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Money & Happiness

by Laura Rowley

Why It Pays to Live Within Your Means

Wednesday, November 23, 2005



I received more than a few emails from outraged readers who scolded me for encouraging people to outsource household chores ("[What's Your Time Worth?](#)"). As one reader wrote: "With most people already living beyond their means, they don't need additional justification to get in deeper."

Maybe they're right. Perhaps I should have said that I felt justified in hiring help because I'm debt-free, except for my mortgage, and save regularly for college and retirement. I sometimes forget that living within your means isn't a universal value.

If most people are not living within their means, as the letter writer suggests, I wondered: Am I a sucker? Have I been following the wrong rules? Am I the sad sack at Disney World waiting interminably in line, while everyone else sprints by with a Fastpass? The lone homeowner clinging to the archaic notion that a home equity loan is not a creative way to get the renovation of your dreams, but a gigantic debt you have to pay back with interest?

Why value living within your means at all? The primary source of that value -- all money values for that matter -- is your family. My parents were born during the Great Depression. Between 1929, the year the stock market crashed, and 1932, some 13 million people lost their jobs, and unemployment soared to nearly 24 percent. Forty percent of U.S. banks failed, and \$2 billion in bank deposits disappeared. Industrial stocks lost 80 percent of their value. The GNP fell 31 percent. There was no government safety net to catch the millions who plunged into the abyss.

In this context, it's easy to understand my parents' colossal fear of debt. In their experience, debt was the first step on the slippery slope to financial annihilation. In their era, excessive debt signified moral failure as well -- an inability to delay gratification, a failure to take responsibility for one's life, a dereliction of familial duty.

I definitely inherited some of their caution, but I don't think it's unwarranted, even if we never again face the economic disaster of the 1930s. Consider two rational fears: Unemployment and illness. Between 2000 and 2003, nearly one in five workers was laid off from a job. For those with only a high school education, it was about one in four, according to research from Rutgers University. Meanwhile, a Harvard study released earlier this year found about half of all bankruptcies in 2001 resulted from expensive illnesses. Three-quarters of those who declared bankruptcy had health insurance at the onset of illness.

Or think about two other factors: College costs and retirement. Last year college tuition rose at double the rate of inflation, and the average student graduated with \$15,500 in loans, according to the College Board. What's that going to look like in 15 years, when my youngest starts college? Meanwhile, among women 35 to 55 years old, between one-third and two-thirds will be impoverished by age 70 due to inadequate retirement savings, according to research by the National Endowment for Financial Education and the AARP. Given the rise in longevity in the U.S., that could be a long stretch in the poor house.

But it's not just fear that keeps me living within my means. It's a profound respect for opportunity. Being debt-free is like going to college: It takes discipline and effort. You don't know exactly where it will lead, but you trust it will open many doors. The decision I made at 20 to stay out of debt gave me the power to change my work life in my late 30s, to balance career and family in a way that made me happy. Debt is a dead-end road that narrows your options in life.

And unless you're an expert in denial, living within your means is essential to your mental health. According to a survey by credit counseling firm Myvesta.org, about 40 percent of people with problem debt reported symptoms of severe depression. (By contrast, studies have shown that 9.5 percent of the general population is clinically depressed.)

I recognize that it's counter-cultural to preach the virtues of living within one's means. The rise of easy credit, cheap auto loans,

interest-only mortgages, and the like have allowed Americans to improve their standards of living substantially over the last few decades by borrowing from the future.

And why expect average Americans to live within their means when their government won't? In October, Senator Tom Coburn, a freshman Republican from Oklahoma, had the wisdom to suggest Congress eliminate some pork-barrel spending -- including \$450 million for two bridges in Alaska -- and redirect some of the money to rebuild the damaged bridges on Interstate 10 outside New Orleans. This is what any sensible family would do. When the boiler explodes, you cancel the new windows and spend the money to fix the problem. Common sense being in short supply on Capitol Hill, the provision was defeated by a vote of 86-13. With role models like this, it's no wonder some people think living within your means is for suckers.

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