Are You Wearing Your Wealth?

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We are being misled - seriously misled. No matter where you look, we are expected to believe that by buying lots of expensive, luxurious items, it signifies that we are wealthy. Nothing could be further from the truth. It's really just cash flow.

Television and movies portray people that seem to have an endless supply of money. Some shows, in fact, are nothing more than an endless commercial glorifying consumption. A crime scene cop looks at his watch, a $6,000 designer label piece, and we are expected to believe he can afford it on his salary?

Bankruptcy trustees commonly report that excessive lifestyle expenses are the cause of almost all personal bankruptcies. Whenever there's a burp or hiccup in the economy, business tends to pickup for firms dedicated to helping Canadians deal with excessive debt burdens.

Per capita savings in Canada is at an all-time low and, at the same time, per-capita consumer debt is at an all-time high. This should be a very disturbing fact for all of us. More and more people approaching retirement age are finding it necessary to continue working to service their consumer debt load.

Many people fail to realize the actual cost of their lifestyle purchases. Remember that consumer spending must be made with after-tax money. Think about this next time you're about to purchase a status symbol item. For example:

Kim leases her vehicles and switches them every three years. Her reasoning is it's nice to get a new vehicle that frequently and she can 'afford' a higher-end car because lease payments are lower. What she didn't factor into her plan is that she will always have a car payment with this strategy. Kim will never have a period of time that is vehicle payment free.

She also needs to consider that, at her income level, she needs to earn about $900 to be able to make her $600 monthly lease payment.

Paul and Linda bought a much larger house than they truly needed for themselves and their two children. They were able to 'afford' it by taking out a 25-year mortgage. The lender was quick to point out that they can qualify for a debt payment load of up to forty four percent of their income, so they went the limit so they could buy in the right neighborhood. But what is the real cost?

Let's say they take on a $600,000 mortgage at 5% and take the full 25-years to pay it off. At age 32, Paul and Linda will reach their late 50s and still have mortgage payments. The total they will pay for that house is over $1 million. They will actually have to earn over $1.6 million to pay for it after taxes. And this does not include property taxes, repairs and upkeep.

If they set their sights just a little bit lower, say a mortgage of $450,000 for 15 years, the payments will be about the same. However, Paul and Linda would have it paid off at age 47 and would only have made payments totaling about $630,000. If your outgo exceeds your income, the upkeep will be your downfall.

(*Fictional characters for illustrative purposes only.)

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