SECTION **1**

Controlling Your Spending

Controlling spending is hard for many people. Some people make bad spending choices over and over. Then, they never seem to have enough money for the things they need. Other people try to be careful. But they don't understand some basic ideas about smart spending. You can take control of your spending by correcting your bad habits and learning how to avoid costly mistakes.

It All Adds Up!

Erin was glad to get home! She'd had classes all morning and then worked an eight-hour shift at the store. Now, she was ready to relax. She'd have the apartment all to herself. Her roommate, Cassie, was working tonight.

But when Erin walked into the apartment, she immediately tensed up. The TV was blaring in the living room, and the lights were on all through the apartment. A nearly full can of soda was sitting on the kitchen counter. Next to it was an open container of takeout food from the deli.

"Cassie . . ." Erin muttered to herself, as she tossed the container into the wastebasket.

This wasn't the first time Erin had come home to a situation like this. Cassie was wasteful, in Erin's view. She didn't worry about what things cost. And she never planned how to spend what she earned. Last summer, she'd even bought a new car without giving it much thought.

Keeping up with the payments on that car was hard for Cassie. She also had some credit card bills to pay. More and more, she struggled to pay her share of the rent and utilities. Erin worried that soon, Cassie wouldn't have enough money. And then Erin would get stuck paying more than her share!

Erin didn't consider herself a financial genius. But she had common sense about spending money. She knew that it was easy to form bad habits. She also knew that little things add up. And she knew that she couldn't have everything she wanted.

She wished Cassie knew some of these things too.

CHAPTER **1**

Developing Thrifty Habits

A *habit* is something you do all the time without really thinking about it. Some habits are good, but others are bad.

Do you have any bad habits when it comes to money? Do you waste money? If so, how much do you think you could save by correcting your bad spending habits?

Let's say that on average, you spend $3 a day drinking energy drinks or soda. To be ***thrifty***, you could start drinking tap water instead. In five days, you'd have an extra $15. And in a year, you'd be $1,095 richer!

> **Thrifty**
> Careful and smart with money.

Making Simple Changes

Clearly, having thrifty habits saves money. Making even simple changes, like turning off the lights, can add up to big savings. And once you get started, it becomes easy to think of new ways to save. But resisting the temptation to spend can be very hard.

In today's world, we're hit over and over again with clever and attractive ***marketing schemes***. They're designed to convince us to spend our money on things we don't need and maybe can't even afford. How many advertisements, or ads, have you seen lately that suggest you go into debt to purchase something?

Sometimes, your friends encourage your bad spending habits. Do you ever feel you must buy things to keep up with your friends? If so, you're feeling peer pressure. Giving in to peer pressure can be very expensive.

Marketing
The business of advertising and selling products and services.

Scheme
A plan or system, sometimes involving a secret or trick.

Learning to Be Frugal

It isn't easy to resist peer pressure. Most people want to do what everyone else does or to have what everyone else has. You need to convince yourself that it's important to be ***frugal***.

Some people tighten their spending to save money for something special, such as college tuition. Others develop thrifty habits to avoid going into debt. They also know it's important to have money available for both emergencies and unexpected opportunities.

Think of reasons that could convince you to save money and to stop buying things you don't need. What could you go without in your life?

Frugal

Careful with money to the point of going without things.

Tips for Saving Money

Some wasteful habits are easy to change. Others are more difficult to correct and may take time and effort.

Read the following money-saving tips. Which of these suggestions would help you become more thrifty?

- Turn off lights, TVs, and radios whenever you leave home.
- Avoid buying snack foods from vending machines. Pack your own snacks and carry them with you.
- Stop spending money on candy and junk food.
- Walk or ride a bike instead of paying for gas or bus fare.
- Don't smoke. And if you already do, give it up.
- Pack your own lunch for school or work instead of buying it.
- When you shop, take just enough cash to buy the things you need. Leave your checkbook and debit and credit cards at home.

Tips for Resisting Peer Pressure

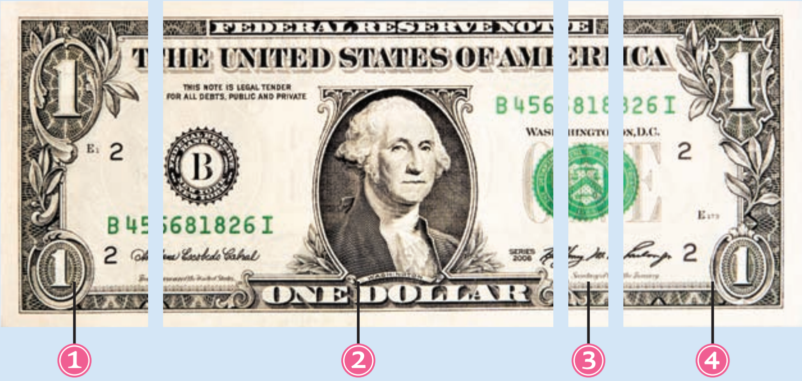
- **Choose friends who influence you in good ways, not bad ways.** True friends will respect your values and decisions.
- **Avoid activities that involve things you don't want to do.** Think in advance about what might be involved, and decide whether you want to participate.
- **Make decisions that fit your values, and follow through with them.** Don't make decisions or change your mind based on other people's values and expectations.
- **Consider the possible consequences of your behavior.** Could you get in trouble? Could you get hurt or harm your health?
- **Practice ways to say "no."** Tell the truth or make up an excuse for not getting involved in something.

[FACT]

Average Living Expenses

Of course, there are some things in life we have to pay for, such as food, housing, clothing, and transportation. These costs are often called *living expenses*. The average person's living expenses total $32,650 a year. Here's the breakdown of expenses:

1. **Food:** $6,372
2. **Housing:** $16,895
3. **Clothing:** $1,725
4. **Transportation:** $7,658



CHAPTER 2

Balancing Wants and Needs

Everybody needs to eat. But do you *need* to eat at a restaurant? Probably not. You may *like* and *want* to do that. But to save money, you could prepare your own food and eat at home.

Setting Priorities

When you purchase things such as movie tickets and restaurant meals, you're spending money on things you *want*. It's fine to buy things you want, of course—if you can afford them.

But first, you should make sure you have enough money to pay for your needs. Your *needs* are your necessary expenses. They include things you can't do without, such as food, water, shelter, and electricity. The things you need must be your ***priorities***.

Priorities

Things of greatest importance.

[FACT]

Entertainment Costs

The average American spends 5.5% of his or her yearly income on entertainment. That comes to about $2,693 per year, on average. These costs include going to movies, concerts, ball games, and other events. They also include monthly utilities, such as cable or satellite television. And for many Americans, a growing entertainment expense is service plans for cell phones, video games, and other technological devices. Some people spend $1,000 a year alone on these kinds of service plans.

Identifying Wants versus Needs

Can you tell the difference between *wants* and *needs*? Doing so is important if you want to manage your money wisely.

Try these two suggestions for identifying wants versus needs:

1. Think about why you want to buy an item. Try to come up with at least three good reasons for making the purchase. If you can't, the item is probably something you *want*, not something you *need*.
2. Ask yourself "What will happen if I *don't* buy this item?" For instance, suppose you're thinking about buying a new bedspread.

Shopping Checklist

Before you head to the mall, think about what you want to buy and why you want to buy it. Ask yourself these questions:

- ☐ Why am I going shopping? Do I just want to shop around, or do I really need something?
- ☐ If I need something, why do I think I need it? Can I prove that I need it?
- ☐ If I just want to shop around, can I actually do that? Can I look without buying?
- ☐ Have I paid all of my bills? Do I have other needs to pay for or to save for?
- ☐ If I plan to buy, am I willing to go to several stores and look for the best price?

If you don't buy it, nothing will probably happen. Even if your old bedspread is completely worn out, you don't have to replace it. You could go without. This means the bedspread is a *want*. But what about paying your electric bill? If you fail to make the payment, your service will be ***disconnected***. You won't have electricity anymore, which would be a huge problem. This means paying the electric bill is a *need*.

Disconnected
Shut off or discontinued.

The Pleasure of Purchasing

Why do we like to shop? There's a chemical in our brains called *dopamine*. It's called the "feel good" chemical, because it's related to pleasure. When dopamine is released into our bodies, we feel good. And when something makes us feel good, we usually want to do it again and again.

Seeing an item we want in the store excites the brain. The more we want the item, the more excited the brain gets. Buying the item satisfies that want, and the brain releases dopamine. The more we buy, the more shopping brings us pleasure.

Sometimes, what you want and what you need are the same. For example, if you've outgrown or worn out your winter coat, you want *and* need to replace it. You can still try to save money, though. You might shop for a coat at a discount clothing outlet, or you might look for a bargain at a local thrift store.

Coming Up Short

Sam hasn't learned to tell the difference between wants and needs. And now, his rent is due! He's $55 short, which means he's spent too much on wants.

Read the following list of Sam's expenses this week. Which items are *wants*, not *needs*?

Which items did you identify as *wants*? How much did Sam spend on these items?

Of the expenses on Sam's list, these items are *wants*: DVD and game rentals, new soccer ball, energy drinks, ice-cream sundae. As it turns out, they add up to $55, which is exactly how much more Sam needs to pay his rent.

A Simple Plan

A simple plan for managing your money is to split your earnings three ways:

1. **50% for needs:** expenses that must be paid, including payments on debts.
2. **30% for wants:** expenses that could be put off without any serious consequences.
3. **20% for savings:** a fund to cover unexpected expenses.

CHAPTER 3

Keeping Financial Records

It's easy to spend money. But it can be hard to keep track of how much you spend.

In keeping track of your spending, don't rely on your memory alone. Financial advisors suggest keeping good financial records.

What Are Financial Records?

A *financial record* is any ***document*** that ***verifies*** the amount of money you earn, spend, or save. All the documents discussed in the following section are types of financial records.

Document

A written explanation or record. Many documents are used to provide proof of something.

Verify

To prove that something is accurate or true.

Types of Financial Records

Expense Report

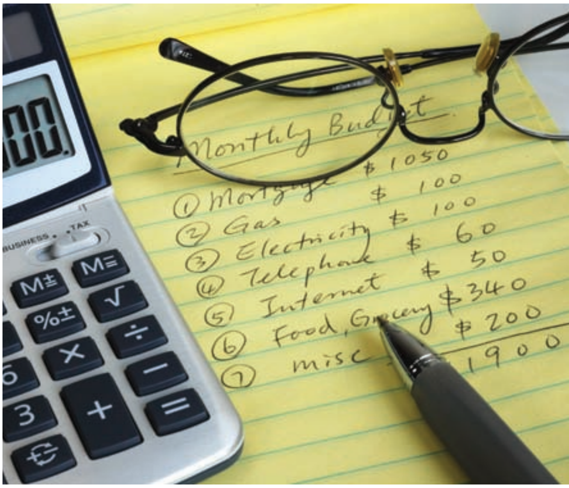
An *expense report* is a detailed list of everything you spend. People who travel for their jobs often keep expense reports to show costs of transportation, meals, hotels, and so on.

If you'd like to track your spending habits, try keeping an expense report. Becoming aware of your spending habits will help you to identify waste.

Budget

A *budget* is a written plan for managing money. It should include how much you expect to earn and how much you expect to spend.

Preparing and sticking to a budget makes sense. It will help keep you out of debt and find new ways to save money.



Receipts

Receipts are records of purchases. You usually get a receipt when you buy something. This slip of paper shows *when*, *where*, and *what* you paid for.

Always get a dated receipt when you buy something, especially when you pay with cash. Also, keep your receipts well organized. Then, you'll be able to find a receipt easily when you need it.

Receipts are needed or useful in these situations:

- To prove you paid a bill on time
- To return something you've purchased
- To prove that you loaned money to someone
- To track daily expenses or plan a budget

Bank Records

Banking involves several kinds of financial records. If you have a bank account, you should keep track of these records:

- **Deposit slips:** These are records of your deposits, or times you put money into your account. Each deposit slip proves how much money you added, along with when and where you made the deposit.
- **Withdrawal slips:** These are records of your withdrawals, or times you took money out of your account. Each withdrawal slip proves not only how much you took out but when and where.

- **Register:** The register is your personal record of all the transactions in your account. It lists deposits and withdrawals, checks, service charges, and so on. Recording these activities allows you to keep track of how much money is in the account. That amount is called the *balance*.

Recordkeeping and the IRS

The Internal Revenue Service (IRS) sometimes requires taxpayers to provide financial records. If the IRS ever questions information on your tax return, you'll have to provide the financial records to back up what you've reported. The IRS suggests you keep the following yearly financial records for six years:

- Bank statements
- Deposit slips and withdrawal slips
- Cancelled checks (checks that have been paid)
- Records of income (such as W-2 and 1099 forms)
- Receipts of major items sold for cash (such as cars or equipment)
- Receipts of major expenses (such as house payments and medical bills)
- Receipts of money and items donated to churches and charities

Tips for Organizing Your Bills and Records

- Keep all bills and financial records in the same place, such as a desk or file cabinet.
- Set up a recordkeeping system and then use it.
- Color-code materials based on their importance. For instance, put bills that need immediate payment in a red folder.
- Keep items that don't need immediate attention separate from items that do.
- Pay your bills online as much as possible. Print out receipts or other proof of having made payment.

- Keep a calendar for paying bills. Write down when you make each payment.
- Use a paper shredder to get rid of documents you don't need to keep.

Transaction

An act of doing business. For a bank account, transactions include all of the acts of adding or taking out money.

Safe Storage of Financial Records

- **Lock box:** Storing records in a locked metal box will protect them from being stolen. Lock boxes aren't usually fireproof, though.
- **File cabinet:** Using a file cabinet is great way to keep files organized. Some file cabinets can be locked for security. File cabinets aren't usually fireproof.
- **Safe:** Having a safe is the best way to protect records at home. Make sure the safe is fireproof, however.
- **Safe deposit box:** Having a safe deposit box is the most secure way to store financial records. You rent this kind of box at your bank, usually for a small fee each year.

➔ **Statement:** The statement is the report about your account you receive from the bank each month. It shows all the ***transactions*** for the month, plus the current balance. You should always check the statement against the register and other financial records you keep. Make sure you and the bank agree on how much money you have.

Storing Financial Records

Be sure to keep your financial records in a safe place. Many times, these documents contain information you want to keep private. Also, some financial records are difficult to replace, if lost or damaged.

CHAPTER 4

Common Financial Mistakes

Being ***careless*** with money can cost you more than you think. And over time, purchasing mistakes can turn into bad spending habits.

Careless

Not paying attention or showing concern.

Unit pricing

How much 1 unit of something costs. For example, milk is sold in several different sizes of containers: half-pint, pint, quart, half-gallon, and gallon. Knowing the unit price of 1 cup of milk, as it's sold in all these different sizes, will help you decide which size is the best buy. Usually, the larger the size or quantity, the lower the unit price.

Shopping Mistakes

- Buying things without first looking for better prices elsewhere.
- Not using ***unit pricing*** to determine the best buys.
- Not checking or saving sales receipts.
- Failing to return or exchange unsatisfactory purchases.
- Buying unneeded things on ***impulse.***
- Buying unneeded items because they're on sale.
- Driving a long distance to save a small amount of money.

Impulse
A strong desire or sudden urge.

- Buying poorly made products just because they’re low in price.
- Buying things you can’t afford to keep up with your friends.
- Carrying more cash than needed when shopping.
- Not being aware of the costs of using credit cards.

Tips for Shopping at Warehouse Retailers

Many people save money by shopping at warehouse retailers, such as Sam’s Club and Costco. These kinds of stores offer low prices for buying items in *bulk*, or large quantities.

But buying in bulk doesn’t always provide the best deal. Follow these tips to spend wisely at warehouse retailers:

- Know how much items usually cost. Sometimes, grocery stores offer the same or lower prices and let you buy in smaller amounts.
- Don’t buy more of something than you’ll be able to use. In particular, don’t buy items that will go bad before you can use them.
- If you’re single or have a small household, shop with a friend. Split up items bought in bulk, and split the cost, as well.
- Pay attention to sales. Many items can be stored for later use, so buy them in bulk while they’re on sale.

What Is Compulsive Shopping?

As many as 6 out of 100 Americans are *compulsive shoppers*. These individuals are driven to buy things and often can't control their behavior.

Here are the signs of compulsive shopping:

- Prefer to shop alone
- Often shop for unneeded items
- Have trouble not thinking about shopping and buying
- Struggle with self-control when shopping
- Have financial problems because of shopping
- Have problems at work, school, or home because of shopping
- Hide or don't use items that have been purchased
- Feel depressed or upset after buying something

If you or someone you know may be a compulsive shopper, talk to your doctor about getting help.

Payment Mistakes

- Sending cash in the mail.
- Making only a small payment on a debt if you can afford to pay it off completely.
- Paying bills late or skipping payments.
- Ignoring the costly fines for skipped or late payments.
- Ignoring calls about skipped or late payments.

Banking Mistakes

- Not shopping around for the best services.
- Not keeping your bank register up to date.
- Not reviewing your monthly bank statement and matching it up against your register.
- Failing to ask for a correction when the bank has made an error.
- Paying penalties for spending more money than is in the account or not keeping a required balance.
- Not double-checking your addition and subtraction in your bank register.
- Not keeping records of deposits and withdrawals.
- Not setting up a savings account and making regular, small deposits.

How to Handle Creditors

Creditors are businesses you owe money to, such as banks and credit card companies. If you've missed payments, you'll likely get calls from these businesses. They have the right to ask when you expect to pay them.

Don't ignore these calls! Instead, follow these tips for talking to creditors:

1. Make sure the information they provide about what you owe is correct.
2. Answer and return phone calls. Refusing to talk to creditors will only delay reaching a solution. And you'll get even more calls!
3. Be honest. Admit your financial situation, and suggest working out a plan for payment.
4. Be calm and polite. Don't let your bad behavior make the creditor not want to work with you.
5. Follow through on your promises. If you say you'll make a payment but then can't, call the creditor immediately to explain.
6. Don't accept rude or threatening treatment by a creditor. Ask to speak to his or her manager.