

Odds & Ends In Preparation for 2019

2018 is quickly coming to an end! The weather is cooling down as we shift from summer to fall and the holidays are just around the corner. I like to get a head start on planning for the next year by starting that process at the beginning of November and finishing by Thanksgiving. I'm not quite ready to share my goals just yet but there are a few things that I do want to share. My goals will be mixed, but this post will be dedicated exclusively to the GYFG financial arm.

I'm currently in the process of laying the groundwork for our finances in 2019. I'm programming "the machine" so that most things will happen automatically. That's right - I'm replacing myself with robots - no need for me to push any buttons or pull any levers. I highly recommend that you pre-plan and automate as much of your financial life as you can. It's the only way for you to ensure that you "pay yourself first" and it builds in a level of discipline that you might not have with a manual process.

Let's jump in.

Putting the 401Ks On Autopilot

Did you know that the 401K contribution limit is increasing in 2019? If not, now you do! The new limit for 2019 is \$19,000, which is up from \$18,500 in 2018. Actually, [the limits for many pre-tax accounts are increasing in 2019](#) (<<<The Wall Street Physician gave a nice run down).

The GYFG household has two 401Ks that we have the privilege to contribute to. We plan to max out both of these accounts, where we are allowed to invest \$3,166.67/month or a total of \$39,000 for the year. Last year we front-loaded our contributions but in 2019 we plan to spread them out evenly over the course of the year.

I have set my contributions at 7% and Mrs. GYFG's at 20%. Both of these percentages are based on earning less than what we earned in 2018. My contribution rate of 7% assumes that I only earn \$271,429 of my total \$300,000

compensation package (salary + bonus). Since Mrs. GYFG will still be on maternity leave and is not sure exactly when she will be coming back to work full time (rough estimate is sometime in February), I have assumed she will only earn 80% of her 2018 earnings.

We will re-evaluate these contribution percentages sometime in August and adjust as necessary to ensure we take advantage of the full \$39,000 contribution limit between our two 401ks.

Action: I recommend every reader to evaluate their own situation and work towards increasing their contributions to maximize any company match at the very least, but ideally maxing out your contributions to defer taxes on as much income as you can. Let the powerful flywheel of compounding work for you at maximum capacity, and for the maximum time, uninterrupted. If you don't already have an automated deduction from your paycheck please go set that up ASAP. And for those of you that may not have a 401K available to you (about 45% of the US), I encourage you to go to [TD Ameritrade](#) and set up an IRA so you can also use a tax-sheltered vehicle to start saving towards your retirement. Reminder: these contributions come off the **top** of your taxable income: you save, and you also save!

What About The Health Savings Account (HSA)?

Yes, the HSA contribution limits are also increasing from \$6,900 in 2018 to \$7,000 in 2019. I can't make the change yet, but I plan to update my contribution to realize the full \$7,000 pre-tax benefit. Unfortunately, 2018 is the last year that my company will be making contributions on my behalf (it's been about \$800/year). I will be setting myself a calendar reminder to increase my monthly contributions to \$583/month before the first payroll in January of 2019.

Action: This account has been called "The Ultimate Retirement" account. This is because it is the only pre-tax account that is not subject to federal, state or **FICA taxes**. The Mad Scientist has one of the best articles explaining why and how this can become "The Ultimate Retirement" account. [Go read it here](#).

Finish Paying Off Mortgage

About three years ago the GYFG household [set a goal to pay our mortgage off in seven years](#) (by January of 2022).

The original philosophy of this plan to pay off the mortgage was to accomplish this goal while avoiding any austerity to our lifestyle. I coined it the “pay more tomorrow” plan. In keeping with the GYFG emphasis on the income side of our financial equation, I decided that we could easily increase our income (after tax) by at least \$9,600/year and dedicate that additional income to fund the goal effortlessly. This has not only proved to be true but in terms of our income, it’s actually proved to be very conservative. To date, we have paid down the mortgage by \$214,020 in less than four years (as of October 2018).

Our income has exceeded our wildest projections and is actually [11 years ahead of schedule](#). We either completely underestimated our ability to increase our earnings or we sandbagged this goal. I’m going to plead the fifth. Either way, we decided back in June that we would accelerate this goal and put the mortgage to bed by July of 2019 – only nine months away from when I’m writing this in early November of 2018.

As of November 5, 2018, we currently owe \$140,980. This means we will be plowing \$15,664/month towards the mortgage for the next nine months (seven of which land in 2019).

Action: Review your own situation. Does it make sense to work towards paying down your mortgage early? We look at our mortgage as [a substitute for a bond allocation](#). Check out the original plan I laid out to [pay off your mortgage in five to seven years](#).

GYFG 2019 Budget

I’m going to break our budget down into two sections for easier readability and to split up my commentary. I’m including the GYFG historical P&L (profit and loss) statement back to 2015 in order to see how things have trended and to provide additional context and color.

GYFG P&L - 2018 FCST	Actual	Actual	Actual	Forecast	Budget	2019 vs. 2018 Fav/(Unfav)	
	2015	2016	2017	2018	2019	Var. \$	Var. %
Mr. GYFG	124,149	186,808	231,681	293,846	300,000	6,154	2.1%
Mrs. GYFG	91,728	126,721	123,673	139,333	121,265	(18,067)	-13.0%
Rental Condo	16,200	16,250	10,250	-	-	-	n/a
Room For Rent	5,500	1,600	825	-	-	-	n/a
Miscellaneous Income	16,781	8,446	7,641	21,540	24,000	2,460	11.4%
Gross Income	254,358	339,825	374,069	454,718	445,265	(9,453)	-2.1%
Pre Tax Contributions							
Mr. GYFG - 401K Deduction	18,000	17,999	18,000	18,500	19,000	500	2.7%
Mrs. GYFG - 401K Deduction	11,000	-	-	18,500	19,000	500	2.7%
HSA Account	5,638	6,032	5,850	6,150	7,000	850	13.8%
Health/Dental Ins.	5,188	5,533	4,840	4,804	7,470	2,666	55.5%
Total Pre-Tax	39,826	29,565	28,690	47,954	52,470	4,516	9.4%
Take Home Pay (BEFORE TAXES)	214,532	310,260	345,379	406,764	392,795	(13,969)	-3.4%

Take note that 2015 through 2017 represent our actual final numbers, 2018 is a forecast comprised of ten months of actual plus two months of forecast, and 2019 is our projection based on everything we know today. What I think is interesting is that although we have lost certain income streams we have been able to more than offset those losses from either our day jobs or our side hustles. At their height, the rental income we were bringing in was \$21,500 (in 2015) and in 2018 it's \$0.

We do not currently include any income received from interest and dividends from investments. If we did, this year this would represent an additional \$12,000 or slightly more. Since all dividends and interest are set to auto-reinvest, we just let those gains flow through to net worth. At some point, they will get added to the P&L as their own income line item.

The miscellaneous income is derived from the following sources: the blog, selling tradelines, and an unexpected tax refund received in 2018 (for the 2017 tax year).

Overall, you can see that we are actually forecasting a drop in gross income in 2019. This is because our rockstar, Mrs. GYFG, is going to be out on maternity leave for part of the year and may initially go back to work part-time. The increase you see in my income has nothing to do with an anticipated raise; rather my increase for 2018 wasn't effective until sometime in February, so 2019 is the first year I will realize the full impact of the increase. After increasing my income by \$185,000 over the last three years, I'm not expecting to receive much if any increase in 2019. That said, I do have an interesting new project in the works, which could be an absolute game changer to the GYFG household if it takes off (will share more as it develops).

The last piece in the screenshot above that I'm sharing is all the money taken out of our pay before taxes are calculated. Mrs. GYFG didn't have access to a retirement account for a couple of years because her work didn't offer a qualified plan and our income was too high to qualify for any tax benefit via contributing to an IRA. It sure is nice to have a second 401K bucket to contribute to and shelter more income from the Tax Man.

On to expenses...

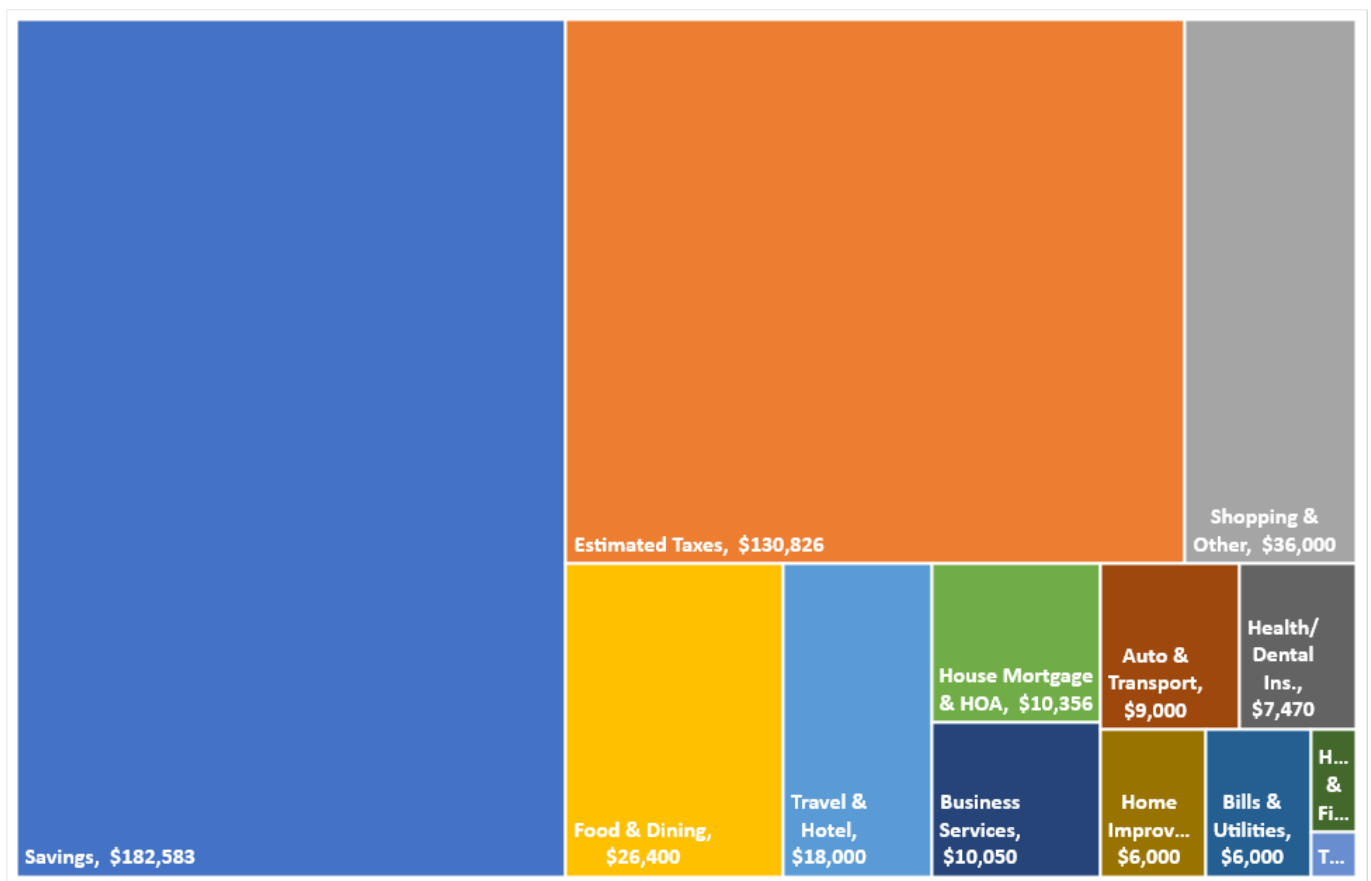
GYFG P&L - 2018 FCST	Actual	Actual	Actual	Forecast	Budget	2019 vs. 2018 Fav/(Unfav)	
	2015	2016	2017	2018	2019	Var. \$	Var. %
Expenses							
<i>House Mortgage & HOA</i>	38,091	55,497	47,618	145,640	134,281	11,359	7.8%
<i>Home Improvement</i>	17,888	10,944	14,845	6,417	6,000	417	6.5%
<i>Condo-Mortgage & HOA</i>	15,899	16,343	12,978	-	-	-	n/a
<i>Food & Dining</i>	19,735	26,882	27,301	28,757	26,400	2,357	8.2%
<i>Shopping & Other</i>	20,215	26,935	62,374	40,578	36,000	4,578	11.3%
<i>Travel & Hotel</i>	5,907	4,195	10,046	12,853	18,000	(5,147)	-40.1%
<i>Auto & Transport</i>	8,533	7,918	8,662	9,843	9,000	843	8.6%
<i>Bills & Utilities</i>	5,870	5,711	6,509	5,860	6,000	(140)	-2.4%
<i>Health & Fitness</i>	2,871	3,813	4,193	6,040	1,800	4,240	70.2%
<i>Business Services</i>	1,929	1,684	1,512	12,369	10,050	2,319	18.8%
<i>Time Share</i>	605	380	765	776	781	(5)	-0.7%
Expense Total	137,542	160,303	196,804	269,132	248,312	20,820	7.7%
Add Back Amortizations	22,364	39,766	35,854	130,235	127,050	(3,185)	-2.4%
Adjusted Spending	115,178	120,537	160,950	138,897	121,262	17,635	12.7%

I used to share our detailed expenses in my monthly financial reports but stopped sometime in 2017. The above needs some explaining between the difference in the "Expense Total" line and the "Adjusted Spending" line. First, the Adjusted Spending line is what I look at as our real spending. The big adjustment I make is that I add back amortizations (money that paid down principal on our mortgage) since this is a balance sheet transfer and is thus net worth neutral - cash declined and our mortgage liability declined by the same amount. This ensures that only the true expense of a mortgage is included (i.e., interest, insurance, and property taxes). The rest goes towards building equity and is forced savings.

Our adjusted spending peaked in 2017 ([the year we helped my brother get the help he needed](#)) and looks like it will be returning closer to 2016 levels as we head into 2019. We believe that our spending "sweet spot" longterm is somewhere around \$120,000 per year. We feel pretty confident about this as our mortgage will be completely paid off in 2019, eliminating about \$6,500 a year in interest, and we are very close to being done with all the home improvement projects on our list. In

2020, this will represent an additional \$10,000 we can allocate elsewhere and still be in the \$120,000 range.

Here is an interesting way to visualize where all of our income from 2019 is projected to go:



A few things to note on the \$182,583 in projected savings:

- (1) \$127,050 of this is committed to paying off the mortgage.
- (2) \$45,000 of this is committed to maxing out our 401Ks and HSA account.
- (3) This leaves only \$10,533 to apply toward other investments in 2019. Most of this will likely be sent to [Rich Uncles](#) as we work that investment up to a round \$100,000.
- (4) Without the pretax savings, this would be significantly lower as we would be giving up more to Uncle Sam.

(5) Our taxes are only estimated and could potentially be more, which would obviously eat into this number.

(6) This currently gives us a projected savings rate of 59% for 2019.

When all is said and done, this breaks down to about 40% savings, 30% taxes, and 30% spending (as a percent of gross income). I really like that our savings is greater than both our spending and our estimated taxes. I do, however, wish we had more than the \$10,533 of discretionary investment money. I guess I'm going to have to figure out how to increase our income even further ☐

Action: Put a budget together for your own household. Decide whether [the allocation or control based approach is best to fit your unique situation](#). Don't have a budget template? Head over to this page to download the [GYFG FI Toolkit](#), which includes a: budget template, financial dashboard, savings rate calculator, and more.

That's a Wrap!

I feel solid about how 2019 is shaping up. There is a plan in place, most of which is automated, so it's really a "set it and forget it" approach. There will of course be twists and turns along the way as one can never plan or prepare for every possible outcome, but this will be the blueprint that guides us through 2019. It will take minimal bandwidth to manage the financial arm of our lives, leaving much more time to focus on our new family and other priorities.

Onward & Upward!

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](#)