Are You Living With Lifestyle Inflation?

One of every three Americans has nothing saved in retirement accounts. The average family has less than $7,000 of savings for emergencies. Yet these same households often splurge regularly, dining out, with expensive coffee, and on the latest smartphone.

Normal inflation is the general upward movement of prices. At the end of 2017 in the US, our inflation rate was a mere 2.1%. Lifestyle inflation is when we quickly increase spending to enjoy a higher standard of living.

Many people are unfamiliar with the term “lifestyle inflation" but most fall victim to it at some time or another. In simple terms, it means that when an individual earns more, they are likely to spend more as well, regardless of whether or not they actually need that additional spending or even intend to do so. A recent study by the US Bureau of Labor Statistics revealed that most households continue to spend at least 50% of their income on housing and transport, regardless of how much they earn.

An example of lifestyle inflation is evident when students graduate from college and move into full-time employment. While in college, they likely got by on a very limited budget, however, now that they are earning more money, they will inevitably spend more. They move into a place of their own, buy a car, and splurge more on entertainment. These added expenses may not be essential, and the majority of college graduates will undertake them anyway.

To an extent, there is nothing wrong with limited lifestyle inflation. It is natural. As earnings increase, we want to move to bigger or better-situated housing, to purchase better-quality goods and services, and to spend more on food and entertainment. We want more steak and less macaroni and cheese.

The more we make, the more we spend. Another theory is that we become accustomed to living a certain way, we continue to spend that way, even if our income significantly decreases. Once we get used to eating steak, we do not want to go back to ramen noodles, even if that is all we can afford.

Issues arise when lifestyle inflation is unconscious or uncontrolled. It can lead to situations where families live paycheck to paycheck, no matter how much their income increases. Currently in America, 78% of Americans are living paycheck to paycheck. We have more credit card debt as a nation than we have ever had. Lifestyle inflation can make it difficult to save money, manage personal finances, and pay off debts.

When people ask how to pay off debt, the first question I ask is, "How long have you had that debt?" People are often *comfortable* with a certain amount of debt, so even though they have had three pay raises, that debt remains stubbornly in place. This is due to lifestyle inflation. They don't take the debt seriously until it goes over their debt comfort threshold. They won't make any changes to their spending until that threshold is exceeded.

Because lifestyle inflation is largely an unconscious process, it can be difficult to manage. A crucial part of getting it under control is making it visible, building an awareness of just how much is being spent, and how much could be saved.
Here are some techniques:

1. **Have a Personal Spending Plan**

Many people think the word "budget" implies restrictions. A spending plan is exactly that – a plan for how you want to spend your hard-earned income. There are a multitude of benefits to maintaining a budget and tracking personal expenses. Among them is that you can clearly see when your spending increases, and how much of your income you are using on a regular basis. Making yourself aware of your spending habits is the first step towards controlling them, and limiting lifestyle inflation.

If you need a personal spending plan, click here for "2ndLT/Ensign Monthly Budget Plan," a budget I created for newly commissioned military officers. It is a downloadable excel sheet that is easy to use. Unlike some other budgets, you download it so it is secure to your computer, it is interactive, allows you to change the categories, and it does the math for you.

2. **Put It On The Calendar**

Track both the savings and the debt. If you have credit card debt (any amount on credit cards that you are not able to pay off every month), add it all up and put that dollar amount on the last day of each month on a calendar. Additionally, add up everything in savings accounts and write down that number as well. As the debt number goes down and the savings number increases, motivation to continue builds, making it easier to stayed focused.

3. **Move Money You Want to Save Into a Separate Account In Another Credit Union or Bank**

"*If you don't see it, you won't miss it.*"

The problem with online checking and savings accounts is that we can see what we have at any time. Getting cash for the weekend and running short in the checking account? No problem. You are covered by what you have in the savings account, so just withdraw there. This makes it far too easy to dip into that savings account, which is supposed to be what is says it is – a savings account.

To combat this temptation, consider removing excess money from your account altogether. When you receive a raise or other increase in regular earnings, or you want to make sure you are saving that 10% of your income, simply calculate how much extra you are receiving per month and set up a standing allotment to move that amount to a separate account in a different financial institution. With the extra income out of sight, you are more likely to save it rather than spend it.

4. **Avoid Spontaneous Spending**

It's natural to want to celebrate whenever your earnings increase, but doing so by racking up new regular debt is counterproductive. That means you never see any real increase in the amount that you're able to save.

If you are thinking about increasing your living expenses (for example, buying a bigger house, buying a car, or taking a vacation) don't be tempted into doing so just because your earnings have increased. Strategically plan changes in your lifestyle carefully, rather than making them on impulse.

It is not what we make, it is what we don't spend that allows us to build wealth.

We work hard for out income, and we should enjoy it, but we also need to be smart about how we spend.

I'd love to hear what you think about this article. Please post your comment here.

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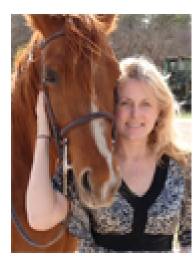

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