

PERSONAL FINANCIAL MANAGEMENT

Personal Budget

March 2009-February 2010

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Executive Summary

My income over the next year is going to be sparse and erratic. Using a best-worst-case-scenario calculation, my income will total \$16,542. My expenses will fall under the categories of taxes, housing, car insurance, student loans, food, phone, car fuel, car maintenance, and internet access. After these expenses are paid for, there may be enough left over to contribute \$5,000 for the year to a Roth IRA, spend \$20 per month on miscellaneous expenses, and save \$20 per month for future goals. Money will be tight, but not impossible.

Introduction

I'm graduating in a week and a half. This means that a budget for the first year after graduation has to start in March of 2009, and continue through February of 2010. I use the worst case scenario throughout this report, because it is easier to adjust a budget if things go better than you think than if things go worse. When the worst case is difficult to determine, I use the most accurate case that I can.

This report is not designed to sugar-coat anything. The goal here is accuracy: what my first year out of college will really look like. It's messy, with different streams of income starting and stopping at different times of the year, and different expenses doing the same. It is bleak: income is low, so expenses must necessarily be so, as well.

I have some advantages going into this. In preparation for this bleak, messy year, I have paid off all of my credit card debt and amassed a few thousand dollars in savings. That may, or may not, be enough to carry me through, but it is certainly better than starting in a hole with 18% annual interest rates.

Salary

Determining my salary, in order to enter it manually into Dr. Manning's calculator, is perhaps the most difficult part of this assignment. I did find a salary report for theater stage managers on PayScale.com. For 1-4 years experience, the site gives a median salary of \$28,500 (PayScale Inc., 2009). I could simply use this number in Dr. Manning's calculator (Manning, 2004), and proceed from there. But that estimate is far too imprecise for my tastes.

The first factor to take into account is that I am not, currently, a stage manager. Theater craft is a unionized field, which means that I am simply not eligible to work as a fully-paid stage manager with health and pension benefits yet. I have to work enough hours as an intern and a non-union assistant stage manager before I can join the union. This means that I will be paid next-to-nothing this first year out of school. Many of the internships I am currently applying to are paying \$150-\$200 per week, plus housing. However, only a few of them are year-long internships, which makes the calculation quite difficult.

In order to get a back-of-the-napkin calculation in order to have something to work with, I'll assume the worst case scenario: \$150 per week for 40 weeks out of the year. Actually, that's not the

worst case scenario, because the worst case would be \$0 per week for 52 weeks. But \$6,000 gross for the year is bad enough to deem it the “worst case scenario” for these calculations.

Obviously, even with housing included, \$6,000 gross pay is not going to carry me through my first year on my own, because half of it would be eaten up by my student loan payments (see “Debts” below). But, theater work does not cover the whole picture of my salary.

Side Hustles

For several years now, I have maintained my lifestyle by establishing multiple streams of income. I have been running my own website (PoorerThanYou.com) since January, 2007, and I’ve been doing clerical work for another website since April of that year. I also received occasional pay for my writings on other websites, and random other activities that are, predictably, internet-based. These streams of income come with expenses, such as a need for internet access and hosting fees, but they more than pay for themselves. However, they are highly irregular, which makes doing any calculations based on them difficult. In January, 2009, my “side hustles” brought in \$202.54. These projects have seen, on average, 4% growth per month over the last two years. It is fairly safe to assume that this trend will continue, since my site is seeing increased traffic levels right now due to the economy.

Projected income:

<i>February 2009</i>	<i>\$210.64</i>
March 2009	\$219.07
April 2009	\$227.83
May 2009	\$236.94
June 2009	\$246.42
July 2009	\$256.28
August 2009	\$266.53
September 2009	\$277.19
October 2009	\$288.28
November 2009	\$299.81
December 2009	\$311.80
January 2009	\$324.27
February 2009	\$337.24
Total (March-Feb):	\$3,291.66

These estimates bring the salary projections up to \$9,292 (gross). This number is even smaller than it seems, considering that the “side hustle” earnings will be subject to self-employment taxes. The inevitable conclusion is that I will need to work a part time job. This may not actually be possible with theater internships, so I will run the numbers for both scenarios.

Part Time Job

Assuming a minimum wage job at 20 hours per week, we need to know the location I’ll be working to determine the minimum wage. The four states that I am likely to live in, and their minimum wages, by order of likeliness:

State	Minimum Wage
New York	\$7.15 increasing to \$7.25 on July 24, 2009
Massachusetts	\$8.00
Virginia	\$6.55
Maryland	\$6.55 increasing to \$7.25 on July 24, 2009

Source: <http://www.dol.gov/esa/minwage/america.htm>

My current residence is in New York. If I move to one of the other three states, it will be in the middle of the month of July. That makes the best calculation for a minimum wage job \$7.25/hour, as that's the middle ground for the bottom three states (after Maryland increases its minimum wage in July), and it's what New York will be using as the minimum wage after July, as well.

Knowing that I could get a minimum wage job in New York immediately after graduation (family connections), I can assume 50 weeks of minimum wage, part-time work. To be conservative, I'll use 20 hours per week for this estimate.

$$20 \text{ hours} \times \$7.25 \times 50 \text{ weeks} = \$7,250$$

That brings the total for the part-time job/side hustle/theater work scenario up to \$16,542.

Expenses

Taxes

The internship scenario taxes:

$$\$6,000 \times 10\% \text{ federal} = \$600 \quad \$6,000 \times 7.65\% \text{ Social Security} = \$496$$

Plus the side hustles, \$3292, brings us into the next tax bracket. Federal tax equals \$835 plus 15% of the excess over \$8,350, which in this case, is \$942.

$$\text{Federal: } \$835 + (15\%)(\$942) = \$976.30$$

$$\text{Social Security: } \$496 + (15.30\%)(\$3292) = \$999.68$$

Plus the part time scenario.

$$\text{Federal: } \$7,250 \times 15\% = \$1087.50$$

$$\text{Social Security: } \$7,250 \times 7.65\% = \$554.63$$

Sources: (26 CFR 601.602: Tax forms and instructions., 2008) and (SSA Press Office, 2008).

Housing and Car Insurance

The expenses for my housing over the next year are also in flux. Currently, I reside with my parents, paying \$75 a month to cover my car insurance and the utilities that I use at the house. This is subject to change, one way or another, when my boyfriend moves in July.

$$\text{March-July housing/car insurance expense: } \$75/\text{month}$$

If I stay in New York with my parents that number stays the same for the year. If I skip around between theater internships where housing is provided, that number would drop, to just the cost of car insurance: \$30/month.

If I follow the boyfriend to Maryland/Virginia/Massachusetts, I will have the car insurance cost, probably under my own policy. A quote for my own policy from CarInsurance.com (from Progressive Auto Insurance) comes to \$252 for six months (Car Insurance Quote from Progressive). This is based on an address in Rochester, New York. It might be slightly higher or lower, depending on the area. However, my boyfriend notes that car insurance rates in Virginia are comparable to rates in Rochester.

August-February car insurance: \$30-\$42/month

The boyfriend and I are taking a Suze Orman approach to splitting rent when two people make vastly different salaries. The approach is that each person pays for shared expenses, according to the ratio of money they make, compared to the whole (Orman, 2005). Since the boyfriend is receiving job offers with gross salaries between \$50,000 and \$75,000, we can use \$62,000 as an estimate for him. Together, we'd bring \$78,542 (gross). That means he is bringing in 79% of the income, and I'm bringing 21%. According to this system, he'll pay 79% of rent and utilities, and I will pay the remaining 21%. He is estimating a two bedroom apartment at \$1,500 per month for the areas he's getting job offers in.

August-February housing cost: 21% of \$1,500 = \$315/month

Student Loans

My student loans make up the only fixed expense I will have over the next year. No matter where I go, or what I do, they will be \$245/month (unless I file for a hardship deferral). But even this number is deceptively simple. Some of my loans still have a grace period left, some do not. I "used" the grace period on one of my three loans when I dropped out of school two years ago. Loan #1's first payment is due in May. Loans #2 and #3 come due starting in September.

May-August student loan payments: \$73/month

September-February student loan payments: \$245/month

Food

Currently, I'm mooching: either my parents or my boyfriend pay for my eating habits, out of respect for my financial situation. This is likely to stay the same for at least a few months. However, if/when I start theater internships in May, I'll be paying my own food expense. And if I move with the boyfriend in July, he is likely to get fed up with me and at least start asking for grocery money. Based on the boyfriend's numbers for what he spends on the two of us for food, my estimate for my half is \$150 per month.

May-March food expenses: \$150/month

Phone/Cell

My parents are also paying my cell phone bill right now – it's possibly included in my \$75/month payment to them (what, exactly, is being paid for in that other than car insurance has never been

determined). If I start paying for my own plan, it will start around July, and I will get the most basic, cheap, prepay plan available, just to have a mobile phone so that employers or theater crew can reach me. Other than that, I'll use free voice chat, such as Skype.

July-February phone bill: \$15/month

Car: Fuel and Maintenance

Volatile fuel prices make estimating these costs extremely tricky, but I do have a basis to go off of. In the month of October in 2008, gas prices were especially high and I was commuting 60 miles every weekday. This makes for a good ballpark the high end of fuel costs:

March-February fuel costs: \$96/month

Maintenance for my car, historically, is \$750 per year.

March-February car maintenance: \$62.50/month

Internet

Some of the internships include free internet access with the free housing, and some do not. We'll assume a need to pay for internet access from July, onward. Internet access is a necessary expense (see Side Hustles above).

July-February Internet access: \$20/month

Miscellaneous

I have not covered the topic of health insurance in this paper. The reason for this: I called my current health insurance provider (under my father's pension plan), and I am fully covered under my father until I turn 26. Gratefully, this makes health and dental insurance a non-issue, for the time-being.

I also have not included a car payment because my car, a 1996 Oldsmobile with 60,000 miles on it, is paid for in full.

Unnecessary expenses will be covered shortly, but first, we have to pause and see if there's even any money left. There are a lot of necessary expenses – will my income even be enough to cover them?

The following chart averages income and expenses over the course of the year. For example, Internet access at \$20 per month over 8 months (July-February) works out to \$13.33 per month over 12 months.

	Monthly	Year
Income	\$1,378.50	\$16,542
Taxes	\$129.53	\$1,554.31
Housing	\$239.50	\$2,874
Student Loans	\$146.83	\$1,762
Food	\$150	\$1,800

Phone	\$10	\$120
Gas and Maintenance	\$158.50	\$1,902
Internet	\$13.33	\$160
Total	\$530.81	\$6369.69

Now, I could split that remainder up into categories, such as clothes, minor medical expenses, household expenses, entertainment, travel, etc., but I'm not going to. The simple fact is that if there is really going to be enough left over to max out a Roth IRA for 2009, then I'm going to do it.

Retirement

\$5,000, or \$416.67 per month, into a Roth IRA at Vanguard. If the money is there after necessary expenses, this is where it's going.

Savings

With just about \$115 left per month, \$20 of that will go into savings. Currently, I have the following savings "in progress:" Emergency Fund, Getting Established Fund, New Car Fund (because my 1996 Oldsmobile will not last forever), and a Retirement Fund to save up for the \$3,000 minimum needed to buy funds at Vanguard.

I won't be contributing to the Getting Established Fund anymore, since I've reached the time to start drawing from it. The money is for job and internship interview costs, moving costs, apartment security deposits, and keeping current on monthly payments when income is lean. I am not going to put a new savings goal in its place for this first year, because \$20 per month is a low amount to contribute to my other two savings goals, as it is.

Compounding Schedule

Between retirement contributions and general savings, I will be saving \$437 per month over this first year.

\$437/month for 30 years at 2%

Total payments: \$157,320.00

Compounded at 2% annually: **\$215,320.99**

\$437/month for 30 years at 5%

Total payments: \$157,320.00

Compounded at 5% annually: **\$363,697.02**

\$437/month for 30 years at 8%

Total payments: \$157,320.00

Compounded at 8% annually: **\$651,287.08**

\$437/month for 30 years at 11%

Total payments: \$157,320.00

Compounded at 11% annually: **\$1,225,575.12**

Source: my HP 10BII financial calculator

These numbers are, in my opinion, a bit low. I like to use a conservative estimate for retirement earnings, so I generally use 5% (8% to be conservative, minus another 3% for inflation). \$363,000 is nothing to sneeze at, but it's likely not enough for me to retire on, either.

\$437/month for 40 years at 8%

Total payments: \$209,760.00

Compounded at 8% annually: **\$1,525,570.42**

The effect of an extra ten years of contributions and compounding is more than double! If I use my conservative rate of 5%, it becomes **\$666,870.80** in today's dollars. That still does not strike me as enough money. It's obvious that as time goes on, I will need to increase my contributions, if at all possible. And it also looks as though I won't be retiring early on my salary, but that hardly surprises me.

Conclusions

Is it possible for me to live the next year, going from internship to internship, working part-time, minimum wage jobs when I can, and keeping up with my "side hustles?" The numbers prove that it is, actually, possible. I have done my best throughout this report to be conservative, and to use the most accurate numbers possible, given what I know about my situation. There was actually some question as to whether this coming year would drain my Getting Established Fund, and then my Emergency Fund, finally forcing me to live off of credit cards to get myself settled. It looks as though things may not be that drastic, after all.

It has also been suggested to me that I pursue a career as a financial aid counselor, which I am considering. If my life starts to take that path, I will have to rip apart this budget and start over. However, that will be fairly easy to do, assuming that career path pays more. I'll adjust up my contribution to housing, and delegating any extra funds to things that are important to me. The most important thing I believe in when adjusting a budget: priorities.

The irregular nature of my income will give me lean months, and flush months. I won't be earning the same amount every month, so I will have to keep on my toes at all times. During flush months, I will have to save and prepare for the lean ones. A rush of income cannot be accompanied by a spending spree, in my situation. I need to constantly be planning and adjusting my numbers. I already am.

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