

Passive Income - We Need \$120,000 To Cover Our Living Expenses - Where Are We And How Do We Get There?

Late last year I shared a post with you guys on increasing the [GYFG household income to \\$600,000](#) annually, and in that post there were two concerns that I said I wanted to start addressing in 2017:

1. **Concentration Risk** - In 2016, approximately \$27,000 of the \$340,000 that we earned came from passive sources (or about 8%). The majority of the income we brought in was from our day jobs.
2. **Tax Efficiency** - The other problem outside of the concentration risk, is that with earned income, we are taking a beating when it comes to taxes. As we all know, earned income is not the most tax efficient, and based on our 2017 projected income our marginal tax rate federally is going to be 33% and 10% for state (this is on top of FICA, Medicare, and CA SUI/SDI).

In order to address both of these issues, I have decided that it is finally time to start focusing on building up our passive income sources. As a first step, I have put together two new tabs in my master Excel spreadsheet, one will help me keep track of our dividend portfolio, and the other will help me keep track of all of our passive income sources.

I am a big believer of the saying “**in order to know where you’re going, you have to know where you’ve been.**” So, let’s take a look at the current state of our passive income as of December 2016.

Current Passive Income Streams

Source	Income	
	Monthly	Annual
Rental Condo	\$ 1,350	\$ 16,200
Room Rent	\$ 250	\$ 3,000
Blog Income	\$ 300	\$ 3,600
CD's	\$ 15	\$ 180
Prosper	\$ 20	\$ 238
Lending Club	\$ 4	\$ 43
Rich Uncles	\$ 3	\$ 34
Dividends	\$ 292	\$ 3,503
Total	\$ 2,233	\$ 26,798

To be honest, after I finished pulling all this together, I was actually pleasantly surprised to see where our baseline was. A gross amount of ~\$27,000/year is a respectable amount, yet we still have a long road ahead of us to get to \$120,000/year.

Why \$120,000?

We have been tracking our expenses in detail for 3 years now (2014 to 2016), and our annual spending has landed in a range of \$110,000 to \$120,000. Keep in mind that this does include the cost of the mortgage for our rental, our home mortgage, and costs for home improvement projects (only a few projects left; we tackle one a year). All of which we plan to eliminate from our budget all together over the next 5 years.

Eliminating those 3 expenses, will free up ~\$48,000/year, which we will then re-allocate to other spending categories, one of which will likely be travel. All of this to say, that \$120,000 should give us a very large cushion above and beyond our annual cost of **basic living** (defined by our own standards).

Let's not pass over the fact that eliminating expenses is also another form of creating what I like to refer to as **phantom passive income**.

Filling The Gap From \$27,000 to \$120,000

Back to business.

We currently have an additional \$93,000 of passive income to create and there are so many options to choose from in order to reach our goal. Let's take a look at how much additional capital we will need to put to work at different yields in order to quantify how much we will need to invest:

3% Yield= \$3,100,000 - This is probably pretty easy to achieve by constructing a stock dividend portfolio. This will mostly be focused on in our retirement accounts.

5% Yield = \$1,860,000 - This could be accomplished with the right mix of corporate bonds or even in rental real estate here in California. I have actually run some numbers based on our primary residence and this is about the cash on cash return we could expect to earn currently if we turned our place into a rental.

8% Yield= \$1,163,000 - [My new favorite asset class](#) is in the debt portion of the real estate equity stack. Also known as hard money lending. Through [PeerStreet](#) I have found the ability to access this market at scale and with diversification and huge downside protection. This is an asset class I have already put \$77,000 to work in 2017 (over about 43 investments).

15% Yield= \$620,000 - I have seen others online achieve 15% + cash on cash returns investing in out of state rental real estate. Not going to find this in my home state of California. Although this is very alluring, my wife and I are really growing fond of the online platforms. At some point we will be ready to take on some more leverage, the timing just isn't right for us yet.

This list is obviously not exhaustive, but it is the spectrum of yields and investments we intend to pursue in order to build up to our income goal. My gut says if we set this up correctly, we will likely end up investing about **\$2,000,000** in order to fill our gap (representing a 6% blended yield).

As a result of this new focus I will be periodically sharing a detailed breakdown of our passive income sources, like the table above.

What sources of passive income do you have? Do you have a goal that you are shooting for? What of some other ideas you can share to generate higher yields?

- 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](#)