

6 Signs You Can't Afford Your Lifestyle

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How to know if your spending is outpacing your income.

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As inflation continues to rise, so does the cost of living — and wages can't seem to keep up. As a result, around 80% of Americans are making lifestyle changes to accommodate everyday price hikes, according to 2022 data from research company Ipsos.

Do you need to do the same? Here are six signs you can't afford your lifestyle, according to financial experts.



1. You're Living Paycheck to Paycheck

If you have little to no money left over after paying your bills, you're not alone. Around 64% of American adults are living paycheck to paycheck, according to a 2022 LendingClub survey.

This isn't a problem just for those with low incomes. The same survey found that 49% of adults who earn more than \$100,000 a year were living paycheck to paycheck. If you can't afford to put any money toward savings or retirement, you may not be able to afford your lifestyle.

2. You Can't Afford an Emergency Expense

One side effect of living paycheck to paycheck is that it's difficult to build an emergency fund. Only 39% of Americans can afford to comfortably cover a \$1,000 emergency expense, according to a 2022 Bankrate survey.

Unfortunately, many people don't realize this is a problem for them until an emergency occurs.

"We usually see this in times of emergencies when something happens to a car or some mishap causes unforeseen expenses—like a basement flooding or a pipe leaking," said **Clinton Smith, CEO of the retirement and benefits services company Government & Civil Employee Services**. "Being prepared for the unexpected is a great way to break that cycle. Always keep a reserve fund of money just in case you need it."

3. Your Credit Card Debt Is Increasing

Life happens, and big expenses like medical bills and appliance repairs sometimes have to go on the credit card. The problem is, not paying off your credit cards causes their interest to kick in, which can quickly balloon your debt.

Jason Noble, a financial advisor with Prime Capital Investment Advisors, sees this issue all too often.

"As inflation continues to go up, we have seen credit card debt surge as a way to keep up with the higher costs," he said.

If you can't seem to keep up with your credit card payments, you may need to see what expenses you can do without.

4. Your Income Decreases but Your Spending Doesn't

An emergency fund is a helpful way to pay your bills if your income decreases due to a job loss. But your savings can't sustain you long term if your expenses continue to surpass your income.

Charisse Mackenzie, a financial advisor and president of Saturn Wealth, recalls one couple she worked with who faced this issue. Both worked in the medical field and were used to earning a high income. When one of them retired, they didn't want to give up their lifestyle.

"They started withdrawing \$12,000 a month from their investment accounts to maintain the lifestyle they were used to," Mackenzie said. "We ran the numbers for them with our income report and determined they would be out of money in less than 10 years at this rate of spending."

Mackenzie explained to the couple that either they needed to reduce their spending or the retired partner had to go back to work.

5. You're Hiding Your Spending Habits

If you find yourself hiding your purchases from a loved one or significant other, ask yourself why. Could it be a sign you feel guilty about spending more than you can afford?

Noble recalls one couple he worked with who had a combined yearly income of \$175,000. He said they also had a reasonable mortgage, typical car payments and \$5,000 in credit card debt. But something was off with the numbers — and he couldn't figure it out.

Noble recounted his meeting with the couple: "Finally, the husband said, 'I have a secret credit card that has \$35,000 of debt on it.' As tears welled up in his eyes, his wife responded, 'I, too, have a credit card that I've kept from you, and it has \$25,000 on it.' This is an extreme example, but it shows how keeping your spending in the dark is easier than bringing it to the light."

6. You Can't Keep Up With Multiple Lifestyle Debts

Is your home or car bigger or more luxurious than you need? Spending too much in these areas is a tell-tale sign you can't afford your lifestyle.

"Home and car payments shouldn't make up over 50% of a person's income," Noble said. "This is a general rule, but the lower the monthly percentage of your income that goes toward home and auto, the better off you'll be financially."



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