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5 ways to outsmart lifestyle creep

As you earn more, you may spend more—but that doesn't need to derail your goals.

Fidelity Viewpoints

Key takeaways

> The desire to improve your quality of life as you earn more is understandable. But if your lifestyle gets an upgrade while your savings don't, you may be experiencing lifestyle creep.
>
> To make the most of your money, have a plan to optimize your savings.
>
> That can include using tax-advantaged accounts, saving for emergencies, minimizing high-interest debt, and investing for the future.

As your income goes up, so does spending. And it should, since you're working hard and deserve to enjoy your money. But be aware—to get ahead and strengthen your finances it's important to increase your savings as your income and spending rise.

Lifestyle creep, also called lifestyle inflation, happens when your spending expands along with your income, but savings fall by the wayside. That can lead to setbacks on your way to future goals like homeownership, a child's education, and retirement. The good news is that with a little planning, you can enjoy life now and save for the future.

Feedback

Here are 5 tips to keep lifestyle creep in check and live it up a little.

What is lifestyle creep?

Lifestyle creep can happen when you get a raise, bonus, or a new job. Instead of sticking to your old spending habits, you start spending more on things like eating out and entertainment, buying nicer clothes and furniture, and generally upgrading your lifestyle. You may be making more money but you're not saving more.

Signs of lifestyle creep

Maybe you spent years scraping by and finally have a little extra money or your expenses have soared after growing your family. The pressures to spend are endless and come from every direction.

One sure sign that your lifestyle may be creeping up too much can be that you begin saving and investing less and less. A little debt may begin to pile up. As you spend more on extras, there's less money left for your savings, retirement plans, and investments, which can delay reaching your financial goals.

Of course, personal finance is just that—personal. Everyone has their own priorities and timelines for their money. But it can be a good idea to strive for balance, making sure you're planning and preparing for the future while enjoying life today.

Strategies to avoid lifestyle creep

Fortunately, there are easy ways to create a financial plan—it may even be a little fun once you get going. If you're ready to try, Fidelity's digital tools can help you create a plan for free. Read *Viewpoints:* 5 financial planning basics to consider now

To keep your lifestyle in check in the meantime, consider these tips.

1. Make a budget and stick to it

Making a budget and following it is one of the best ways to avoid lifestyle creep. A budget helps you keep track of your income and expenses to help make sure you're saving enough and spending in the right places.

You don't have to track every dollar—unless you want to. Consider using Fidelity's budgeting guidelines, 50/15/5. It suggests putting 50% of your take-home income toward necessary expenses, 15% pre-tax for retirement (including employer match), and saving 5% of take-home for short-term savings, like emergency savings. Whatever is left can be spent on anything or, even better, rerouted to additional savings to help reach your goals.

Tips for budgeting:

- **Use budgeting tools.** Try apps or spreadsheets to track your spending. Or consider using Fidelity's free digital tools.
- **Set limits.** Decide how much to spend on nonessential items and stick to it.
- **Review regularly.** Check your budget often and adjust it if needed.

2. Prioritize saving and investing

To make sure you're staying on track, as your income goes up, your savings rate may need to go up too. That way, you'll have a better chance of covering an emergency with your savings, maintaining your lifestyle in retirement, and hitting your other financial goals.

Make saving and investing a priority by setting aside money before spending on extras when possible.

- **Build up emergency savings.** Start by saving $1,000. Then keep going to save enough to cover 3 to 6 months of living expenses. If you ever need to dip into your savings, be sure to replenish it when you can.
- **Get the full match to your workplace retirement plan.** Contribute at least enough to your workplace plan, like a 401(k), to get the full match from your employer.
- **Use tax-advantaged savings for health care if you can.** If you have access to a health savings account (HSA) or a flexible spending account through your employer, consider saving enough to cover medical expenses you expect this year. If you have an HSA and have extra money to save, consider contributing the maximum. You don't have to spend everything (or anything!) you contribute this year. Some employers even offer matching contributions to HSAs—that's like free money that can be saved and invested for the future or used for health care right away.
- **Pay down high-interest debt.** Paying off lingering debt can free up money that can be saved for the future or spent.
- **Work toward maxing out retirement accounts.** Contribute as much as you can to accounts like 401(k)s and IRAs. Fidelity suggests saving 15% of your income pre-tax for retirement, including any employer match, but you may need to save more or less than this to maintain your lifestyle in retirement.

Read *Viewpoints*: 5 small steps that can make a big impact

To make saving seamless, consider automating your savings with automatic transfers to your saving and investment accounts. Plus, you can set up recurring investments so your money can start working for you right away. Ready to try? Set up recurring transfers or investments.

3. Be mindful of lifestyle choices

Being aware of your spending habits can help you avoid unnecessary expenses. Make thoughtful decisions about what you buy. Spending money only on the things that are really important to you can help make sure your spending lines up with your values.

Mindful spending tips:

- **Question purchases.** Ask yourself if you really need something before buying it.
- **Wait it out**. Give yourself some time to think about nonessential purchases. If you still want it after a week or 2, then consider buying it.
- **Look for alternatives.** Find cheaper options for expensive items or experiences.

Read *Viewpoints:* How I paid off more than $40,000 in debt and Are you a spender or saver?

4. Set financial goals

Having clear financial goals can motivate you to avoid lifestyle inflation. Whether it's saving for a house, funding education, or retiring early, specific goals help you focus your spending. For some examples of financial goals, read *Viewpoints*: Money milestones to aim for in your 30s, 40s, and 50s

Goal-setting tips:

- **SMART goals.** Make sure your goals are Specific, Measurable, Achievable, Relevant, and Time-bound.
- **Break it down.** Split larger goals into smaller steps.
- **Track progress.** Keep an eye on how you're doing and make changes if needed.

Set up goals on Fidelity.com: MyGoals

5. Refresh your understanding of personal finance

Understanding personal finance basics can help you make better financial choices—and not just about day-to-day spending and saving. There are decisions to be made about investing, insurance, mortgages, estate planning, and taxes. Many things can significantly impact your future financial wellbeing and being knowledgeable about them can help ensure that you make the decision that's right for you.

Financial literacy tips:

- **Take courses.** Sign up for finance courses online or at local institutions. Fidelity offers free live events and on-demand webinars. Plus you'll find thousands of articles and videos in Learn on Fidelity.com.
- **Follow experts.** Follow financial experts on blogs, podcasts, and social media. It's fun to connect with other fans of personal finance and talk money with likeminded people.

Avoiding lifestyle creep

Letting your lifestyle expand as you earn more can improve your quality of life. The trick is to make sure that your spending and saving stay proportional to your goals. It's not about how much you earn, but how wisely you manage your money that determines your financial future.

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