# Don't Let Lifestyle Inflation Overtake You

A bigger paycheck doesn't have to lead to bigger bills, too.

**YOU PROBABLY SPENT YOUR HIGH SCHOOL ECONOMICS CLASS LEARNING ABOUT INFLATION. It's easy enough to understand, right? Over time, prices rise, so the purchasing power of currency falls. Your money is simply not worth as much as it used to be.**

Lifestyle inflation (or lifestyle creep) takes the concept to a material level. As your income grows, it will be worth less to you if your lifestyle keeps pace. It's a human phenomenon—after a job promotion or significant raise, people find themselves increasing or upgrading their standard of living, either immediately or over time.

Maybe this means buying a new house or car, or increasing money spent each year on vacations or eating out. You can find yourself enmeshed in the same financial struggles you had three pay raises ago if you routinely pair a higher income with higher expenses.

As instinctive as it is to start spending any new income, avoiding lifestyle inflation is simple and can have a significant impact on your financial future.

## Why Do We Spend Money on Things We Don't Need?

Since lifestyle inflation tends to impact those in the middle of their careers, when promotions and raises may be more common, it's something for Millennials, in particular, to be aware of. Likely impacted by the Great Recession early in their careers, Millennials tend to be more reserved in their investment habits (only 51% have invested in the stock market, compared to 61% of Americans in the same age range from 2001-2008).[1] Student loans and accumulated debt add an additional level of forced financial caution. But despite all this, the average Millennial reports spending almost $500 on nonessential purchases each month.[2]

The driver behind some of that "fun budget" spending is often the consequence of a comparison trap. Think of it as the Keeping Up with the Joneses effect (or maybe, Keeping Up with the Kardashians). Your neighbor gets a new car and, suddenly, yours looks a little dingy. Your college roommate starts going to the Caribbean every spring, so now your countryside Airbnb seems a little less glamorous.

Social media further perpetuates the harm caused by comparison. One third of Millennials say that social media worsens their lives—a significantly higher level than any other generation.[3] Even though

### Key Points

- Lifestyle inflation happens when your household spending increases faster than your household income.
- It's particularly common for mid-career adults and Millennials.
- Before spending any new income, it's important to consider debt repayments, savings, and investments to help ensure a more secure financial future.

[1] Data Source: Los Angeles Times, "Stocks Soared This Year. Half of Millennials Missed Out," 12/27/2019

[2] Data Source: Charles Schwab, "2019 Modern Wealth Survey"

[3] Data Source: security.org, "Is Social Media Ruining Your Life?: Examining How Social Media Affects Life Satisfaction"

you know what you see on Facebook and Instagram is a glamorous snapshot of a distorted reality, the influence of social media is shocking, and Millennials are most likely to feel its impact in their perceptions and in their wallets.

Don't let comparison and social media drive your spending habits. Take heart in knowing that success is not defined by material things. The car you drive and model of iPhone you own are in no way a measure of your career or life achievements, despite what ad makers and social media influencers say.

## Keeping Track of Your Finances

The best way to combat lifestyle inflation is to not let it sneak up on you. You've heard it a thousand times: planning is key. First, come up with some short- and long-term goals to guide your financial planning. Short-term goals could include anything you plan to buy in the next couple of years. Long-term goals require more careful consideration. Have you thought about where you would like to live in 10 years? Do you envision yourself traveling often as you get older? If you have children, will you help pay for their education? Goal-setting is an important first step in making sure you can spend your money on what you value most.

The next step is to set and stick to a monthly budget. This should include a rough estimate of how much you plan to spend on bills, food, transportation, and other expenses (here's where you can fit in the fun!). You should also set aside a specific amount to save or invest each month—more on that later. Use your goals to direct your plan, as they should reflect your values.

## What to Do With an Increase in Money

So you got a raise, a promotion, or a new, higher-paying job. Celebrating doesn't have to be out of the question—you've earned it! However, with lifestyle creep in mind, what are the best things to do with this extra money? Before factoring it into your monthly spending budget, consider these three questions:

1. **Do you have outstanding loans, student debt or otherwise?** Unfortunately, debt can be a huge obstacle to financial security in America. The average college-educated American couple has a collective student debt burden of $53,000. This level of debt leads to a lifetime wealth loss of approximately $208,000.[4] Therefore, using your extra money to pay off debt is a smart first step to securing your financial future.
2. **What do your savings look like?** Low savers (as defined by J. P. Morgan as the 25% of Americans with the lowest percentage of their salary in savings) consistently save about 2% of their salary at a young age, while medium savers (the middle 50%) save about 5%. There is a very modest salary difference between low and middle savers, but that 3% difference in savings adds up: by the age of 60, medium savers have 2.1x their salary, while low savers only have 1.1x their salary.[5]

[4] Data Source: Demos, "At What Cost?: How Student Debt Reduces Lifetime Wealth," August 2013

[5] Data Source: J.P. Morgan, "The 3% Difference: What Leads to Higher Retirement Savings Rates?," 6/9/20

3. **What about your investments?** Whatever your comfort level with investing, the most critical things to know are that you still have time on your side and even small investments can add up. Pay yourself first! By directing a percentage of your income (as opposed to a set dollar amount) straight into investments, you will hardly have to think about where your money is going. Out of sight, out of mind, after all.

Once you've planned and feel on track with your debt repayment, savings, and investments, you may want to splurge. You can treat yourself and still stay on track for the long term by remembering how you saved for large purchases when you were in high school. Maybe it was a car or exciting new cell phone. With only so much money saved up from your summer job, you had to consider how long it would last you.

When we spend our money, we have to decide between things that will bring us long-term happiness versus things that will give us a short-term burst of joy. As you make your purchase decisions, think back to those "teenaged money values"—they can serve you well.

So, the next time you find your income increasing, remember that it doesn't have to be paired with increased lifestyle expenses. Your financial future will benefit in the long-term.

**Talk to your financial professional today about how you can manage lifestyle inflation.**