Solutions

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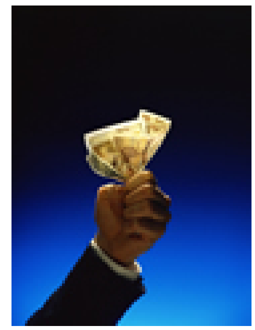
January is Financial Wellness Month

Resisting the Urge to Spend Money



When you feel like spending money, what usually happens? Do you ever resist the urge to spend? Do you ever stop yourself before you make a purchase to really think about it?

Resisting the urge to spend money can be tough! Try to think in terms of needs versus wants, or take notice of your thoughts, and use logic to override the urge.

What is a need?

One major step is to think about whether the items you want to buy are needs or wants. Psychologist Abraham Maslow, in his 1943 paper, "A Theory of Human Motivation," identified a hierarchy of needs. He wrote about the human motivation to satisfy basic survival needs, such as food, before moving on to satisfy other needs that are not as closely tied to survival, such as social supports.

Suppose you have prescription drug co-payments to pay, food to buy and utility bills to pay. You also have your mind set on buying a new face cream from a department store, and you feel a strong need to take a vacation. You can probably identify priorities for where your money should go first.

Primary needs involve your survival at the most basic level. Usually, these are expenses that relate to food, shelter, medical care, safety and other necessary expenses. However, there are times where needs may become blurry. Here's an example:

- You are starting a business and money is tight. The business would benefit from you attending a conference far away. You want to attend the conference but the money you spend on travel may be more expense than what you hope to gain by traveling to the conference. Is the travel a want or a need?

We would have to know more about the above situations to determine which need is more essential. It can be confusing to figure out at what point travel becomes more of a need and less of a want.

What is a want?

A want is something you don't have to have. An example of a want is music. Most people enjoy music but music is not necessary for survival. A want can be confused with a need when we forget to consider to what degree something is essential. Asking whether something is a want or a need may stimulate you to think of an alternative to spending.

- New jeans may feel like a need if you have a special casual social event coming up and you aren't excited about any of your current outfits. If you are trying to resist the urge to spend, you may need to consider what you already own that might give you the same sense of confidence and fun as a new pair of jeans. Another alternative to "new" is a "pre-owned" pair of jeans, which will be new to you but cost less than brand new jeans.
- A vacation may be needed for good mental health, but if resisting the urge to spend, consider a "stay-cation." Use the time at home to take day trips and explore affordable local events or historical places in your town or region.

Sometimes it is difficult to think differently about resisting spending money. Even though you may realize you are craving something that is not a need, it may feel impossible to have to use willpower.

Use cognitive reframes

A cognitive reframe is a way of changing thoughts from automatic thoughts to wiser, more mindful thoughts. By changing thoughts, you can change your feelings. You don't have to listen to your impulses to spend. You can notice what your thoughts are and then reframe them to reflect your situation and your honest intentions. It's a way of harnessing your logical mind to help out your emotional mind.

When you have a burst of desire to spend money, notice what your first thoughts are, and then try to reframe your thoughts to reflect logic and reality. Notice how reframed thoughts give you a less intense feeling of urgency about spending.

Old thinking: "I love this purse! I have to have it!"
Reframed thinking: "I love this purse! I know I will find one I love just as much when money is not as tight and I can justify the expense. I don't have to have it."

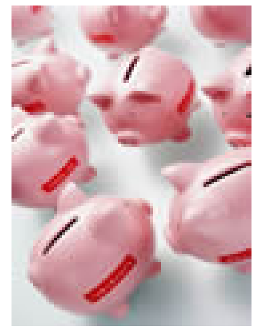
Old thinking: "I'll put it on my credit card, and pay it off slowly."
Reframed thinking: "I could put this on my credit card, but when the bill comes I will be proud of myself if I can pay the whole balance."

Old thinking: "I'm having a bad day. I deserve to splurge on something."
Reframed thinking: "I'm having a bad day. I won't make it worse by spending money I don't have. There are many ways to treat myself without spending money."

Behavior choice

Just because you have a feeling of wanting, or an urge to spend, it doesn't mean you have to follow it. Keep your financial goals in mind, and don't let your emotional mind sway you or confuse wants with needs. An urge is like a wave. It will ebb and flow. If you have an intense desire to spend, make yourself wait a few minutes to allow that urge to subside. We always make better choices when we are not flooded with emotion.

Get in the Saving Habit



How much can you afford to save? The answer depends not so much on your income, your spending and your saving, but on the order in which you put those 3 things.

Everyone has to start with income, since you can hardly set something aside when you have nothing coming in. But then the paths of habitual savers and spenders diverge. The savers pay themselves first, regularly putting money into a savings plan and adjusting their spending.

The spenders turn this process around. They write the checks, flash the plastic and tap the ATMs first. Then they see if they have anything left over at the end of the month to stick in a savings account.

Guess which method works.

Start small, but be sure to start

Experts (with plenty of common sense on their side) say the best way to start saving is, simply, to start saving. Start small if you must, but develop the discipline. "I firmly believe that just starting the routine of saving is very important," says Georgetown, Texas fee-only financial planner Naomi Scrivener.

Like other planners, Scrivener suggests setting up some form of automatic saving system so that you don't have to rely on your willpower alone. Tax-deferred retirement accounts at work, such as 401ks, are a natural place to start doing this. Given their tax benefits, these accounts are essential even if you're the type who saves without being forced.

When willpower isn't enough

You can also do such autopilot saving for shorter-term goals, such as college, a new home, a new car or a big vacation. Banks, brokerages and mutual-fund families have automatic withdrawal programs in which you arrange to have a certain amount taken from your checking account regularly (each month or quarter, for instance) and put into some longer-term investment. This can be a bank money-market account, a mutual fund or a brokerage account.

You don’t need to set much aside at the start. Scrivener says the amount depends to some degree on the would-be savers’ debt situation, but “if they start with 3 percent and 5 percent [of their gross income], it shouldn’t be that painful.”

Whatever form your savings commitment takes, you still face the task of bringing your spending into line. It makes no sense to put money aside if the result is just higher credit-card bills.

Budgeting Without Tears

If you hear the word “budget” and wince, you’re not alone. Even financial planners don’t always like the term, even though it's a basic part of what they do. Putting a pre-determined limit on your outlays does have a negative side. It means you have to watch what you’re spending and exercise some control. Arguments over budgeting also can strain marriages. If a couple doesn’t share the same priorities and savings goals, these differences come quickly to light when they try to agree on a spending plan.

But budgeting, cash-flow management or whatever else you might want to call it also is a form of empowerment. If you create a reasonable plan and follow it, you’re truly in charge of your money. Your spending now follows your long-term priorities, not short-term habits or whims. Far from depriving yourself of what you want most, budgeting makes it easier for you to have those things without the guilty sense that you’re spending too much.

Think about that big vacation you’d love to take but can’t afford now. In 2 years you might be able to afford it if, in the meantime, you figure out a way to trim spending on other things that are lower on your priority list. If you can trim $3 a day by taking your lunch to work rather than eating out, for instance, you can save something close to 1 round-trip air fare from Los Angeles to Hawaii.

A lifelong habit

When should you start budgeting? As early as possible. When do you need to stop? Never, as long as you want to avoid having to worry about money. If you’re just starting out in a career and haven’t already budgeted expenses in college, it is crucial to start tracking your cash flow now, with the goal of saving some money with every paycheck. Not only will this bring you closer to near-term goals such as a new car or, somewhat later on, a new condo or starter home, but it will help you learn a lifelong habit of organizing your spending so that you live comfortably below your means. Also, a dollar saved when you're 25, invested for the long-term, will be worth a lot when it's time to retire (for example, at 7 percent interest a year, it grows to nearly $15).

Later on, new expenses arise as you raise children, pay for your children's college education and build up assets for a secure retirement. You will need to make room in your budget for life and disability insurance—critical needs when you have dependents. College saving, in addition to saving for retirement, will probably enter the picture as you move into your 30s and 40s. Incomes also tend to rise during this time, but so do costs, and uncontrolled spending can easily wipe out the gains you may be making through raises and promotions at work.

As retirement approaches, budgeting serves a dual purpose of controlling spending, as before, and also helping you plan for retirement by giving you a clear picture of what you will need to spend to maintain your desired lifestyle. By knowing how much you currently pay for work-related costs—commuting, work clothes, meals and so forth—you will know how much of a "raise" you will get when you no longer need to pay for these items. The same goes for your retirement saving plan. Whatever you're putting aside now, that amount will no longer be in your budget when you actually retire and are living off your savings. On the other hand, getting a handle on the costs of your travel and leisure activities will give you a clue of what you might end up spending when you have more time for such things.

Once you retire, budgeting is important to keep your spending comfortably within your income, which is now largely fixed. It is important to continue tracking your outlays to adjust to changes, such as rising health-related costs.

Pause for planning

Aimee McCrory, a financial planner in Houston, Texas, says getting on a budget is a crucial early step toward taking control of your financial future. "Your finances are constantly in motion, so you have to stop for a moment to set spending goals and make sure you're meeting them."

First, you have to know just how much you are spending and on what. This is easy to do with the bills you pay monthly or less frequently, such as your rent or mortgage, gas and electric bills, property taxes, insurance and the like. But some of these, such as taxes and rent or house payments, are largely fixed.

The more variable expenses, those you can easily change, are ones you might not have been tracking, like groceries and gasoline. You might want to look especially hard at the cash you take out of the bank. This part of your spending leaves no paper trail of checks or credit-card statements. But it can come to thousands of dollars a year. You could be nickel-and-diming yourself to debt.

Track the small stuff

Keep a log of everything, including the cash you lay down for lattes. Then do some organizing. Sort your spending into categories (such as groceries, clothing, toys, restaurant meals) to get a clearer picture of your cash-flow patterns.

Once you know where your money is going, you can start redirecting it to fit your priorities. You might find it a good tradeoff to save several hundred dollars a year (for that big vacation?) by carpooling to work. Where to begin? McCrory suggests you start with the short-term spending, the items you can track weekly. Then work on the monthly, quarterly and less frequent expenses. Continue to track your spending to see if you're meeting your budget targets.

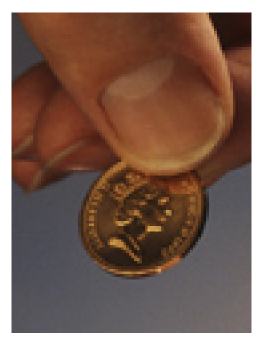
And don't forget to budget for savings right off the top, as your highest-priority "spending" item. "Ideally," says McCrory, "I take the first 10 percent of my paycheck and just put it away. It's like the piggy bank thing."

Resources

If you have a computer at home, you can save a lot of effort by using Quicken or Microsoft Money home-finance programs. Buy the cheapest, "basic" versions. These make it easy to assign your spending to categories, which can then be used to build a budget.

Before buying any books on budgeting, find out how much you've been spending on books. Then consider how you might get the same benefit for less by using the local library more. On the subject of living within one's means, a popular title is *Your Money or Your Life: Transforming Your Relationship With Money and Achieving Financial Independence* by Joe Dominguez and Vicki Robin. Penguin, 1999.

Building an Emergency Fund on a Tight Budget



Think you're making too little money to save any? You may be selling yourself short. Even on a low income, it is possible to build up a cash cushion for emergencies. But it's not something you can do overnight. It takes planning and patience.

Of course, a key step of saving is to take control of your spending. But you should plan to save even if you have not yet drawn up a budget. Setting a saving goal can help motivate your cost-cutting task. When you commit to put money aside, you have one more good reason to watch your pennies.

So what should that savings goal be? How much is the right amount for an emergency fund? Here are some tips to help you make a saving plan that works for you.

Set goals you can reach

Most financial planners say you should have an emergency fund to cover at least 3 months of your normal earnings. This is your cash “cushion” for unpleasant surprises—losing a job, sickness or injury, major car repairs, and the like. For many people, whatever their income, saving that much is easier said than done. One problem is that it takes time. If you’re on a low, fixed income and can set aside 10 percent of that money each month, you’re a good saver. But even at this rate, it will take you 2.5 years to get 3 months of cash flow in the bank.

That can be discouraging. You are less likely to give up if you break it up into small, achievable bites. “I’m a big fan of starting small and having some successes,” says Jerry Love, a certified public accountant in Abilene, TX.

Love suggests saving at first for rare but large expenses. If you know you’ll get a $600 bill for car insurance a year from now, set aside $50 a month for it starting now. Then add a monthly amount to cover next year’s holiday shopping. If you can handle 3 or 4 items like these, you’re close to saving a month’s income. You have a cushion that can come in handy, and you have also developed a saving habit.

Build a moat on all sides of your savings

Your emergency funds have to be on hand when you need it. So don’t put it in any investment, like stocks, that can lose value. But you don’t want the money to be too close by. It’s only for emergencies, after all. If you don’t separate it from your checking or debit-card account, the temptation to spend it will be too great.

Think about those old-fashioned piggy banks—the ones you had to break to get at your money. They were designed to make saving easy and spending a little harder. Your own savings vehicle should work the same way. It needs to be set apart from the account you use for everyday spending. But it may still be too easy to tap. Cathi Brese Doebler, author of Ditch the Joneses: Discover Your Family, says you should think about saving at some other institution, such as a credit union. If it is in some other town and you need to make withdrawals by mail, so much the better. “A savings account at a local bank is easy to get to,” she says, and in this case that’s not an advantage.

Shopping around for savings vehicles can also pay off in better rates of return. The more interest you get, the more you are being rewarded for saving. Try to find an institution that pays higher interest for larger balances. This also rewards you for saving more.

One more way to build a moat around your money is to have someone else, such as an employer, put money directly into your savings account. Love says many companies now do this. If you are working, find out if a share of each paycheck can be sent to savings, with the rest going to your checking account.

This is a good way to “pay yourself first.” Once the system is set up, saving just happens. You don’t have to do anything more. If you are getting payments from a government program, check to see if a similar service is available.

Pay down debt, but keep the cushion growing

It gets harder to save if you’re trying to pay down debt at the same time. Credit cards charge high interest, so it’s good to pay them down as soon as you can. But if you have cash for emergencies, you can avoid using the plastic so it’s best to do both. Build the cash cushion while reducing debt. Split your money between the two. If you make weekly deposits to your savings, Doebler says, you might redirect one of these each month toward paying off credit cards. If you have more than one card, Love advises paying off the one with the smallest balance first.

Resources

For advice on saving, budgeting and credit, go to the Federal Trade Commission’s Money Matters site at http://ftc.gov/bcp/edu/microsites/moneymatter/index.html.

The American Institute of CPAs Feed the Pig website has tips on saving. Go to http://www.feedthepig.org/savingstips.
