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$100,000 and up is not enough - even the 'rich' live paycheck to paycheck

Private schools, divorce and basic necessities - about 25% of people making six-figure salaries say they are struggling

Jana Kasperkevic in New York

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Marguerita Cheng, a certified financial planner and CEO of Blue Ocean Global Wealth, has a client in the Washington, DC area who makes $450,000 to $600,000 a year but lives paycheck to paycheck. He spends a lot of it on keeping peace with his ex-wife.

Close to half a million a year sounds like a lot, but he has to pay $8,000 per month to his ex-wife and both of their kids are in private high school. Four years of private high school cost $150,000.

“He basically uses his bonus to cover the private high school tuition,” Cheng said. “I understand that this is an extraordinary situation. I’ll share a saying that my dad taught me: ‘Money may not buy happiness, but it can buy peace.’ In this situation, sometimes you have to do what you have to do to keep an ex-spouse happy.”

Cheng’s client is not alone. Many Americans struggle to make ends meet on six-figure paychecks - which some would consider the salaries of the “upper income” or even rich.

The trend of Americans earning six-figure paychecks living from paycheck to paycheck grew during the 2008 recession from 21% to 30% in 2009, according to a CareerBuilder.com survey. A recent survey by SunTrust found that things had not improved much by 2015. About 25% of those making over $100,000 a year still live paycheck to paycheck.

In 2014, a Brookings Institute paper found that about one-third of US households live hand to mouth. That’s about 38 million households. About two-thirds of these American households living from paycheck to paycheck are not actually poor but instead middle class or richer. They might have liquid assets or own a home that they are paying off. There is just one catch: they are spending everything they are earning even if it’s $100,000 or more a year.

Living from paycheck to paycheck despite having a decent income is especially an issue among millennials - those 18 to 35 years old. According to a recent survey by LendingTree, 44% of millennials earning between $100,000 to $149,000 live paycheck to paycheck.

Interestingly, just 33.5% of those earning $50,000 to $75,000 said they lived that way.

The problem, say financial advisers, might be that the millennials are not used to earning such big paychecks and give in to buying urges. It's also very likely that they think they have to maintain a certain lifestyle - keep up with the Joneses if you will, now that they make six figures.

For some, however, it could just be the added cost of their everyday necessities.

In DC, where many of Cheng's clients live, it's the everyday expenses that can quickly add up. They spend a couple of thousand on a nice house or condo to avoid a long commute and rely on take-out and eating out instead of cooking.

"Clients in DC don't necessarily purchase flashy cars. A lot of it is housing, education and travel. The clients who spend $2,000 to $2,600 per month on dining are very busy professionals," Cheng said. "Some folks are living paycheck to paycheck because of lifestyle expenses. It's not so much the flash."

When she first opened Ballou Plum Wealth Advisors in California, Lynn Ballou was advising a well-off couple who ate out three times a day, every day.

"They worked incredibly long hours but also, neither knew how to cook. Not even how to make toast!" Ballou said. "So I treated them to two thing: a basic cooking class for couples on the run and a cook book with Quick Recipes for two. They started saving so much by changing their habits, they were able to start fully funding their retirement plans and then soon after, started a family."

Many "rich" people have problems accepting that they aren't really that wealthy and the money will not last forever.

"A new client just bragged to me that he bought a one bedroom apartment in San Francisco recently for 'only' $535,000!" Ballou said. "If he were to be financing 75% of that with a 4.5% 30 year loan, that's $2,033 a month. Add in another $600 or so per month for property taxes, and another $400 for dues, utilities and insurance, and you are paying about $3,000 to live in a ONE BEDROOM in SF! If you earn $100,000 a year, then you are paying 36% of your gross income for housing. That doesn't leave much for food, clothing, transportation, healthcare, and heaven forbid, saving for the future. And even in the Bay Area, it's not easy to find a job that pays $100,000."

The problem with putting little to nothing of their paycheck away for their future is that these high-earning Americans won't be able to maintain their expensive lifestyle forever. That is, unless, they don't retire. Spencer Betts, a certified financial planner with Bickling Financial Services in Lexington, Massachusetts, has a client who makes and spends $300,000 a year, "has $1m in saving and thinks he is fine for retirement. What were you thinking?" Betts said.

Rich people can pile up debts living beyond their means, Betts said. "Especially with kids in private school or kids that have tennis lessons, piano lessons, etc. The kids' activities could be 25 grand a year - and they won't sacrifice that. They will just raise their debt and feel more comfortable with the debt. That's the biggest difference between a wealthy person and somebody who is struggling to get by. A lot of those people feel: 'Oh, it's only 50 grand in debt, 75 grand in debt. I can dig my way out of it in the future. I am not going to admit I am in crisis.' It's far down the road."

Keeping up with the Joneses

"Where people really go wrong is that they don't have any type of budget and no matter how much they make, the average person really rarely has written down their needs versus their wants. That's what it really comes down to." said James J Burns, CEO and president of JJ Burns & Company.

By not distinguishing between what they need and want, it's easy for his clients to spend $250,000 or more a year. All it takes, he said, is an expensive apartment, a nice car, maybe a small boat and a tuition fees for private schools.

"But does the husband and wife really *need* matching Mercedes Benzes or could they do with Lincolns or Cadillacs or Fords?" Burns said.

Most often, this type of spending comes from the need to keep up with one's neighbors.

"A wife says, 'I understand my husband works really hard and I am home taking care of the kids, but our friends across the street have similar jobs and they go to Hawaii every year. Why can't we? They got a really nice car. Why can't we have a really nice car? We are the same people.' It's monkey see, monkey do."

Yet it's not just Americans who live in affluent areas who fall into the "keeping up with the Joneses" trap. Sure, wanting to keep up with the neighbors is a problem, but so it trying to match your lifestyle to your clients. This often happens to those working in finance or law.

"They are serving wealthy people and they start to think: 'I need to have that too so I look good for them, so I look respectable'," explained Carina Diamond, managing director at SS&G Wealth.

"When I was a young adviser, I was meeting a client at his house. He came out of the house to meet me. I thought he was just being friendly. He wanted to see what car I was driving. I was shocked. He said: "If you were not driving a great car, I would not think you were a great advisor. I wouldn't think you were successful enough." Which was a little shocking to me. Fortunately, I made the cut and I got his business."

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