

MONEY WISE

VALUING PEOPLE. VALUING MONEY.
MANAGING IN TOUGH TIMES INITIATIVE



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THIS MONTH'S TOPIC: WARDING OFF LIFESTYLE CREEP

Imagine: You got that job you have been wanting. And more importantly, it came with that pay raise you had long been hoping for. Congratulations! You imagine all of the money you will be saving with your bump in pay. But three months later you check your bank account and it has not grown! "What happened?" you ask yourself. "I am making more money. Why haven't I been able to save more money?"

The perpetrator in this case is lifestyle creep. Lifestyle creep occurs when a person's standard of living increases along with their increase in discretionary income (discretionary income refers to expendable income left over after necessities have been paid for). Also called lifestyle inflation, lifestyle creep often occurs when people have a sense that they "deserve" more amenities now that they reached their goals or feel as though they want to reward

themselves. Put simply, lifestyle creep is the phenomenon that "the more you earn, the more you spend." Unfortunately, it can pose a serious threat to your pocketbook.

How does lifestyle creep happen?

The short story above is a perfect example. Instead of saving the majority of the money from a pay raise, you have likely increased your standard of living. You may have done this





in any number of ways. You could be buying that specialty coffee that you would not allow yourself to have before. You could be eating out more frequently than you were before. Or maybe you have decided to buy a new car but you were not prepared for how expensive it would be to maintain. Regardless, lifestyle creep is a result of increasing your spending.

Won't I know that lifestyle creep is happening to me?

Not necessarily. Lifestyle creep tends to sneak up on people. That's why it's called lifestyle *creep*! Most people are not consciously aware of the fact that they have begun spending more money on luxury items or amenities that previously would have seemed too expensive.

What can I do to prevent lifestyle creep?

- **Maintain a budget.** The most effective way to prevent lifestyle creep is to maintain a budget. One of the many great advantages of budgeting is that it allows you to take a look at your finances without getting your emotions involved. The numbers are what they are. This way, you can track your spending and take note when you see increases in discretionary spending.

- **Pay yourself first.** As a part of your structured budget, be sure to set aside the money you want to save first. And then budget the remainder of your expenses after. This will ensure that you allocate enough money to your emergency savings and retirement fund. If you wait to contribute to your savings after you have budgeted everything else, there may not be any money left over to save.
- **Celebrate smart.** You can still celebrate the fact that you or your spouse got a job promotion. You just have to do it responsibly. Set a spending limit on your celebratory vacation. Or make incremental changes to your household furniture instead of buying a new set all at once. Or wait to see what the impact of that job promotion will have on your finances before you rush out to buy a new car.

You have worked hard. You deserve to treat yourself. Just be sure to do it in a way that is safe and responsible for your family's finances. end items.

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