

THE HEAD AND HEART OF SPENDING

WHAT ARE YOUR SPENDING HABITS?



Part I

Let's Talk About the Head of Spending...

- ▶ Introduction
- ▶ Evaluate a Purchase
- ▶ Means of Spending
- ▶ Credit & Credit Cards
- ▶ Spending Plan
- ▶ Opportunity Cost
- ▶ Head of Spending Activity





Introduction

Does anybody ever really have enough money? It seems like there's always something that would make your life easier or more fun—if only you had the money.

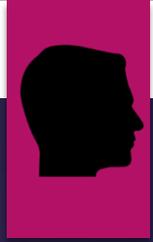
There are steps you can take to make your money stretch a lot further; so it provides what you need and a lot of what you want too.

By the time you complete this unit, you'll be able to make smarter, more informed purchasing decisions and get the most you can from your earnings each month.

▶ Here's an outline of what we will cover in this section:

- ▶ Understand the key factors to evaluate when making a purchase
 - ▶ Understand why you must shop around to find the best price
 - ▶ Know the importance of quality and quantity in a purchase and how it can impact price
 - ▶ Determine what your needs are versus your wants
- ▶ Know the differences as well as advantages and disadvantages of the following means of acquiring something you need or want:
 - ▶ Borrowing
 - ▶ Credit & Credit Cards
- ▶ Your spending plan
- ▶ Identify the opportunity costs of financial decisions

Evaluate a Purchase



- ▶ Most people make purchases almost every week, if not every day. Buying things is an important part of our society and our economy. Because spending is such a big part of our financial and social life, it's important to put some thought into not only what we're buying, but where we're buying and how much we're paying.
- ▶ When we are more thoughtful about our purchasing decisions, we may be able to get what we need and even want for less. Anyone can be a good shopper with just a few skills like those you will learn here. That will leave you more money for saving and investing.

- ▶ **Understand why you must shop around to find the best price**
 - ▶ When you shop around, you tell the stores that you are aware of value and will do your homework to get the best deal. In other words, you are not a chump, willing to pay any price for anything.
- ▶ **Know the importance of quality and quantity and how they can affect price**
 - ▶ An important factor that often affects price is an item's quality – or perceived quality. A higher-quality item may last longer and be more useful than a lower quality item. But be careful, "alleged" quality, through marketing and branding can encourage us to spend more for an item JUST because of its brand. It may not actually be a higher quality than a less expensive option. Ask yourself: what could I do with the money I don't spend to get the same quality?
- ▶ **Determine what your needs are vs. your wants**
 - ▶ Understanding the difference between wants and needs goes beyond just deciding whether you want or need an item. Once you decide you need an item, be sure to think about what aspects of that item you want or need. You may need a new pair of shoes, but there are many different types of shoes and you'll need to understand what you need from a pair of shoes (perhaps comfort and long-lasting) and what you want (maybe brand name).



Means of Purchasing



When you want to acquire something, you may have several ways to make that happen. One is to just buy the item – pay cash for it and take it home. That may not always be practical because you want or need the item in a certain timeframe and may not have the cash to buy it.

Remember the value of “gently used,” “pre-owned,” “second-hand,” and “broken-in.” Thrift stores, consignment stores, and garage sales offer many opportunities to spend wisely at a fraction of the original cost and for you to sell the stuff you once thought you needed but now don’t want. Keep in mind how quickly things can move from the “need category” (I’ve got to have this) to the “garage sale category” (why did I ever buy this?) the next time you are about to spend.



Spending Plan

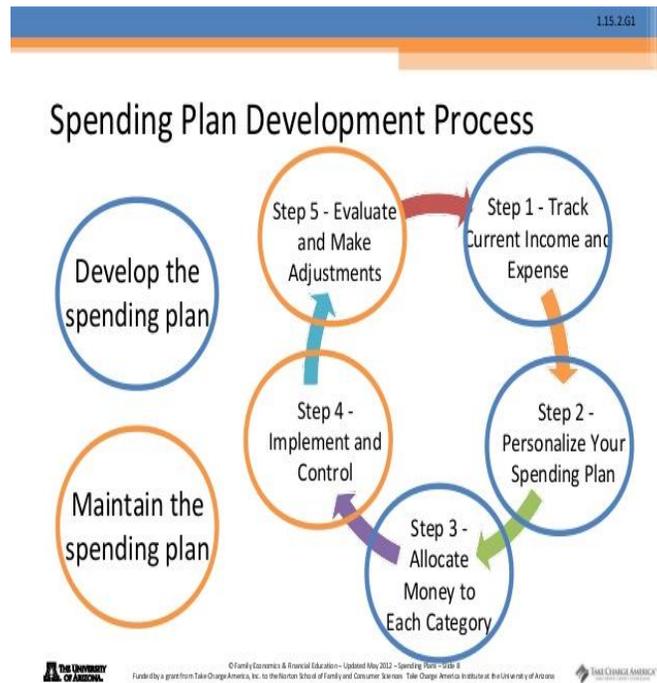
Get Started

A spending plan is a good tool to make sure that you're financially on track. To many people, spending plan is really another word for budget – in this course we'll focus on the spending portion of the budget

Create Goals

When you create a spending plan and goals, you're looking at how you use money right now and how you plan to spend money in the future. This is an important part of managing your money.

Start a Plan



Why is it Important?

The reason a spending plan (or budget) is so important is that it requires planning.

Instead of going shopping as soon as you get your paycheck and maybe not having enough to make ends meet before you get your next paycheck, you already have a plan for how you'll spend the money.

When you create a plan you can make sure that it supports your financial goals, such as getting out of debt or building an emergency fund or buying a car or a house. If you create and follow a spending plan you can make sure that you have enough money for necessary expenses. If you plan appropriately, you'll also have enough money for savings and your wants.



Opportunity Cost

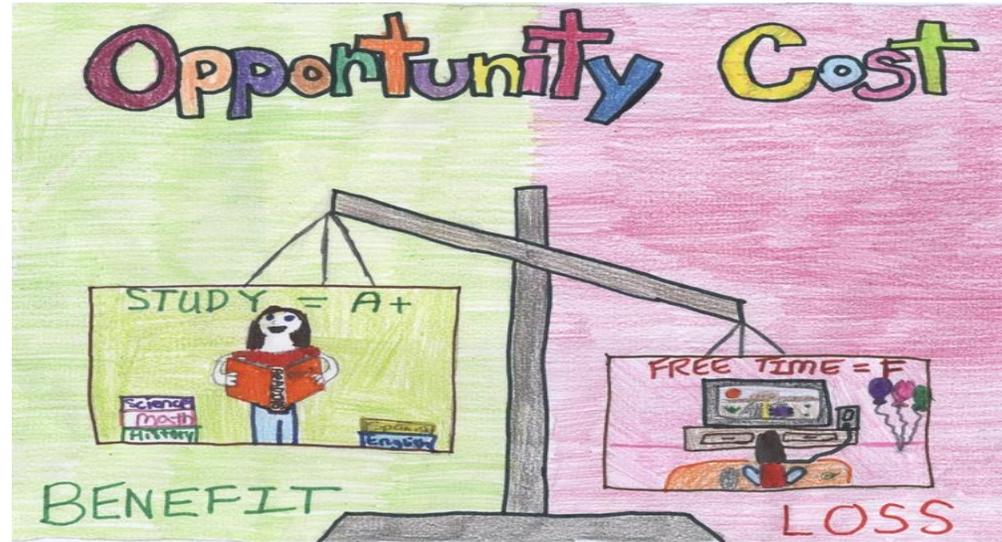
The opportunity cost is what you give up to have something.

The opportunity cost is the most valued option that you refused because you chose something else

The opportunity cost is that you will have less money to buy goods and services in the future.

Saving builds wealth to buy goods and services such as a car, house, or vacation in the future.

The opportunity cost is not buying as many goods and services today.



Opportunity Costs

- The opportunity cost of something is that which we give up when we make that choice or decision.
- The implication is that all decisions involve trade-offs.
- **“There’s no such thing as a free lunch!!”**

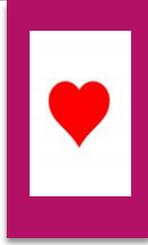


Part 2

Now Let's Talk About the Heart of Spending...

- ▶ Introduction
- ▶ Purchasing Decisions
- ▶ Goal Oriented Spending
- ▶ Taking Control
- ▶ Higher Education
- ▶ Compulsive Spending





Introduction

How we choose to spend our money can have a deep impact on our lives. Our lives can also have a deep impact on how we spend our money.

We are making choices each time we open our wallets. Taking responsibility for our spending choices is often the first step in making decisions that help us reach our financial goals.

In this course, we'll explore how outside influencers and our own past can shape our thoughts and feelings about spending.

We focus on the importance of disputing irrational beliefs around spending and touch on a dangerous addiction known as compulsive spending

- ▶ **Here's an outline of what we will cover in this section:**
 - ▶ **Understand the factors that can affect a purchasing decision**
 - ▶ Fulfilling your needs
 - ▶ The role that peer pressure can play in your purchases
 - ▶ The role your background can play in determining needs vs. wants
 - ▶ Why sales and bargains are so tempting
 - ▶ **Goal-oriented spending**
 - ▶ Taking responsibility for spending decisions
 - ▶ Spending toward your goals, not away from them
 - ▶ **Taking control of your spending**
 - ▶ **Spending for higher education**
 - ▶ **Compulsive spending**
 - ▶ **Summary**



Purchasing Decisions

- ▶ The first step to understand how our background and surroundings influence our thoughts, feelings and beliefs about spending is to look closely at our spending and make sure that our spending decisions are based on rational beliefs (rB) and not irrational beliefs (iB).
- ▶ Sometimes spending money may not be the best way to satisfy a need. By recognizing why you are spending, you may be better able to make decisions that will help you reach your financial goals.

- ▶ **Know the role that peer pressure can play in your purchases**

- ▶ Have you ever gone to a restaurant that cost more than you were comfortable spending because a friend suggested it? Or perhaps you've gone to the movies when your friends wanted to go even though it took every last cent you could scrounge up? What about your clothes... have you ever spent more than you could really afford on a pair of jeans or shoes because everyone would think they were cool?
- ▶ **Irrational Belief: You're only as cool as your stuff**
- ▶ Perhaps one of the most common irrational beliefs that many people carry around with them – sometimes without even recognizing it – is that they're only as good as their material stuff. A similar idea is that people won't like you if you don't have the right stuff – whether it's the clothes, the car or even the phone.

- ▶ **Understand the role your background can play in determining what is a need and what is a want**

- ▶ Sometimes your background can have an even bigger influence on spending. We gather many of our beliefs, both rational and irrational, during our upbringing, from our parents and our communities.
- ▶ Some families may hold the belief that the amount of money that you spend shows your value as a person. We know that for a person to feel fulfilled, they need more than a lot of flashy stuff. Putting too much emphasis on the stuff you have can mean sacrifices to other important aspects of life like family, friendships and life experiences.

- ▶ **Why sales are so tempting**

- ▶ Sales can be a great way to save money. When you can buy something that you need for less, you can add the "left over" money to your savings to put it toward one of your short or long term goals. However, sales can also be a great way for stores to get you to spend more money than you were planning. For many people, when they see that something is on sale, they assume it's a great deal. They also assume that it's a deal that won't be around long. Those two thoughts often combine to make people buy things that they weren't planning to buy and sometimes even things that they don't need at all.



Goal – Oriented Spending

Taking responsibility for spending decisions

If we can tell the difference between basic needs and nice-to-haves or wants, we can monitor our spending more effectively. This sounds simple, but is actually very difficult for most of us.

Next time you are getting ready to spend, take a moment to really think about your spending and take responsibility for it. When you're about to buy something you can't really afford, think about the decision as your own – not to impress your friends or because the T.V. ad made it look cool. When you think about spending in that way, you may be able to make a more rational decision based on rational beliefs.

Spending toward your goals, not away from them

Step 1. Think about your dreams and how you want to live your life, paying attention to rational and irrational beliefs. Some of your dreams may include financial goals. Write these financial goals down. When you write down your goals, they become more real and you are more likely to achieve them.

Step 2. Now that you've figured out a few of your goals, start to spend toward them. Most of the time people think of saving or investing for their financial goals. How you choose to spend is really just as important and determines how much you'll be able to budget to save or invest.

So, the next time you get ready to whip out your credit card or even a few dollar bills, ask yourself, "Am I spending toward my goals or away from them?"

A daily triple large latte at a fancy coffee shop, while not terribly expensive by itself, is probably spending away from your goals.

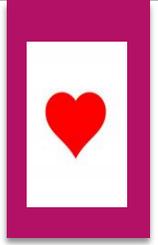
On the other hand, a college education is almost always spending toward your goals



Taking Control

- A good way to get a clear picture of how much you are spending is to record every dollar you spend. It's also a great way to refine your budget and make sure that it's realistic.
- Consider carrying around a small notebook or a piece of paper and jotting down every dollar that you spend. Most of the time people are surprised by how much they spend on small items and how much that really adds up.
- While focusing on cutting back on small often unnecessary expenses is a great place to start, you might also look at whether your larger expenses are appropriate for your income level and the financial goals you are trying to reach. If you are having trouble making ends meet and are spending more than you need on a "need" that has turned into a "want," one important change could have a big impact on your financial future.

Higher Education



WHEN YOU'RE PLANNING FOR HIGHER EDUCATION, IT'S A GOOD IDEA TO THINK ABOUT HOW MUCH TUITION YOU ARE COMFORTABLE PAYING NOW AND HOW MUCH YOU WILL BE COMFORTABLE PAYING BACK IN LOANS WHEN YOU FINISH YOUR EDUCATION AND BEGIN WORKING.

EDUCATION BEYOND HIGH SCHOOL, WHETHER IT'S A 4-YEAR COLLEGE, A COMMUNITY COLLEGE OR A VOCATIONAL SCHOOL, IS AN INVESTMENT IN YOURSELF THAT CAN HAVE A POSITIVE FINANCIAL IMPACT ON YOUR FUTURE.

HOWEVER, CHOOSING A COLLEGE THAT FITS YOUR CURRENT AND FUTURE FINANCIAL SITUATION IS AN IMPORTANT CONSIDERATION.

THAT DOESN'T MEAN THAT YOU SHOULDN'T APPLY TO YOUR DREAM SCHOOL BECAUSE IT SEEMS TOO EXPENSIVE.

IT'S BEST TO MAKE YOUR DECISION AFTER YOU COMPLETE YOUR FAFSA AND ANY OTHER FINANCIAL AID APPLICATIONS THAT YOUR SCHOOL REQUIRES AND RECEIVE YOUR AWARD NOTIFICATIONS.

YOUR AWARD NOTIFICATIONS WILL TELL YOU HOW MUCH FINANCIAL AID EACH COLLEGE IS ABLE TO OFFER.

IN SOME CASES A MORE EXPENSIVE SCHOOL MAY BE ABLE TO OFFER MORE FINANCIAL AID, MAKING YOUR OUT-OF-POCKET EXPENSE LESS THAN YOU EXPECTED.

BUT REMEMBER, ANY FINANCIAL AID AWARDED AS STUDENT LOANS MUST BE REPAYED.



Compulsive Spending is an addiction to spending money

▶ **Signs and symptoms of compulsive spending**

- ▶ Emotional Spending – Shopping or spending money as a result of feeling angry, depressed, anxious, or lonely
- ▶ Having arguments – With others about your shopping habits
- ▶ Feeling lost without credit cards – Actually going into withdrawal without them
- ▶ Covering your tracks – Spending a lot of time juggling accounts or bills to accommodate spending
- ▶ Buying items on credit – Rather than with cash
- ▶ Feeling guilt – Feeling ashamed, or embarrassed after a spending spree
- ▶ Lying – About how much money you spend or owning up to buying something, but lying about how much it actually cost
- ▶ Feeling a rush – Or a feeling of euphoria with spending
- ▶ Obsessing – Thinking obsessively about money
- ▶ Going over your budget – Consistently creating financial strain as you spend above your income
- ▶ Compulsive buying – You may go to buy one shirt, but you end up with six of them
- ▶ Chronic problem – A continuous problem that gets worse over time
- ▶ Hiding – Hiding purchases as if hiding shame and even opening secret credit card accounts
- ▶ Returns – You return purchases due to guilt and shame, but once back in the shopping environment you end up on another shopping spree
- ▶ Relationships suffer – As you spend more and more time shopping, you create more and more debt, and cover up debt with lies and isolate yourself

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Any Questions?

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