Time versus Money

CALCULATING THE *REAL* VALUE OF YOUR TIME—*BASIC METHOD*

We have a finite amount of time in the day and always more tasks to complete than hours available. Therefore, it's worth calculating whether an activity is worth doing yourself or hiring out in order to know where to focus your energy. This is true even in the most limited-income situations.

A basic calculation of our time's value can also help us choose between many competing demands. It shows how time may be better used invested elsewhere for a higher expected payback in the future (e.g., training for the next job).

This also reduces "decision fatigue." Understanding the value of your time makes it easy to decide between cooking versus takeout, cleaning versus hiring a service, grocery shopping versus online delivery, and so forth. Once you understand the value of an hour, decisions become less numerous and more guilt free.

The most straightforward approach is to look at your last pay stub or other earnings statement and find the amount paid to you after taxes. Then find the total number of hours you worked (also located on the pay statement). If you don't get a pay statement, check your schedule and tally your working hours. Divide those hours into your net (after tax) pay.

Net pay divided by hours worked equals your wage per hour.

For example, the median US pay in 2023 was **$51,000/year**. Assuming a 10 percent tax rate,[1] that net pay after taxes is **$45,900**. If you work 2,000 hours per year, your hourly wage translates to **$23/hour** ($45,000 / 2,000 = $22.95/hour, rounded to $23/hour).

Theoretically, tasks that can be hired out for less than that $23/hour represent a positive return if you are short on time.

CALCULATING THE *REAL* VALUE OF YOUR TIME—*ADVANCED METHOD*

If you have mastered the basic method to value your time, move on to the advanced calculation method.

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1 I use 10 percent given this wage's tax bracket. Even if you earn minimum wage for federal income taxes, you may still have other taxes such as social security and state or local taxes. Using 10 percent seemed the easiest way to estimate the net pay per hour.

Many people think of their hourly value in terms of their gross pay but need to consider all of the costs they incur to earn that wage, such as taxes in the previous basic method. We also incur other costs to earn our wages.

Total Costs to Earn an Income

As a single parent, you probably incur childcare costs paid to a provider. Add up those childcare costs, making sure you include occasional late penalties, early drop-off options, and so forth.

Add to the childcare costs the other costs to work, including transportation, meals out of the home, and a wardrobe.

Subtract these cost-to-work expenses to calculate the *real wage* earned.

Calculate the Real Total of Hours Working

In addition to the nominal hours worked, add additional hours, such as commuting time or work brought home. Time for pickup and drop-off at childcare should also be added.

In the hypothetical example below, my commuting time door to door would be 3 hours a day or 600 hours per year. Now my wage-earning time is 2,600 hours.

Working hours for a full-time year	2,000
Commuting hours for a full-time year	600
Total hours incurred working	**2,600**

Example to Calculate Real Take Home Wage

In the hypothetical example that follows, I earn the median wage for a worker in the United States, $51,000. I pay for after-school childcare and commute ninety minutes each way to work. I assume my effective tax rate is 10 percent.

Gross annual wage	**$51,000**
Less expenses (annualized)	
10% taxes	$5,100
Commuting cost (12 monthly passes @ $100 each)	$1,200
After-school childcare	$6,000
Office gifts/clothing	$ 100
Meals eaten away from home	$2,400
Total expenses	$14,800
Net annual income after taxes and expenses	**$36,200**

In addition to commuting and clothing, running on fumes at the end of the workday may see me succumbing to convenience food or purchased lunches. I use $200/month here, which is the average American expenditure for "meals purchased outside the home."

For the numbers in the chart, I used the monthly estimates provided by the USDA publication, "Costs of an Average Family."[2] Your actual costs will vary by region, age, and multiples, if any. The average cost of full-time daycare annually in Massachusetts is $20,415. (My example uses the cost of after-school care vs. all-day care.)

In this advanced method, you will divide the $36,200 net earnings by the total hours incurred of 2,600 to calculate your real hourly wage. With these adjustments, I earn a real wage $14/hour ($36,200/2,600 hours = **$14 real hourly wage**).

Any task I can hire out for less than $14/hour makes sense because I could hypothetically earn more by working more hours instead of hemming pants. Even in this circumstance, sending out a two-hour job that costs $18 ($9/hour) is still a better use of my time.

I can theoretically redirect two hours of my time to working more hours or concentrating on a task that would cost more to send out.

Should You Work Another Hour?

We may have already put in all our mental time at work. There is a reason airline pilots are subject to "flight time limits" and rest requirements. Boston limits all its snowplow drivers to sixteen-hour shifts with two thirty-minute breaks. Our cognitive functions slow down after a certain time point, making mistakes more common.

Wondering if you should work another hour? Here's a good rule of thumb:

> "You should stop working if it's a net negative hour on average. Working hard on a project is good until the next hour of work burns you out more than it produces something valuable." — James Clear, Lifehacker.com

2 https://www.usda.gov/media/blog/2017/01/13/cost-raising-child.