Will Lifestyle Creep Affect Your Retirement Plans?

Many of us can think back to a time when the idea of making a steady income and having "nice things" was a bit of a pipe dream.

In early-married life, many couples are working as many hours as possible, whilst living in a rented house or apartment, sharing a car and eating cheaply, in order to build up a pot of money to buy a house together.

Fast-forward 10 years, a couple of kids, and two lucrative career paths later, that lifestyle is a distant memory and couples are now more concerned about mortgages and retirement savings than stretching the monthly budget for groceries and paying the rent.

Over time, as you achieve better salaried jobs, it's only natural that you're going to "add on" to your lifestyle by purchasing a home, cars, holidays and so on.

Quality of life naturally increases with pay scale, and you shouldn't feel bad about it.

However, if you spend more as you earn more, or continue to spend more as the salary increases dry up, this “Lifestyle Creep” will substantially affect you ability to save for your retirement and ultimately, will impact on your quality of life in retirement.

It can be a slippery slope if you find yourself itching to spend after getting a promotion or new job. As difficult as it may be, it’s better to make plans for that extra money and use it to further build your financial security, hopefully by following some of these guidelines you can avoid becoming a victim of lifestyle creep.

Be Conscious of Lifestyle Creep

When you start earning good money, you will feel like you deserve to buy nice things because you are working hard and have done without many things during your early career. Of course, but this attitude can lead to overspending.

If you are earning significantly more but your bank account still looks just like it did years ago, then lifestyle creep is probably a factor.

Until you become conscious of lifestyle creep you won’t control your spending or think seriously about how to handle the extra money.

Calculate Real Changes to your Budget

After taxes and expenses, the effect of a salary increase is often less significant than you first think.

Take the time to calculate the real change to your budget and determine how that extra money is going to affect you.

If your boss offers a £12,000 annual salary increase, that works out to £1,000 more per month.

Subtract roughly £400 per month for taxes, (depending on your total salary and how you are taxed in your country of residence), and your "huge" increase is probably around £600 per month. Now that's nothing to sneeze at, but it's not exactly a large bump in lifestyle either.

Calculating the real amount that lands in your bank account each month can provide a healthy dose of perspective. Once you've done the numbers, you might find that your salary increase doesn't exactly merit a new car or shopping spree.

Avoid New Debt (And Pay Off Current Debt!)

Racking up credit card balances, financing a new car, or otherwise going into debt when you get a salary increase is backward step.

Unfortunately, it's a common move because many people often "feel" they can afford that new debt.

The reality is that 'being able to afford debt' is something of an oxymoron, and is not the same a 'being able to service the debt". All it does is spread your budget thinner, even when you're earning more.

When you factor in interest, the picture becomes even bleaker.

Instead, the first thing you should do with and excess salary is to start paying off any debts you currently have.

Transfer the Excess

When you have paid off any debt, it's "out of sight, out of mind" time.

If you want to protect the extra money you get from a salary increase or new job, get it out of your bank account as soon as possible.

After all, if you're happy with your current lifestyle, why should it change?

If you don't need the extra money to cover essential expenses but keep it in an easy-to-access bank account, it is all-too tempting to dip into it.

A better solution would be to automatically transfer the surplus amount each month into a savings plan so you can't get to it and spend it without thinking. Before you start spending any increased income, determine whether you're happy with your current lifestyle.

If your needs are being met, transfer the excess so you don't end up spending it needlessly.

Make Gradual Changes

There's nothing wrong with improving your lifestyle as you achieve success in life.

However, there are no millionaires who got to where they are now by blowing their extra funds the minute it hit the bank account.

Instead, the most successful people generally increase their spending on things such as homes, cars, clothing, food, and vacations little by little.

It's important to keep in mind that when you improve your lifestyle, you also increase your long-term expenditures. An expensive car might require pricier maintenance and a big house requires more upkeep. Don't go "from zero to sixty" in the first few weeks following your change in income. Celebrate modestly and pat yourself on the back. Then, plan your next move, remembering that small, incremental changes are much more sustainable than huge, life-altering decisions.

Finally, Don't Equate Success With Material Things

If there ever was a financial epidemic around the world, it's the obsession with material goods as a means of proving our wealth and success. We want our neighbours and friends to see our prosperity, so we use pricey possessions to flaunt it. 'Keeping up with the Joneses' is a thankless task, and doomed to failure.

However, the fundamental flaw is that we also live in a world where luxury goods are no longer limited to the wealthy.

Almost anyone can 'qualify' for the necessary credit to purchase cars, homes, boats and other items without actually being wealthy or successful.

In the end, you could find yourself competing with someone in a completely different wealth bracket.

Don't measure your success in life with material goods – both yours and your neighbours'. The true measures of success are health, love, friends, family, and experiences.

As long as you're happy with your quality of life, you shouldn't feel the need to prove it. In fact, you just might find yourself the object of envy when other people

see how easily you've been able to retire, travel, and otherwise enjoy life while they're still paying off debt into their later years.