

Five Signs That You're Living Beyond Your Means

by Glenn Curtis ([Contact Author](#) | [Biography](#))

Many people in America are living beyond their means, and personal savings rates are at their lowest levels since the Great Depression, according to the U.S. Bureau of Economic Analysis. Dwindling savings mean that U.S. households are taking on more debt and are less able to absorb a financial blow like the loss of a job or a downturn in the economy.

If you are concerned that your finances could be in danger, there is a way to tell whether you're in over your head. This article will provide you with five key indicators to watch for. If you find that one or more of them apply to you, it is likely time to reevaluate your spending and work on a long-term financial plan. Recognizing the problem is the first step to finding a solution. (If you already know your finances need help, read [Digging Out of Personal Debt](#).)

Sign No.1 - Your Credit Score is Below 600

[Credit bureaus](#) keep track of your payment history, outstanding loan balances and legal judgments against you. They then use this information to compile a [credit score](#) that reflects your credit worthiness. The numerical rankings go from a low of 300 to high of 850. The higher the better. It's this score that lenders use to determine whether they'll grant a loan. In general, any credit score below 600 means that you are probably in over your head.

If you aren't sure what your credit score is, contact any of the major credit bureaus ([TransUnion](#), [Equifax](#), [Experian](#)) and have them send you a copy of your [credit report](#). This document will tell you what the bureaus - and ultimately lenders and financial institutions - think of your finances.

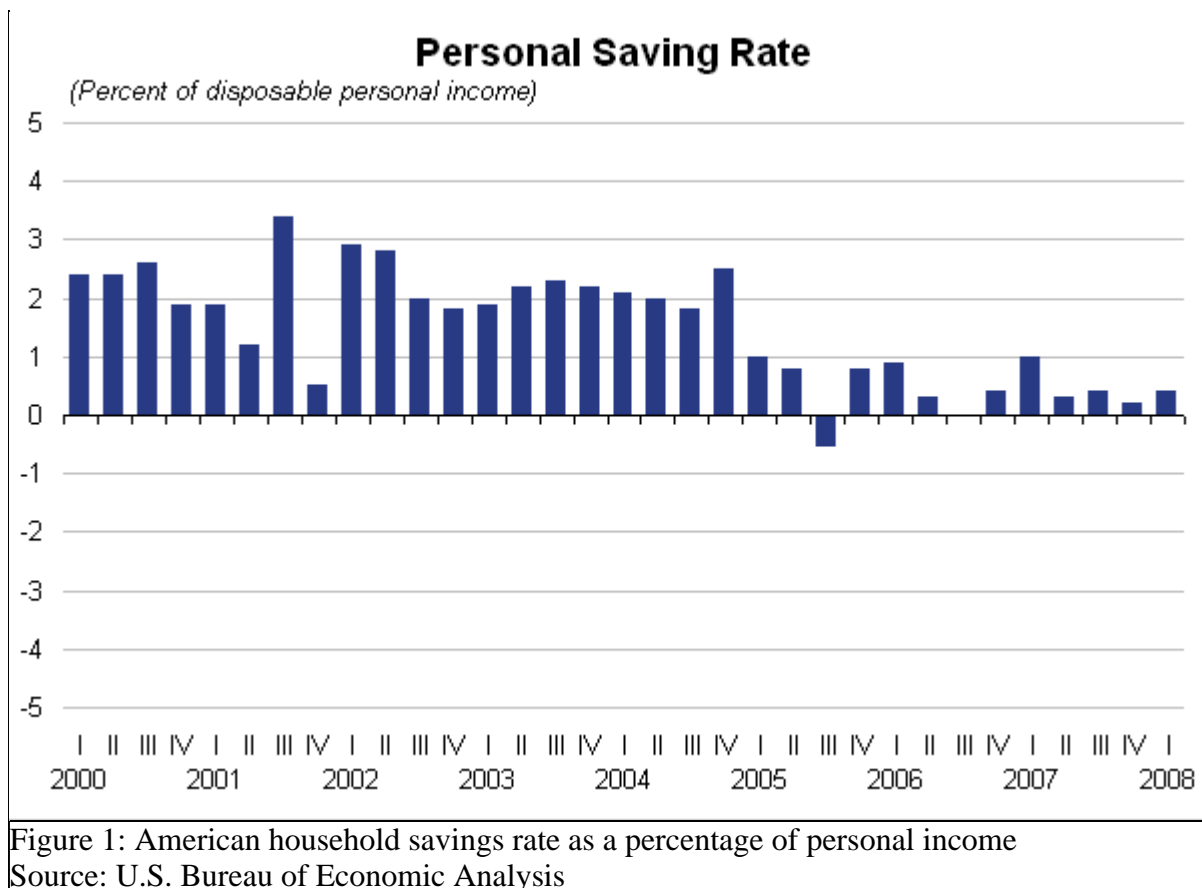
How to improve your credit score:

- Pay down debt
- Satisfy any outstanding judgments
- Apply for and use fewer credit cards (For a detailed breakdown, check out [Five Keys To Unlocking A Better Credit Score](#).)

Sign No.2 - You are Saving Less Than 5%

In 2005, the average rate of personal savings was an astonishing -0.5%, according to the U.S. Bureau of Economic Analysis. That means that not only were we spending all of our income, but also that a good number of us were also dipping into personal savings. This was the worst savings rate that Americans have recorded since 1933 when it was -0.7% during the Great Depression. The rate has bounced back into positive territory, but in 2008, it still hadn't cracked 1% (Figure 1).





Those who want financial security during their retirement years must make sure that they aren't among those who are spending more than they make. If you are saving less than 5% of your [gross income](#) you are likely in over your head.

A savings rate below 5% means you could be in real danger of financial ruin if someone in your family were to have a medical emergency, or your family home were to burn to the ground. With savings this low, it likely means you wouldn't even have the money to pay the necessary insurance [deductibles](#).

Ideally, everyone should try to save as much as they can, but in terms of targets, the rule most financial advisors suggest is 10% of your gross income. Beginning at age 30, if you were to save 10% of your \$100,000 annual income in your [401\(k\)](#), or \$10,000 every year, and earn a rate of return of 5%, that money would grow to more than \$900,000 by age 65. (Standard wisdom is 10% but there are options if this is impossible. To learn more, read [The 5% Solution To Financial Freedom](#).)

Sign No.3 - Your Credit Card Balances are Rising

If you are one of those people who pays only the minimum due on their credit card balance each month, or if you send in only a small contribution toward the [principal](#) balance, then you are most likely in over your head.

Ideally, you should only charge what you can pay off at the end of each month. When you can't afford to pay off the balance in its entirety, you should try to make at least some contribution toward the outstanding principal. (To learn why, see [Understanding Credit Card Interest](#).)

The importance of paying down credit card balances as soon as possible cannot be overstated. A person with \$5,000 in credit card debt that makes the minimum payment of just \$200 per month will end up

spending more than \$8,000 and take almost 13 years to pay off that debt. (To get your cards under control, read [Expert Tips For Cutting Credit Card Debt.](#))

Sign No.4 - More Than 28% of Income Goes To Your House

Calculate what percentage of your monthly income goes toward your mortgage, property taxes and insurance. If it's more than 28% of your gross income, then you are likely in over your head.

Why is 28% the magic number? Historically, conservative lenders have used the 28% threshold because their experience has told them that this is the rate at which the average person can get by, make their mortgage payments and still enjoy a reasonable standard of living. Certainly, some homeowners can get by spending a higher percentage on their homes, particularly if they cut back elsewhere, but it's a dangerous line to walk.

Note that if you are currently spending in excess of 28% of your gross income on housing, it may be because many lenders have loosened their requirements over the last decade, and allowed some to borrow as much as 35% of their income. However, since the collapse of the subprime mortgage market, many lenders are becoming more cautious and are once again returning to the 28% threshold. (To get started saving, read [Downsize Your Home To Downsize Expenses.](#))

Sign No. 5 - Your Bills are Spiraling Out of Control

Buying on credit and paying by installment has become a national pastime. It's much easier to buy a new flatscreen TV when the salesman breaks down the price in monthly installments. What's an extra \$50 per month, right? The problem is that all of these bills start to add up, and you end up nickel and diming yourself into bankruptcy. If your monthly income is being sliced and diced to pay for dozens of unnecessary installment purchases and services, you are likely in over your head.

Lay out all of your monthly bills on your kitchen table, and go through them one by one. Do you have a cell phone bill, a PDA bill, an internet bill, a premium cable TV package, a satellite radio bill, and all of those other gadgets that generate countless monthly bills? Ask yourself whether each product or service is really necessary. For example, do you really need a 500-channel premium cable TV package, or would you really notice the difference if you had fewer channels (and paid less)?

Some of the best places to find savings include your telephone bills (cell and land line), your utility bills (turn off the lights, and don't run the air conditioning if nobody is home) and your entertainment expenses (you could stand to dine out less and to pack a lunch for work). (To learn how to cut out unnecessary expenses, read [Downshift To Simplify Your Life](#) and [Get Your Finances In Order.](#))

Bottom Line

As a nation, we are digging ourselves ever deeper into debt. To avoid becoming part of the gloomy bankruptcy and foreclosure statistics, it's important to measure your financial health regularly. The five signs presented here are not a death sentence; instead, they should be seen as symptoms that allow you to diagnose a problem before it gets worse.

To begin getting your finances in order, read [The Beauty Of Budgeting.](#)

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Glenn Curtis started his career as an equity analyst at Cantone Research, a New Jersey-based regional brokerage firm. He has since worked as an equity analyst and a financial writer at a number of print/web publications and brokerage firms including *Registered Representative Magazine*, *Advanced Trading Magazine*, *Worldlyinvestor.com*, *RealMoney.com*, *TheStreet.com* and Prudential Securities. Curtis has

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