

# How Do You Rate as a Money Manager?

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The College of Agricultural, Consumer and Environmental Sciences is an engine for economic and community development in New Mexico, improving the lives of New Mexicans through academic, research, and Extension programs.

If you find there is too much money at the end of the month, perhaps it is time to analyze your spending patterns. Some buying practices tend to wreck budgets.

How do you rate as a money manager? Some people have a natural instinct for making their spending match their income, while others can't seem to resist buying more than they can afford.

Rate yourself as a money manager by answering the following 10 questions with a "yes" or "no."

1. \_\_\_\_ **Do you pay more than you have to?** Some people often buy from habit without comparing prices. They tend to think a few cents difference is unimportant on small items.
2. \_\_\_\_ **Are you an impulse buyer?** These shoppers buy when the whim hits them without first considering whether they actually need the item.
3. \_\_\_\_ **Do you fail to pay yourself first?** When you're budgeting, you put your savings as last priority and will only save if there is any money left over.
4. \_\_\_\_ **Do you spend to keep up with the Joneses?** Some people feel that it is important to have what others have whether or not it fits their own lifestyle.
5. \_\_\_\_ **Do you spend to soothe your ego?** If you get depressed or angry, do you go out and buy something to make you feel better or to get even with someone?
6. \_\_\_\_ **Is it difficult for you to resist buying on credit?** It is easy to think in terms of paying for things in the future rather than in terms of whether you can afford it.



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### NEEDS VS. WANTS

When it comes to being better at managing your money and saving, it doesn't always mean you have to cut your spending, but rather minimize it. The key is to establish what your needs are and what your wants are. Your necessities are items that you need to survive and to help you manage your day, such as food (groceries, not going out to eat), gas, utilities, rent, etc. Then there are your wants, which are items that are considered more for luxury purposes, such as having the latest smartphone, name brand items, going out to eat, movies, etc.

As you distinguish your needs versus wants, know that you can still trim your necessary expenses. For an example, if you need soap from the store then buy the store brand rather than the name brand because normally the store brand is cheaper and you cannot tell the difference between either brand (except for the price tag). Also, you can cut down your utility bills by shortening your showers, using the AC/heater less, and turning off any lights in the house that you're not using.

7. \_\_\_\_\_ **Are you a snob buyer?** The most expensive is not always the best. Consider the lower priced items. They are often the better buys.
8. \_\_\_\_\_ **Do you make purchases based on instant gratification?** When you see something you want, you believe you will miss an opportunity if you don't buy it now.
9. \_\_\_\_\_ **Do you put off making a budget?** A budget is an excellent way to evaluate past expenses to see where the money went and to plan spending for the future.
10. \_\_\_\_\_ **Do you put off having an emergency fund?** Creating an emergency fund is a strategy in avoiding going into further debt when emergencies happen—which they do and will.

To rate yourself as a money manager, give yourself 10 points for each answer you marked "no." If you scored 100–90 points, you're an excellent money manager. Eighty points means you're above average (everyone has a few weaknesses). Seventy points means you need improvement, and 60 points or less means you'd better analyze your spending habits fast. You're wasting hard-earned dollars.

### MONEY MANAGEMENT TIPS

Stop and think about the things you buy. When struggling with a tight budget, often the first thought is, "If I just had more income I could manage." An important question to ask yourself is, "Can I manage the money I have better?"

For some families, the problem may be too little income. But in many cases, it may just be a matter of managing money more carefully. Sound management doesn't mean becoming a tightwad or giving up all the fun things in life. Many of us can trim our spending without lowering our standard of living.

### CREDIT

Avoid excessive credit-buying like the plague. Reserve the use of credit for purchasing things that are necessary or very important to you rather than just something you would like to have. Remember that you have to keep track of your purchases and pay them off on time.

Don't kid yourself that you will somehow manage to pay for it next month if you are having trouble making

ends meet now. Check to see if you are making substantial payments on charge accounts. Always try to pay more than the minimum payment so that you can pay it off quicker and avoid interest from accumulating, which makes it harder to pay off.

Credit is an important money management tool, but it is overused by many. Sometimes the use of charge accounts and installment payments becomes a substitute for sound financial planning. The monthly payments become the important consideration rather than the total cost and its relation to the family's ability to pay for credit purchases.

## SET GOALS

Think about what you really want your money to do for you, then set goals to work toward. Everyone will have different goals. Some examples might be: a down payment for a house, adding a room to your home, getting out of debt, a new car, saving for retirement, or a special vacation. Discuss your goals with the family since each person may have different goals. Suppose mom wants to remodel the kitchen, dad wants a camper, and Sam wants a car of his own. Everyone agrees Sam should go to college two years from now, and the family would like to go on a two week vacation this summer. It is unlikely that all these things can be accomplished at once. Together, the family must decide which items are most important and which things can be done first.

## WHERE DOES THE MONEY GO?

Some form of accounting is necessary to manage one's financial affairs. According to the authors of *The 4 Laws of Financial Prosperity*, the first law is to track your money.

Unless you know where your money goes, it is difficult to control expenses. Examine your spending by keeping track of what you spend. You can track your expenses by writing them down in a notebook or Excel spreadsheet, or using a budgeting application on your phone if you make all your purchases on your credit/debit card. Tracking your money can help you find your spending leaks, which are the expenses that can go unnoticed that are not as important as making other priorities for your money, such as paying your necessities and saving. Try tracking your money for a month, where you write down every single purchase you make, and at the end of the month see where you need to reevaluate your spending.



## EXAMINE YOUR SPENDING

Once you know where your money goes, you can then decide whether you are spending it for things that are actually important to you or whether you are letting it slip away. Think of your income in three parts:

- **Gross income.** This is the total amount of income you earn. But it is not the total amount you can spend as you wish because part of it must be used to pay taxes.
- **Disposable income.** This is your take-home pay. It is what you have left to dispose of (spend) after taxes, social security, and other deductions like retirement have been taken out. It is used for basic needs, such as food, shelter, clothing, and transportation plus the things you want.
- **Discretionary income.** This is the money left over after paying basic needs. It can be spent or saved as you choose.

Some people who have financial problems do not have a realistic understanding of what their living costs are. It is important to know how much of your income is needed for basic living costs so that you can plan for other things you want.

## YOUR OWN MONEY FORMULA

There is no magic formula that solves everyone's money problems. How a person or family spends money is a personal matter. Each family has different necessities and wants. Like most things that are important to you, good money management takes careful thought and planning. A sound plan will direct spending, not restrict it. To be a more effective manager:

- Set goals to work toward.
- Find out how much you have to spend.
- Identify your living costs.
- Keep track of your expenses.
- Develop a plan to acquire the things you want most.

## REFERENCE

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