

Transcript

The True Cost Of A Car

There are lots of important decisions to make when buying a car: Do you need a truck for the farm or a small car for the city? How important is gas mileage to you? What color do you want?

Once you decide what car you want, figuring out what you can actually afford can seem a bit complicated. Your monthly car payments might be affordable, but you also have to keep in mind other costs you'll have, like insurance payments... registration fees... and unpredictable expenses like a sudden hike in gas prices or the need for a big repair.

So, before you begin to shop around for a car, you might want to take a look at some of these costs so you're not caught off guard.

First let's figure out your budget. On average, people spend about fourteen to sixteen percent of their annual income, before taxes, on their transportation budget. That's a figure that includes all the expenses of owning a car—not just your car payments, but your gas, insurance, maintenance and repairs, and everything else as well.

So for our example, let's use this as a guideline, and look at what this might be for an annual income of forty two thousand dollars.

To figure out your budget, we'll take sixteen percent of forty two thousand. That gives you six thousand seven hundred twenty dollars a year to spend on your car, or five hundred sixty dollars a month.

So let's look at the costs involved in getting a new, basic subcompact sedan that has a sticker price of about sixteen thousand four hundred fifty dollars.

Now for any car, there are plenty of extra things you can get, like satellite radio or a sunroof, which can drive up the price, but we're going to forego the bells and whistles and stick to a basic model.

And when you buy a new car, keep in mind that there are often extra fees in addition to what you pay for the car itself. You might have fees for things like documentation, and destination charges for getting the vehicle from the manufacturer to the lot. Your registration fees may also be included, which can save you a trip to the DMV.

Some of the fees you'll encounter, like registration, are non-negotiable because they are required by your state, but some things, like documentation fees or the base price of the car, may be flexible and open to some negotiating depending on where you buy your car.

So let's say that after negotiating the price of the car and the fees, and adding on your local taxes, you're paying sixteen thousand seven hundred fifty dollars total.

And in this case, you're going to finance the car entirely. That means you're not going to make any down payment or trade in another car. If you get a six-year loan at a three point five percent interest rate, looking at an online calculator, your monthly payments will be around two hundred sixty dollars.

But financing comes at a cost. In this case, you end up paying about one thousand eight hundred forty five dollars in interest on top of that sixteen thousand seven hundred fifty dollars of principal over the course of your loan. So if you have the cash, you may consider buying the car outright. Or

if you have a few thousand to spend on a down payment, you could lower your monthly payments and save in interest over time.

But for this example, let's say you don't, and you've got a two hundred sixty dollar car payment.

Then there's gas.

Let's say this car gets thirty two miles to the gallon. And on average, you drive about one thousand two hundred fifty miles per month. Twelve fifty miles divided by thirty two miles per gallon gives us about... thirty nine gallons of gas each month. If gas is around four dollars per gallon—thirty nine times four—we're looking at about... one hundred fifty six dollars a month on gas.

There's also your car insurance. Insurance prices are based on a number of factors including where you live... your driving record... the type of car you're driving... even your job. If you're figuring this out for yourself you might want to look at an insurance estimator as rates can vary dramatically. Let's say you use an insurance calculator, put in your info, and see that you'll get a rate of about one hundred dollars a month.

So, adding our monthly car payment of two sixty and an estimated gas expense of one fifty six plus the one hundred for insurance, we already have a total of about five hundred sixteen dollars per month.

Now let's look at some more periodic expenses you might have, like regular maintenance: generally speaking, every seventy five hundred miles or so, it's recommended that you rotate your tires and change your oil. If you're driving one thousand two hundred fifty miles per month, that's about fifteen thousand miles per year. Divide that by seventy five hundred miles, and it

looks like you might need to do this about twice a year... and let's say it costs you about eighty dollars or so each time for a total of one hundred sixty dollars per year, although some new cars come with a service agreement that covers some of these basic maintenance costs for the first few years.

Now going to a shop for regular maintenance can be a hassle and you may wonder—is it worth it? Well, skipping tire maintenance and oil changes can cost you in the long run. A set of tires might last you longer if cared for properly. And a new set might cost you around six hundred dollars.

Not changing the oil will eventually wear out your engine which could cost thousands to replace. So that one hundred sixty dollars a year may be worth it over time.

For the first few years, with a new car, you probably won't need to do much more maintenance than this—if you do, it might be covered by your warranty.

You'll also have to re-register your car and probably get it inspected from time to time. Depending on your state, this could be once a year or every few years and can cost forty five dollars to three hundred dollars or more. Let's say your registration and inspection will cost about two hundred dollars every two years, or another hundred dollars per year.

So adding one hundred sixty for maintenance and another one hundred for registration and inspection, we get two hundred sixty dollars per year

Divided by twelve months... we've got, well, about twenty two dollars per month.

[show math: $260/12=21.6667$]

and if we take our previous monthly expenses which were five hundred sixteen dollars, adding twenty two we've got five thirty eight.

Then looking at our original budget of five hundred sixty dollars if we subtract five thirty eight for our monthly expenses, that leaves us with twenty two dollars.

So, having calculated some of these costs of car ownership, we can see that this car could be inside your budget.

Now you may be thinking about that extra twenty two dollars a month—that's two hundred sixty four dollars a year. Why not accessorize?

But having a little extra in your budget to cover unexpected costs is a good idea. It may come in handy if there's a sudden hike in the price of gas, or the cost of your insurance goes up.

And once your warranty runs out, you'll have to pay for any repairs you might have, like replacing a headlight or an oxygen sensor or maybe even something bigger.

So it's a good idea to keep these extra costs in mind when figuring out what you can spend. If your car payments alone put a strain on your budget, you might find yourself the owner of a car you can't afford to drive. And if a new car is too much for your budget, you might consider buying a used car, which we look at in another video.