

It's Not How Much You Make

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10/09/2014



The tragic death of Robin Williams on August 11th, among other things, highlights a truism of personal finances for HR professionals and every person hired: it doesn't matter how much you make in any given year, or in the span of your career. If you spend more than you make, and do it in a hurry, you can end up as bankrupt as anyone.

Yesteryear, we often read about professional athletes or entertainers who annually earned multimillions of dollars, but then, a few years out of the sport, or out of the celebrity limelight, fell into financial ruin. How could someone raking in several million dollars a year, we thought, end up penniless? How foolish, how reckless, how wanton could people be with their money?

Today, at least among pro athletes money managers ensure that said individual will have regular annual income for life. In pro contracts, clauses stipulate how much of an athlete's earnings will actually be dispensed in any given year. Hence, 15 to 20 years out of professional sports, an athlete earning, say, \$10 million a year will be assured of income for life as a result of effective money management. Celebrities who are wise enough to choose effective professional financial counsel are similarly aided.

High Debt means no Breathing Space

To emphasize: It's no matter how much you make, if you don't effectively manage your money, it can all go to pot. Studies show that an inheritance, no matter how large, on average is dissipated within seven years. So, whether someone receives \$5,000 or \$500,000, on average, after seven years all that money is gone.

Being in debt is not conducive to having breathing space. In fact, it's the antithesis. When you're in debt, that ever-present reality as a way of dominating your day. When the next bill is arrives, you think about your finances. When the next rent or mortgage payment becomes due, the issue arises again. Every time you write a check, surrender your credit card to a vendor, or even take money out of your wallet, you are reminded of your tenuous financial condition.

When you're in debt, and you seek to re-pay it, you tend to work longer and harder. You want to make extra money to pay down those credit card balances. Living beyond your means, however potential exhilarating in the short run, is insidious in the long run. The constant drum beat in the back of your mind, "I'm not making it," "I owe others," and "what if people find out?" can wear on individual in ways that we don't even fully understand.

Construct a Cash Flow

The fastest and easiest way to understand the state of your current as well as future personal finances is to construct a 12-month cash flow, which plots all of the incoming cash and revenue from all sources, and to the best of your ability projects all of the expenses you will be incurring. A 36-month cash flow is more ambitious and more revealing.

It's all too easy to get caught up in thinking, "I'm making a good salary now, so few present worries..." The fate of Robin Williams and others tells us that you have plenty to worry about if you spend more than you earn.