Personal Finance

Know why you are always broke

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For a number of salaried workers, earning a six-figure income should be the ultimate solution to any financial woes. But just like those earning high income have discovered, this paycheque can be inconsequential if you do not exercise personal financial discipline.

If you earn a reasonably high income, but still find yourself broke a few days after payday, you most likely live, act and spend like you make more money than you do. In other words, you are clearly living beyond your means. It is a case of living a billionaire lifestyle on a working class income.

Interestingly, the billionaires you think you are emulating behave differently when it comes to money. They live below their means. And remember their means are billions of times more than yours. And we are talking about self-made billionaires, not people whose wealth accumulation cannot be accounted for or explained.

When you look closely at your expenses, it is likely that you are way out of your league when it comes to your current accommodation, which is taking a large chunk of your income.

Taking a hefty mortgage for an expansive home can also make you broke

For example, did you take out a hefty mortgage for your expansive home? Keeping up with those mortgage payments must be a drag. Or are you paying expensive rent in a large apartment or bungalow in a leafy suburb. Or you borrowed to put up a house with the hope of easily meeting your loan repayments. Maintaining this home is probably a headache, but you keep up appearances to fit in with your peers. Your household has several maids, chefs and gardeners among others, to keep the home in pristine condition. In addition, the utility bills that go with expansive accommodation should be massive. It is also likely that you have country homes that require maintenance, which is an additional drain for your wallet.

As part of your lifestyle, lavish spending is your default mode to match your social circles. To keep up with your peers, you host garden parties or have to attend invites to the same. Coupled with that, your children attend private school whose extra-curricular activities comprise foreign trips as part of school activities. Because you are perpetually broke, you have to borrow to fund such trips. This, coupled with expensive hobbies, health club membership, and owning several fuel guzzlers to match your status. This is often complemented with designer clothes and accessories, gadgets and frequent holidays abroad.

Initially, such expenses are manageable and can be offset with the salary and the perks you get. However, as time goes on, it dawns on you that you need to borrow to meet the budget shortfall. Thanks to your high income, you automatically qualify for huge amounts of personal loans. Unfortunately in most cases, the borrowing is not used to purchase assets that appreciate or fetch you an income, but for liabilities that depreciate in value. To give you credit, you have tried investing, but it has not yielded much due to lack of supervision. And it is likely that your businesses are subsidised by your income and therefore would collapse if you lost the primary income. Consequently, you have become vulnerable financially due to multiple borrowing and end up committing over 80% of your income to servicing debts. With this scenario, it is not a surprise that despite earning high income, you are perpetually broke.

This scenario applies to every income bracket. If you cannot manage expenses yet your income stagnant, the paycheque has become your perch. Justifying your lavish expenses using limited income is merely exposing poor judgment. You can only be comfortable if most of your expenses are funded from passive income generated by assets.

Without a strong will power to say no to emotional decisions regarding money you will continue wallowing in a state of financial insecurity. There is no harm in spending as a 'reward' for the lengthy working hours you endure on a daily basis as long as its budgeted for. That way you have a lid on your finances. Do not mistake high income with wealth. It is crucial to distinguish between perceived wealth and actual wealth. If you earn a lot but do not save and invest wisely, you are worse off than a low income earner who saves and invests. When you earn either high or low income, it comes down to three options, spending, saving or investing these resources.

It is important that you use this time well, when still active and have the resources to figure out how you can grow and preserve what you earn. That way, you will not struggle with the emotional drain of having to uproot your family from the life they know to a different one that truly reflects your actual financial status.

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