

Are you in the middle class? 5 ways to tell

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Arizona Republic
 USA TODAY NETWORK

It's an open question as to whether the nation's middle class is shrinking, if only because there's no real definition of what constitutes the middle class.

But clearly a lot of people above the poverty line and below wealthy status (another vague definition) are struggling.

The pressures facing those in the middle range from job insecurity and stagnant wages to rising living costs, inadequate retirement preparations and huge vulnerability to unexpected financial calamities.

Rather than focusing on the exact dollar numbers, another way to assess whether you're in the middle class, with good prospects of staying there, is to examine certain behaviors, traits, attitudes and skill sets.

If you're truly in the middle class, then most if not all of the following five characteristics should apply to you.

1. You generate ample income

Yes, it's difficult to define "ample" in terms of dollars, but you should have job, retirement or other income that enables you to meet basic living needs.

Cars and annual vacations aren't requirements for middle-class status, and you certainly don't have to own a house. But you should be able to afford food, clothing, shelter and other expenses (including unexpected ones) without relying on food stamps, tax subsidies like the federal Earned Income Tax Credit or various forms of public assistance. And you should be able to keep spending in line with income without relying on chronic credit-card borrowings or other debt.

"If you earn enough, then the overriding factor is that you can't be spending more than you earn," said Mike Sul-

livan, a personal-finance consultant at Take Charge America, a nonprofit debt/credit management agency in Phoenix. "That's the cardinal sin."

Federal poverty guidelines vary by state and by the number of people in a household, but the upper limits are around \$13,000 annually for one person or \$17,000 for two. Still, millions of Americans with incomes significantly above those levels probably don't feel like they're living a middle-class lifestyle.

It's a fuzzy distinction between poor, working poor and true middle class.

2. You know the basics

It's not easy to navigate the modern financial realm, and most people don't learn in school about topics ranging from managing bank accounts and using credit wisely to investing in the stock market and obtaining adequate

See WILES, Page 2F

insurance. Still, you should have a decent grasp on how certain things work.

Tucson nonprofit 3rd Decade (3rddecade.org) is trying to do what it can to keep people in the middle class. The group provides free financial instruction and mentoring to younger working adults — typically those in their 20s (the third decade) or 30s — and even offers a \$1,000 Roth Individual Retirement Account reward to those who complete the coursework.

Scott Bennett, the group's executive director, considers a basic knowledge of several financial concepts as critical for those who want to get to, and stay in, the middle class. These include knowledge about the importance of compounding (for both a debtor and investor), a basic understanding of the tax system, insurance fundamentals, investment fees and the difference between active and passive investing.

Incidentally, the group currently op-



erates in Arizona, Denver and Reno, Nevada, and is expanding to Los Angeles, Charlotte and Austin. Classes fill up quickly, but much of the coursework and other tips can be read at no cost by anyone on the group's website.

3. You have an emergency fund

If there's one type of account that's critical to having and retaining middle-class status, it's some type of emergency or rainy-day fund that you can draw on in a pinch.

You eventually will face unexpected medical or car-repair bills, or you might lose your job or face other challenges. Without an emergency fund, those pressures can turn into missed payments, rising credit-card balances, cashing out of retirement accounts and reliance on high-interest payday loans or auto-title loans.

"Without an emergency fund, that starts the domino effect," said Bennett. He suggests building up an amount capable of meeting three to six months worth of your "must pay" expenses after you have identified and tracked what those costs are.

Sullivan agrees. "Everyone faces these events at some point in their lives, but those who survive anticipate them," he said. The ability to manage and anticipate risks is a hallmark of middle-class thinking, he added.

To further manage risks, it's important to have sufficient medical, auto, life and other types of insurance. These policies provide the safety nets that can keep you in the middle class if and when calamity strikes.

4. You are willing and able to invest

If you have ample income, you can enjoy a middle-class lifestyle for the time being, even if you spend everything you make. But unless you divert some of those earnings into investments that build up for the future, your middle-class status could erode eventually.

Social Security income, and even pensions if available, might not be enough to maintain middle-class status when you retire, unless you have built

up personal investments as a supplement. Could you live a middle-class lifestyle on \$1,550 a month? That's roughly the average Social Security retirement payment. Future benefit cuts are possible given demographic shifts that have resulted in fewer workers supporting the program.

For most people, especially younger people, a good bet is to lay a foundation centered around stock funds, with various other assets rounding out the mix. Yet only about half of all Americans have any stock-market exposure.

Homeownership is associated with the American Dream and thus middle-class status and can be an excellent way to build up wealth, too. But Bennett offers some caution here. "The perception is that buying a home is good and renting is bad, but that's not necessarily the case," he said.

Affordability is important, too. "Many financial plans have been derailed because people buy too much home, too fast," he said.

5. You know where to get help

Middle-class people often are resourceful and have an ability to get answers. A general education, especially a college degree, is one aspect of this — as college educations equate to higher lifetime earnings on average — but it's also a matter of taking advantage of other programs.

Bennett cites VITA, the Volunteer Income Tax Assistance program, as an example. Rather than pay a couple hundred dollars or more, taxpayers who use this Internal Revenue Service-linked program can receive free, individualized return-preparation help. Or they can prepare their own returns using popular tax software through the IRS free-file program.

With general income eligibility up to \$57,000 and \$72,000, respectively, both programs are open to many middle-class individuals.

Those hoping to achieve and retain middle-class status also might draw on support from family members, friends and others.