

Beware of Lifestyle Creep

Sometimes more money can mean more problems.

Provided by Bill Mann, AIF®

“Lifestyle creep” is an unusual phrase describing an all-too-common problem: the more money people earn, the more money they tend to spend.

Frequently, the newly affluent are the most susceptible. As people establish themselves as doctors and lawyers, executives, and successful entrepreneurs, they see living well as a reward. Outstanding education, home, and business loans may not alter this viewpoint. Lifestyle creep can happen to successful individuals of any age. How do you guard against it?

Keep one financial principle in mind: spend less than you make. If you get a promotion, if your business takes off, if you make partner, the additional income you receive can go toward your retirement savings, your investment accounts, or your debts.

See a promotion, a bonus, or a raise as an opportunity to save more. Do you have a household budget? Then the amount of saving that the extra income comfortably permits will be clear. Even if you do not closely track your expenses, you can probably still save (and invest) to a greater degree without imperiling your current lifestyle.

Avoid taking on new fixed expenses that may not lead to positive outcomes. Shouldering a fixed mortgage payment as a condition of home ownership? Good potential outcome. Assuming an auto loan so you can drive a luxury SUV? Maybe not such a good idea. While the home may appreciate, the SUV will almost certainly not.

Resist the temptation to rent a fancier apartment or home. Few things scream “lifestyle creep” like higher rent does. A pricier apartment may convey an impressive image to your friends and associates, but it will not make you wealthier.

Keep the big goals in mind and fight off distractions. When you earn more, it is easy to act on your wants and buy things impulsively. Your typical day starts costing you more money.

To prevent this subtle, daily lifestyle creep, live your days the same way you always have – with the same kind of financial mindfulness. Watch out for new daily costs inspired by wants rather than needs.

Live well, but not extravagantly. After years of law school or time toiling at start-ups, getting hired by the right firm and making that career leap can be exhilarating – but it should not be a gateway to runaway debt. According to the Federal Reserve’s latest Survey of Consumer Finances, the average American head of household aged 35-44 carries slightly more than \$100,000 of non-housing debt. This is one area of life where you want to be below average.¹

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Citations.

1 - time.com/money/5233033/average-debt-every-age/ [4/13/18]