Financial planners explain how to avoid becoming a HENRY: 'high earner, not rich yet'

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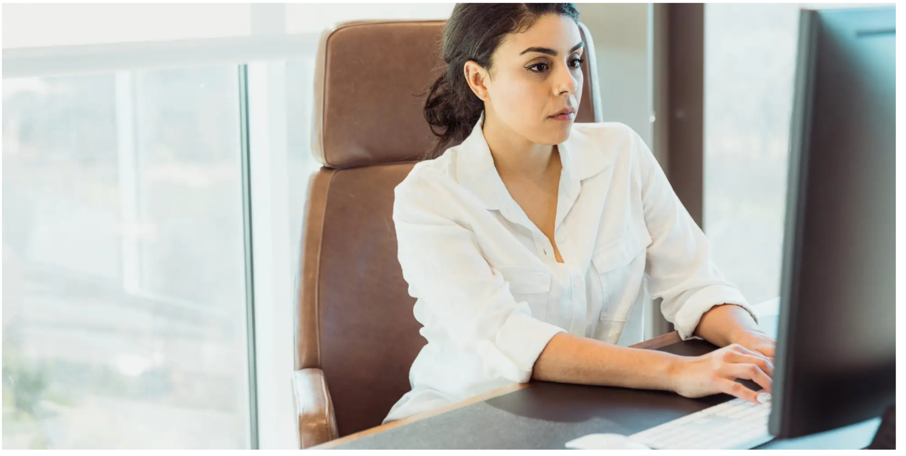

When you succumb to "lifestyle creep," you hurt your future nest egg. SDI Productions/Getty Images

Lifestyle creep can leave even extremely high earners struggling with debt, saving for retirement, or meeting other financial goals and obligations. Also known as lifestyle inflation, it's a phenomenon defined as an "an increase in spending when an individual's income goes up."

"It's a very common thing to do," financial planner Brittney Castro says.

"The negative ramifications of lifestyle creep may not appear to you until you're late in your 40s or 50s and starting to think about retirement," Gideon Drucker, financial planner at Drucker Wealth Management and author of "How to Avoid HENRY Syndrome," says. HENRY stands for "high earner, not rich yet," a common description of those who have fallen victim to lifestyle creep.

Drucker explains that there are plenty of people who come to him later in life with high incomes, sometimes over a million a year, without corresponding 401(k)s, investment portfolios, or other assets. "If we just looked at their incomes, you'd have said, 'where'd all the money go?'" he says. "Over the years, all of their expenses piled up: the vacation home, the cars, just everything one after another."

How to combat lifestyle inflation and avoid becoming a HENRY

But it's not just high earners who can fall into the trap of lifestyle creep — it can happen to anyone whose income increases over time.

Plan for a raise or increase in income

"We're all going to spend our money if there's no plan for it," Castro explains. That's why it's essential to have a plan for your new income before you even start receiving it.

If you're expecting a raise, Castro says it's important to look at your budget and goals before it goes into effect. "Think before that raise even hits my account, where could you send it? Why don't you just redirect it?" She suggests using the raise to contribute to savings goals, retirement, or investments rather than directly to your checking account.

Create habits while you're young

According to Drucker, one of the best defenses against lifestyle creep is building strong saving and investing habits young. "When you have that habit, even if it's in smaller dollars, by the time the numbers start getting larger, it's going to feel normal and natural," he says. Even with small amounts of money, he continues, you start adding more to your savings, retirement savings, and investments slowly over time, so you don't notice it as much.

Pay yourself first from the beginning

Instead of saving what's left over at the end of the month, it's important to save as soon as your paycheck hits your account — automating this process makes it even easier. This is known as "paying yourself first."

By growing accustomed to having only a certain amount of income, the temptation to spend more and save less disappears.

"I would say that people who are financially successful tend to redirect any increase in income and continue to live off a very specific number," Castro explains.

While that doesn't necessarily mean that you could never enjoy the benefits of a raise or larger salary, it goes back to the point of planning for your increased income and having that money go automatically to your high-yield savings account and other financial goals.

Without a plan, "you're going to find the reason to spend those extra dollars," Drucker says.

Leave some room to enjoy your money

When you earn more money, it's natural to want to reward yourself for the hard work it took to get there. "It's always about striking a balance," Drucker says, noting the importance of a financial plan that accounts for the things you want to do and buy, not just the necessities.

"Let's just say you get a 4% raise, maybe you decide to take 1% of that and just spend it," Castro explains, offering a simple way to incorporate your newer income into fun spending without going overboard.

While it's not a required formula by any means, thinking about your raise like this allows you to consciously outline how your new income can fit into your life.

Go back to the basics

If you've found yourself with a lifestyle creep problem, both financial planners advise going back to the basics of budgeting and planning. "Look at the numbers, look at what you can eliminate, set up a budget, and then track against it; it's really the only way," Castro says.

"It's having that honest conversation," Drucker says. "What are your expenses? How much are you actually spending per month and how much are necessities?" After taking a complete look at your financial situation, you can begin to piece together a plan that will help you correct the problems lifestyle creep can create.

As Castro says, "That's why financial planning is so important; because you can earn a good amount of money, the hard part about it is it still takes discipline to save it."