

# THE TENDENCY TO SPEND

Provided by National Financial Network

Did you drive a VW Bug in college? If you've ever been back behind the wheel of a Bug, it probably felt strange and made you wonder how you survived driving around in a little tin can on wheels! We might also view rotary phones, record players, or our old "weekend fun" kit (a tote bag with a blanket, some sunscreen, and a couple of Frisbees) as charming antiques.

As we grow older, our tastes become more sophisticated, and we need bigger budgets to keep pace. It would never occur to us to take a weekend outing in our SUV (power boat in tow) without a Kindle for reading, a smartphone for texting and music listening — complete with a speaker system.

What is lifestyle inflation? It is the natural tendency of human beings to desire improvements. As one blog defined it, "Lifestyle inflation is the unnecessary expansion of spending to match an increasing income." Consumer spending is fueled by technological advances, creativity and endless options for new services, information, and products. Improvements abound, and consumers foot the bill.

In our college days, we were content with tennis shoes and face cream from Walmart. As our lives progress and we earn more, we want improved quality. Status may become a factor. Now, our shoes carry a brand name and skin care comes from a department store. The products serve the same purpose, but we convince ourselves that we "get what we pay for" in terms of quality, features or what we believe the product will do for us.

Farther down the road, if our earnings increase, we might purchase a pair of Nike Air Max shoes for basketball, a pair of Mizunos for running, and a pair of Adidas for cross-training. Our makeup is a custom color blended at a boutique. We'll also spring for a day lotion, a night crème, a toner and a French eye moisturizer to go with it.

*"Youth is the time of getting, middle age of improving, and old age of spending."*

— Anne Bradstreet

As we transition from college grad to young professional to seasoned careerist, we see our costs quadruple, then increase tenfold or more. This is what we call lifestyle inflation. Lifestyle inflation takes us from buying a simple \$3 face cream to a \$50 anti-aging moisturizer over a 30-year time frame, representing a 9.8 percent increase even if the government definition of inflation might only be 3.5 percent over the same span of time.

Please note that neither skin products nor tennis shoes fall into the government's "basket of goods and services" that is identified as necessities and calculated into the inflation rate. It is true that things change, and technology renders some items obsolete (such as the Blu-ray player which replaced the DVD player that replaced the VHS player that was a luxury to begin with). However, lifestyle inflation goes above and beyond the basic inflation rates calculated by Uncle Sam. Lifestyle inflation escalates and multiplies the inflation we already experience, even when comparing apples to apples.

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### The Unseen Costs of Lifestyle Inflation

An old Russian proverb says, "Spending is quick; earning is slow." Spending comes much more easily than earning, saving, or investing. But the true cost of lifestyle inflation runs deeper than the immediate effect on the bottom line.

One cost is that of the emotional as well as financial stress. In our consumer culture, it is common to experience the feeling of running like a hamster on a wheel. Our income might increase, but so do our expenditures. We take on a bigger mortgage, a higher car payment, send our kids to private school and voila — we're trapped on that hamster wheel.

Financial prosperity has the advantage of giving us choices. Options. Freedom. But if we alter our lifestyles to dispose of the extra income burning a hole in our pockets, we will never experience true financial freedom. And though we imagine that "the rich" can spend what they wish, in truth, the wealthiest among us are those who live below their means, driving used cars and clipping coupons.

Debt is another debilitating result of lifestyle inflation. Even without consumer

debt, lifestyle inflation can significantly hinder any wealth building efforts.

What about opportunity costs? One of the Seven Principles of Prosperity™ is to measure opportunity costs. Lifestyle inflation is so much more than the difference between a Volkswagen and a Lexus. It equals that difference plus the extra money that difference could have earned over the years.

### Five Steps to Conquering Lifestyle Inflation

#### 1. Lead Yourself Not into Temptation.

There is a good reason the IRS collects tax before you even receive your paycheck: So you don't spend it first! Similarly, you can reinforce your own saving through automatic withdrawals, mortgage payments and whole life cash value accounts. Know your own spending habits, make a spending plan, and practice conscious consumption.

#### 2. Save Your Raises.

If your income increases, consider how to save the difference rather than spending the difference. Not only is this a canny financial move, it increases your options and will lower your stress should your income decrease due to circumstances or



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choice. You can still splurge on occasion — you just don't automatically ratchet up your spending to match your income.

**3. Needs vs. Wants: Get Real About Your Priorities and Values.**

Define what it is you want money to DO for you. What matters to you most? If someone looked at your bank account, would they find clues to your top priorities?

Strive to align your spending with your values. You can drive a nice car or take your family on a vacation to remember but be smart about it. Stream movies at home and pop your own popcorn and you can save up for those Broadway show tickets. Perhaps you could buy a new or gently used car every five years instead of every three years. Get creative so you can afford the splurges you enjoy without compromising your ability to build cash-flowing assets.

**4. Treat Your Dollars Like Seeds — Not Fruit.**

Fruit gets eaten and disappears, but you can save the seeds for planting! It is said that Warren Buffett wouldn't give a friend a quarter if she only needed a dime for the pay phone; he would make change and keep the extra 15 cents. For him, the joy of money was never in the spending of it, but in making it multiply. Given enough time and the right strategy, even a mere dollar can grow into a million.

We believe it is essential to have a saving STRUCTURE in place for saving.

Just as mortgages do wonders to assist otherwise renters in building equity in a home, so a cash value account in a life insurance policy with a Paid-Up Additions (PUA) rider can help you build long-term savings. (And unlike the mortgage, you can access your equity when needed — without a qualifying process.) Ask your financial professional to draw up an illustration of this type of flexible, guaranteed savings vehicle.<sup>1</sup>

**5. Practice Gratitude and Contentment.**

Finally, know that prosperity begins with our thinking. Don't let catalogs and online shopping sites keep you in a constant state of comparing yourself to the Joneses. High-tech video games aren't necessarily better than dominoes or a game of cards, just different. Love what you have and consider that the Joneses might be secretly envious of your life's simplicity and your lack of consumer debt!

<sup>1</sup> Whole life insurance is intended to provide death benefit protection for an individual's entire life. With payment of the required guaranteed premiums, you will receive a guaranteed death benefit and guaranteed cash values inside the policy. Guarantees are based on the claims-paying ability of the issuing insurance company. Dividends are not guaranteed and are declared annually by the issuing insurance company's board of directors. Early cash value accumulation and early payment of dividends depend upon policy type and/or policy design, and cash value accumulation is offset by insurance and company expenses.

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