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High earners can still struggle

Some who earn six figures have major debt load, live paycheck to paycheck

By Stephanie Armour

The car payment was due. Creditors kept calling. Every single credit card was at its maximum.

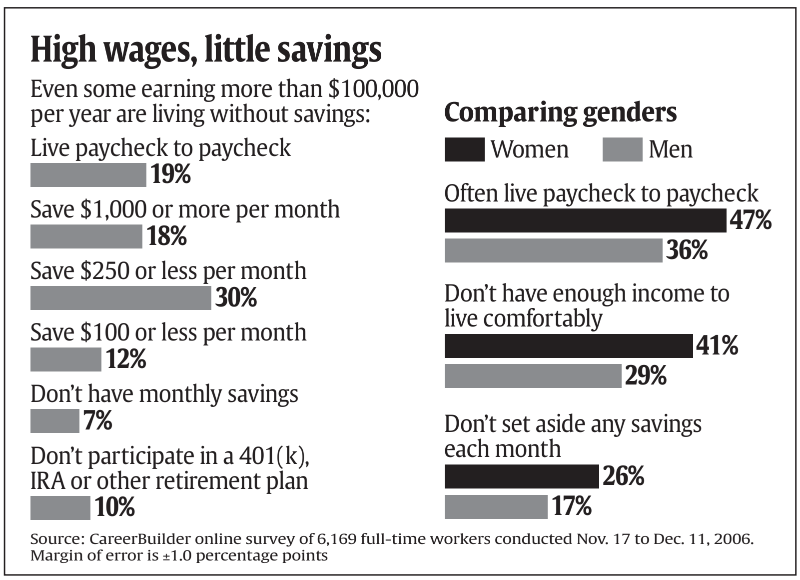
Steve and Nicole Brown could barely scrape by living paycheck to paycheck, but they never expected to find themselves in such perilous financial shape. As probation officers, the Balch Springs, Texas, couple earn $80,000 a year. Like many, they believed surviving without savings shouldn't happen to someone in their income bracket.

But it did. Medical costs for their son, Kobe, 4, who has asthma, along with student loans from college, led the Browns into debt. Today, they are on a plan to be debt free by 2008 and are curbing recreational spending, but their story mirrors the predicament facing many Americans who are middle- and high-wage earners but still living paycheck-to-paycheck, stretching to make ends meet despite earning salaries that are near — or above — six figures.

Nearly one in five workers who earn $100,000 or more report they often or always live paycheck to paycheck, according to a recent survey by Harris Interactive for CareerBuilder, an online job site. Although 18% save $1,000 or more per month, 30% save $250 or less. CareerBuilder is owned in part by Gannett, which publishes USA TODAY.

“I was worried,” says Steve, 34, who went to a credit counselor to consolidate his debt and develop a plan to begin saving. “I was maxing credit cards, and I knew I couldn't keep up. You can make $300,000 and still be in debt.”

For those who earn a middle-to-high income, there is an additional stigma to subsisting without savings or accumulating insurmountable debt. Many of those in this income bracket believe they should be able to handle their finances and fear the disapproval of others who may view them as reckless spenders, say credit advisers such as Gail Cunningham, vice president of business relations at Consumer Credit Counseling Service of Greater Dallas.



By Alejandro Gonzalez, USA TODAY

Living on the edge

Eighteen percent of employees earning $100,000 could continue their lifestyle for one month or less if they lost their income, according to a new survey by Discover Financial Services. And 12% of these high earners say they have no money left over after paying debts.

“Financial pressures can cause stress-related illness, impact your work performance and productivity and limit your opportunities to make career changes,” says Susan Wilson Solovic, author of Reinvent Your Career: Attain the Success You Desire and Deserve, in an e-mail. “Sadly, I've seen a number of situations where affluent families have had to file bankruptcy because of a lack of fiscal management.”

Many struggle with the concern about what others might think. Rich Goldsmith, 30, of Minneapolis, is a public relations executive who earns a solid middle-income salary. But his money goes to pay for his car, his mortgage and a home equity line of credit, plus paying for his son's activities. His son, Zak, is 10, and Goldsmith has him every other weekend, holidays and the summer.

As interest rates creep up, he is paying more on his equity line. Rising gas prices, he says, have also eaten into his pay. “Any time you run into an unexpected problem, it's hard,” Goldsmith says. “I'm surviving, I get by. The brutal thing is that once you get behind, you're done.”

Top reasons for problems

Financial experts such as Cunningham point to a host of reasons for the predicament facing higher-wage earners with no savings, although she says that overspending remains the top culprit. Among them:

▸ **Higher costs for housing.** The surge in housing costs has led employees to devote a larger percentage of their income toward their mortgages. From 2004 to 2005, median incomes rose just 1.1% to $46,326, according to the Census Bureau.

Meanwhile, in just one year, the number of households with housing cost burdens greater than 30% of income climbed by

2.3 million, hitting a record 37.3 million in 2005, according to a report by the Joint Center for Housing Studies at Harvard University.

The result: The pressures of high housing costs are moving up the income scale.

A growing number of homeowners also have taken on adjustable-rate loans, whose interest rates can rise after a set period. This has allowed some higher earners to buy homes they may not otherwise have been able to afford. But for those living paycheck to paycheck, an uptick in monthly housing costs can have a painful effect.

The Mortgage Bankers Association reports that adjustable-rate mortgages grew from 13% of all originations in mid-2003 to 35% in mid-2005.

▸ **Tuition costs**. At the same time, employees are borrowing for investments in education — a cost that is also soaring. The College Board reports that, at four-year public colleges, tuition and fees are up 35% from five years ago, after adjusting for inflation.

Tuition and fee charges at four-year public colleges averaged $5,836 in the 2006-07 academic year, according to the report. That was a $344 increase over the previous year. The average total for tuition, fees and room and board charges for in-state students at public institutions was $12,796. At private four-year colleges, the average cost was $22,218.

▸ **Mounting debt.** Many high-wage earners who live paycheck to paycheck are simply overspending and using credit cards or other debt sources to sustain their lifestyle. High-income households, on average, spend more of their income on food away from home, entertainment, clothing and services, according to data from the Bureau of Labor Statistics.

"There is an overspending issue, without a doubt," says David Jones, president of the Association of Independent Consumer Credit Counseling Agencies. "They are doctors, lawyers. They have more disposable income and, very often, they get into trouble."

Finding a way out

There can be a way out. Tonya Talley, 38, is an obstetrics nurse in Ardmore, Okla. Together, she and her husband, Robert, earn about $135,000 a year. Ten years ago, she owned a home and a car and was raising three kids, but she also had credit card debt of about $18,000 -- much of it racked up after a divorce. It took years to pay it off.

She was using credit cards to pay household bills, she says. So she consolidated her debts and worked out a payment plan, which lowered the interest rate she was paying. Today, the debt is gone.

"Emotionally, it was getting very tough on me. I just knew I was barely paying minimum balances and taking cash advances," Talley says. "But I quit using (credit cards) completely. You can pay yourself out."

“High earners can still struggle”: Planning ahead to avoid constantly tight finances

Objectives

- Read the article “High earners can still struggle.”
- Identify nine ways people get into financial trouble.
- Verbalize solutions for getting out of debt.
- Create a personal case study and list creative solutions for unexpected expenses.

Preparation

Each student will need:

- A copy of the article “High earners can still struggle.”
- A copy of the lesson.
- A finished budget from Lessons 5 and 6.

1. Read the article and answer discussion questions .(20 minutes)

- Many people with good incomes still get into a lot of debt and have problems paying all their bills each month. What were some reasons people in the article got into financial trouble? (There are at least nine mentioned.)

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- What are some of the effects of struggling to keep up with debt payments and bills?

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- What was Tonya Talley’s solution for getting out of debt?

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- How can debt limit your ability to change jobs or careers?

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2. Learn to accrue debt wisely. (30 minutes)

Directions: The easiest ways to avoid the stress of living from paycheck to paycheck are to avoid debt and save money for unexpected expenses. Using your budget and money-saving ideas from lessons 5 and 6, how can you solve the following personal budget crunch?

Scenario:

You’re now 25 years old. You have a spouse and a child in daycare. You and your spouse both earn $24,000 a year (total of $48,000 gross). Daycare costs $800 a month. You have just paid off your car; however, the next day you have a car accident and total it. Now you have to buy a reliable car, and you didn’t have full coverage on your old one, which means the insurance company won’t be compensating you. Plan on spending $3500. How will you pay for the car?

“High earners can still struggle”: Planning ahead to avoid constantly tight finances

Using the grid below, adjust your budget from Lesson 5 to reflect your new earnings and expenses. If you were splitting rent before, make sure to adjust that since now the whole rent/mortgage amount comes out of your family’s bank account.

Goods and Services	Cost
Rent	
Renter’s insurance	
Food/groceries/dining out	
Phone (Cell and land line)	
Electricity	
Water/sewer	
Garbage pick-up	
Car payment	
Car insurance	
Gas for car	
Cable/Internet	
Entertainment	
Shopping (clothes, electronics, etc.)	
Health insurance	
Daycare expenses	
Other	
Total expenses (Add all above lines here)	
Total net earnings after taxes (Subtract 18% in taxes from your $48,000. Why 18%? You’re now in a higher tax bracket because you earn more money.)	

Now that you have figured out your new budget, let's determine if you have enough money in your savings account to pay for the car in cash. Complete the following steps to figure it out.

Step 1. In Lesson 6, you calculated how much of your earnings you could put into savings. What percent of your earnings were you saving each month? ____________

Step 2. Multiply your new net earnings by the percent from Step 1. That's how much you've been putting into your savings account with your new budget. ____________

Step 3. Now, multiply the total from Step 2 by five. That new number is how much you have been able to put into savings since the last unexpected financial crisis. ____________

Step 4. Are you able to pay cash for the car? ____________

If not, are there other ways to be able to pay for the car without taking out a bank loan or charging it to your credit card? Or are there other ways for you to be able to get to work without a personal car? List your ideas for both questions here:

3. Debrief and apply. (5 minutes)

- So you've just wrecked your car. Were any of you able to buy the car outright with money you had in savings? How were you able to save that much money?
- If you couldn't pay for the car outright, what other creative solutions did you come up with for getting to your job?
- How did it feel to know you had some money in reserve? How would it have felt if you had more than that in reserve? How can you apply this knowledge now?