PERSONAL FINANCE

How to Keep Lifestyle Creep From Hurting Your Wealth

While it's important to enjoy life when you're doing well, getting carried away could affect your wealth. Here's what you should do to prevent lifestyle creep.

(Image credit: Getty Images)

If you're like most people, you tend to spend more as you earn more. That's lifestyle creep, and it's one of the biggest factors that can stop you from growing your wealth.

When you can't create a buffer between your income and your spending, you'll find yourself trapped in a paycheck-to-paycheck cycle, dependent on earning more money to maintain your lifestyle—while having little to no available cash to save or invest.

Living paycheck to paycheck doesn't just happen to people struggling to get by. I've seen people making $250,000 and above each year barely keeping up because every penny they earn goes right out the door.

Living within your means isn't enough

If you want to grow significant wealth, you need to live significantly below your means. That means maintaining a lot of space between how much you earn and how much you spend. The available cash flow that gap creates should then be directed to savings and, perhaps more importantly, long-term investments.

I’m not here to tell you to stop spending money on your daily coffee. This isn't about nitpicking your expenses. It's more about big-picture choices — meaning major lifestyle decisions that can place huge fixed costs into your budget, like where you live and what kind of car you drive.

While you can get frugal if you want to, giving up coffees or meals out is not going to move the needle so much as the bigger choices that can eat up thousands of dollars in cash flow each month.

With more choice comes more responsibility

As your income grows beyond what’s necessary to cover the necessities and your baseline bills, you start getting a choice in how much you spend. And every time you choose to spend a little more, that means by default, you also choose to save a little less. This doesn’t matter quite so much when we’re talking small sums each month (although you still need to at least be aware of those, as they do add up over the year).

It’s when you start to make huge decisions — like jumping from a $2,000-a-month apartment to a $4,000-a-month apartment — that the impact becomes real. Doing so plugs a fixed cost into your spending that you now have to deal with month after month, and it can demolish your ability to save.

Notice that we’re talking about choices here. Even though something like rent or a mortgage is a fixed expense and part of what you need to pay to live, the upgrade is something that’s up to you. It’s a choice, and each time you make the decision to give yourself a little lifestyle boost without bumping up your savings in tandem, you may hurt your ability to grow your wealth.

Some lifestyle creep is inevitable as life changes

Here’s a good rule of thumb to keep in mind: The more you choose to spend today, the less financial freedom you may have down the road. When it comes to making choices, you need to consider that and decide for yourself if that trade-off is worth whatever you’re upgrading to.

Keep in mind that lifestyle upgrades aren’t always bad. It’s also not necessarily “bad” to increase your spending. Doing so without thinking, or without considering how the increase will impact your future, is where things get problematic. Or, to paraphrase Morgan Housel on a recent Knowledge Project podcast, increasing your lifestyle is only a problem if your ambitions grow faster than your income.

We all reach points where we know we’re going to make a change and our spending is likely going to go up no matter what. I did this in my own life after the pandemic: After living in a very inexpensive, rural area of Upstate New York from 2020 to 2023, my wife and I chose to move our family back to the very expensive city of Cambridge, Mass.

We considered what the increased spending today might mean for our future — and we also looked at other expenses we could cut to offset the inevitable jump in housing costs. We created a contingency plan in case things didn’t work out, and we know we have a whole pool of flexible, variable expenses that we can cut down immediately should we need to.

Most important, we made the decision only after determining that the increased expense would not affect our ability to hit our goal savings rate. We aim to save a minimum of 30% of our gross

income per year. We can increase our spending so long as we can maintain that savings rate, knowing that doing so will keep us on track to the financial future we want.

Depriving yourself isn't the answer either

My wife and I both believe there's a fine line between keeping a lid on lifestyle creep and flat out depriving yourself. Lifestyle creep happens when you spend so carelessly that it puts you at risk of running out of money in the future. But squirreling away so much money to savings that you're severely limited in what you can do today puts you in the face of a different type of risk: not truly living while you have the chance.

You might be in a similar situation right now. You're earning more money and you've spent the last decade of your career building up wealth through diligent savings and investing habits. If you continue to keep a tight budget and never allow for an increase in your lifestyle spending, you put your enjoyment of today at risk. And I think that's just as bad as risking your future financial freedom, because who knows what will happen tomorrow?

You need to find a way to create some kind of balance in your life. That balance, by the way, won't be perfect. It will ebb and flow; some years you might be a little more free with your spending. Others you might be lean and mean to save as much as you can. Either way, you need to find the sweet spot between living well today and saving responsibly for the future.

Finding the sweet spot

There's no way to know how much money you can spend today without looking at the projections for tomorrow. Of course, this is where things get complicated — because not running out of money is probably just one of your goals. You may also want to account for adding to your family, starting a business, leaving money behind to children or charity, or retiring early to travel the world.

This is where the value of a financial planner becomes clear: A fee-only CFP® can run these projections for you to show you the impact of your decisions, including whether to allow for some lifestyle creep, on your financial future. Showing this impact is one of the most powerful things I do with my clients.

And getting this decision right about how much spending to allow is critical, because you don't want to end up backing yourself into a corner. You don't want to put yourself in a position where the only way out is to dramatically reduce your lifestyle or cut something important to you. You always want to have some wiggle room so that with any decision, you have a choice on which way to go. To have a choice, you have to build in a buffer between your income and your spending.

Two steps we all can take

To do that, here are two things I suggest doing:

Be very careful with the fixed expenses you take on, because they tend to give you no way out if you need one (other than a dramatic lifestyle change).

Save more than you think you need to save.

If you need a more specific starting point, then look at your savings rate. I believe that 30% is a good rule of thumb to keep yourself in great shape (it's the rule I follow for my own finances). If you have the money and you're not saving 30%, start there. At some point, you need to figure it out in more detail, but this will get you on the right track.

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