a catch-all category for anything else not covered in the other 13 major categories. This is where our entertainment dollars are allocated. As well as any shopping for clothes, gifts, etc. There were some onetime expenses thrown in here, but my gut tells me that they will be replaced by other one time expenses.

- We will plan to keep this flat year over year.

Auto & Transport [\$8,533 or 6.2%**]** - This covers gas, insurance, registration, maintenance & repairs, and tires. We had all the recommended maintenance from the manufacturer for both cars in 2015. My wife will likely need brakes done in early 2016, but beyond that, I think we will be in the clear for 2016.

- We will plan for [**\$1,053**] in savings for 2016.

Travel & Hotel [\$5,907 or 4.3%**]** - We did a 10 day road trip, a couple trips to Vegas, and a couple stays at the beach. We have a bit more expensive travel planned for 2016. We have a destination wedding to attend in Costa Rica that we are making into a 10-day trip and then a 4-day trip to the Bay Area in Nicks Cove. We are looking at about \$9,000 in spend in 2016.

- Based on this we will plan for an increase of [**\$3,000**] in 2016.

Bills & Utilities [\$5,870 or 4.3%**]** - Really nothing to manage here. This is for electricity, water, sewer, yard maint., periodic house cleaning, cell phone, internet, and trash. Although we did go solar the majority of the tax savings will be realized in the form of a tax credit for the 2015 tax year. Other than that the first 2-3 years savings is minimal and not worth calculating...we will just let that flow through.

- The only savings we are expecting is [**\$120**] from renewing our internet contract at a rate that is \$10/month lower than what we were paying in 2015. That is locked in for two years.

Personal Development [\$4,600 or 3.3%**]** - This was a onetime expense for business coaching for my wife. There may be big investments like this in the future, but there is nothing currently on our radar.

- We will plan for savings of [**\$4,600**] in 2016.

Health & Fitness [\$2,871 or 2.1%**]** - I joined Crossfit and my wife joined a Hot Yoga studio back in December. We have changed the recurring shipment for [Shakeology](#) to be once every 3 months instead of every month. We have built up some inventory that we need to work through.

- We are planning on an increase of [**\$1,400**] in 2016.

Business Services [\$1,929 or 1.4%**]** - First \$1,000 of this was work related and I got reimbursed for it. I don't really travel much at all for work, but in the event that increases I will get a company credit card, so I don't expect to see any other expenses hit here for that, and if they do there will be a corresponding increase in income for the reimbursement. The rest of this are the costs for running and experimenting with this site.

Some of the expenses I incurred for the site were either one-time expenses or things I was just experimenting with for a few months here and there. Recently I have signed up for annual billing for hosting and a plugin I use to capture emails to stay in touch with you all.

- Based on current information I am planning to save about [**\$800**] here in 2016. It would have been about \$200 higher, but I have decided to register and attend FinCon 2016, so if you're going to be there let's connect.

Time Share [\$605 or 0.4%**]** - I must have classified one of the payments wrong, because the timeshare quarterly maintenance costs are \$189 or \$756/year.

- We will plan for a [**\$151**] increase in 2016.

Deposit Reimbursement [\$500 or 0.4%**]** - This was a deposit we had collected for the first roommate we got in 2014, we gave him back his deposit when he moved out. We didn't collect a deposit for our newest roommate because she was already a friend. So, we will not incur any expenses here in 2016.

- We will plan for savings of [**\$500**] in 2016.

Medical & Dental [\$453 or 0.3%**]** - This was for some dental work for Mrs. GYFG. We actually ended up getting half of this back after fighting the insurance company about it for 3 months. Regardless we now have an HSA to cover any out of pocket

medical/dental expenses. It is funded with \$6,600 currently, which is more than 2X our deductible.

- We will plan for savings of [**\$453**] in 2016.

TOTAL INCREASES = \$14,151

TOTAL SAVINGS = \$18,679

NET SAVINGS = \$4,528

Conclusion

As you can see from the deeper dive we are expecting a lot of puts and takes in 2015. We are shifting the allocation of our spending money into categories we believe will bring us the most joy in 2016. We allocate our spending just as you would allocate capital to investments.

Based on this analysis our projected spending for 2016 is **\$133,014** (vs. \$136,542 in 2015). This is before we deduct loan amortizations (which is just a balance sheet move), which will increase by \$9,600 this year, which puts our real spending at **\$101,085** in 2016 (vs. \$115,213 in 2014).

A lot of the savings we are expecting in 2016 are by default and not really something we spent too much time trying to figure out how to cut. There are two types of budgeting one can follow:

1. **Control Based Budgeting** – where you create a budget that tells you how much you can/can't spend.
2. **Allocation Based Budgeting** – where you try to allocate the money in places you would like to spend. But it's not set in stone.

Sometime in 2016 you will see a post dedicated to the topic of Control vs. Allocation based budgeting. But for now just know we favor allocation based budgeting. Yes, we have a savings goal of 50% of after tax income, but when you focus on the income side of the equation, the savings side tends to work itself out without much effort. That is true at least over time. It is natural to be more control based early in your financial independence journey and to make the transition over to allocation based budgeting gradually.

There you have it...our annual spending all in one place, as well as expectations for 2016.

Lastly, if you want to be able to track this stuff like I do, then I highly recommend you check out [Personal Capital](#). It's a completely free tool that aggregates all of your financial accounts into one place and does the heavy lifting for you by classifying all your expenses into categories.

Have you done a deep dive of your own spending? Do you know where you money went in 2015? Better yet, do you have a good idea of where you will be spending in 2016?

-Gen Y Finance Guy



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](#)