

Opinion | Alexis Leondis, Columnist

Headwinds for High Earners Are About to Get Worse

A shocking number of high earners in a recent survey said they're living paycheck to paycheck, and that's before student loan payments start up again.

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You'll probably still have to pay. *Photographer: Paul Morigi/Getty Images*

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How much does it take to feel flush in the US these days? Not even \$250,000 a year will get you there, according to a recent survey by Pymnts.com and LendingClub Corp., which found that 36% of those earning at least that amount say they're living paycheck to paycheck.

Considering \$250,000 is almost four times the median US salary and puts you in the top 5% of earners, it's pretty unnerving that so many say they are spending everything they make each month. (And this was a census-balanced survey; they didn't just ask people in high-cost areas such as New York and San Francisco.)

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It's even more disconcerting when you realize that most in that category haven't had to make student loan payments for more than two years. Almost everyone has been taking advantage of the moratorium on federal student loans, which allows borrowers to press the pause button on payments without any interest accruing.

Student loan debt is a big deal for many in this crowd. More than 32% of total federal student loan debt is held by households with incomes from about \$107,000 to \$374,000, the largest percentage of any income group, according to the Education Data Initiative. The average amount of student debt within that group is \$45,965 – also the highest for any income bracket.

For those with professional or doctorate degrees, which are common among top earners, the debt burden is often much higher. Student loans for MBAs total more than \$66,000, while law school is more than \$145,000 and medical school is north of \$201,000. Assuming even just the average of

\$82,800 in total student debt for a graduate school borrower means monthly payments of about \$950 a month have been on hold for almost 30 months.

When those payments will start coming due again is anyone's guess. The Biden administration extended the moratorium in April until Aug. 31. The president is reportedly considering canceling up to \$10,000 of debt per borrower, but potentially limiting it to those who earn less than \$150,000 (or \$300,000 for married couples).

It's unlikely that those earning \$250,000 or more will see any substantial forgiveness, which means their budgets are going to become even more stretched. According to the Pymnts.com survey, more than 12% of those earning at least \$250,000 say not only are they living paycheck to paycheck, but they're unable to pay some of their bills.

One key detail: For the 24% that said they're living paycheck to paycheck but are still able to pay all their bills, the "bills" they're paying include savings that come out of their check automatically each month for things like retirement and college plans.

Still, rising housing prices are probably adding to the feeling of overextension. More than 15% of those making more than \$250,000 said they had made a mortgage payment for a new home loan in the last 90 days, and more than 6% had made a payment for a second mortgage on a primary home, according to the Pymnts.com survey. Mortgage rates have jumped since the beginning of the year, and prices have continued to skyrocket in most areas.

So far, it doesn't seem like this cohort is maxing out credit cards to compensate, even amid the higher cost of everyday essentials. About 60% of those earning at least \$250,000 who say they're living paycheck to paycheck pay off their statements in full every month, according to the Pymnets.com survey.

Will they continue to be so careful with credit-card debt once student loan payments are turned back on? A recent report by the Federal Reserve Board of Governors cautioned that the end of forbearance could lead to a

deterioration in credit risk profiles for borrowers, but it didn't look at specific income levels.

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In the meantime, high earners feeling pinched should start to rework their budgets in anticipation of having to restart student loan payments soon. If they're overextended because of fixed, essential expenses (such as housing), they should compare their pre-pandemic budgets prior to the student loan pause with their current ones and figure out how their spending has changed and what they can do differently to accommodate for student loan payments, said Kevin Mahoney, a certified financial planner in Washington.

If the financial stress is due to discretionary spending, for things like travel, dining out or social activities, then it's obvious those things need to be dialed back to be able to make student loan payments, which are financial obligations.

Mahoney said the wisest move would have been to continue setting money aside for student loan payments every month, especially since most of the extensions have been announced shortly before they were set to expire. That cash may be hard to come by (or you may feel like it's not earning much sitting in a savings account), but eventually it will help you avoid feeling like you're living paycheck to paycheck with no bandwidth for emergencies.

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