CAPTRUST

More Money, Different Problems

It’s easy to believe that wealthy people don’t have to worry about their finances. But the reality is that they often face their own unhealthy consumer habits, fueled by access to money, societal pressures, and a culture that encourages consumption.

Unhealthy Habits

“We all know Americans struggle with their day-to-day finances,” says Chris Whitlow, head of CAPTRUST at Work. “But it isn’t only lower- and middle-income people who face challenges.”

According to a recent “Mind over Money” survey from Capital One and The Decision Lab, two-thirds of Americans feel anxious about their financial situations, and more than half have difficulty controlling their money-related worries. They’re most worried about their financial futures, including not having enough money to retire, keeping up with the cost of living, and managing debt.

“Having wealth solves some of your money issues, but it doesn’t make you immune to financial stress,” says Whitlow. “Wealthy people just suffer from a different set of worries.” Often, these worries are related to spending behaviors.

Problems of Abundance

While some of these issues might rightly be called high-class problems—or problems of abundance—they are, nonetheless, problems, and they can leave a significant mark on a family’s finances. Some spending behaviors can have negative financial consequences.

- **Impulse purchases.** The ability to afford more can lead to buying impulsively, bypassing discussion, budgeting, or consideration of actual need. “This can be especially tempting with luxury items or high-end experiences,” says CAPTRUST Financial Advisor Jeremy Altfeder.

- **Conspicuous consumption.** When money isn't a major concern, it can be more difficult to resist the allure of having the latest and greatest of everything. People fall into this trap when they feel pressure to maintain a certain lifestyle or appearance, even when it strains their finances.
- **Lifestyle creep.** This occurs when your expenses unintentionally increase along with your income. "After getting a big raise, you may, for example, shop and go out to eat more, or add a long weekend trip to your annual vacation agenda," says Altfeder. If you do, that raise won't translate into more money in the bank.
- **Keeping up with the Joneses.** There isn't a single clinical term for "keeping up with the Joneses," but it appears to be related to several concepts. *Social comparison* is a normal human tendency; in the context of keeping up with the Joneses, it becomes excessive and focused on material possessions or social status. *Fear of missing out (FOMO)* may also play a part. FOMO creates anxiety about missing out on experiences or possessions others have, and it can fuel the desire to keep up.

As wealth increases, so does the ability to spend, and the impact of these behaviors can be significant. Combine a couple impulse purchases, a dash of lifestyle creep, and a touch of keeping up with the Joneses, and you may find you're not making any real progress toward your long-term financial goals.

A Few Helpful Tips

"We live in a consumer-driven society," says Altfeder. "We're bombarded by commercials telling us we should spend our money on cars, trips, and things for our homes. And, of course, these ads are targeted at people with the means to buy. It's no wonder so many Americans suffer from overspending and too much debt."

There's nothing inherently bad about spending, and it's normal to spend more as income and wealth rise. What's important is that you make intentional choices about your spending rather than falling prey to ad messaging and dysfunctional spending behaviors. Here's how.

Make a not-a-budget budget. "While you may not need a detailed monthly budget, doing a little math to understand what you're spending can be revealing," says Altfeder. Even small purchases add up over time, and that once-in-a-while splurge that happens a little too often can take a toll.

Get the full picture. Often, the cost of luxury purchases extends beyond the initial outlay. For example, buying a vintage car, a second home, or a plane include significant maintenance and upkeep costs that may generate financial stress. Creating a full estimate of those expenses can inform the decision-making process and reduce the likelihood of surprises down the road.

Don't neglect long-term planning. Focusing on the here and now can lead to neglecting retirement savings, estate planning, and other long-term financial goals. A good financial plan will get you excited about the future and may cause you to rethink your current spending. Further, just because things are comfortable today doesn't mean they'll stay that way forever. A plan will help identify likely outcomes and biggest risks.

Avoid bad debt. Easy access to credit and the ability to afford the payments on it can lead to accept more than a healthy amount of debt. "Good debt like mortgages, student loans, and business loans can help enable long-term goals," says Whitlow. "Bad debt—like credit cards and any loan used to buy a depreciating asset—steers you away from your goals. Moderation is key, and even good debt, when overused, can turn bad."

Acknowledge the impulse. It can be difficult to notice when you're falling into the trap of FOMO or an impulsive purchase. That's why these behaviors are so problematic. But it's possible to cultivate mindfulness about spending in order to dampen the impulse.

A few simple rules may also help. For example, implement a timeout rule that requires you to sleep on spending decisions more than a certain amount, or delay that new car, boat, guitar, or cruise purchase by 30 days and see if you still need it. You may find you do not, and over time, you'll become more engaged when big spending decisions arise.

Spending with Intention

While wealthier Americans may not suffer from the make-or-break financial issues and stresses that average Americans face, they do experience their own breed of money-related stress. The allure of consumerism is strong and carries real financial consequences. But it doesn't have to be that way. With a more intentional approach to managing spending, wealthy Americans can enjoy the fruits of their wealth while also attaining their long-term financial goals with less stress and worry.

"I have these conversations with clients—not all the time, but often—and they're always surprised by how much they spend and what they spend on," says Altfeder. "A lot of the time, they don't see a lot of value in what they're paying for, which makes it easy for them to dial back. They feel like they're making a positive difference in their finances and are more in control of their lives in general."

Article by John Curry
