How Do You Rate as a Money Manager?

Guide G-219

Reviewed by Constance Kratzer, Family Resources Management Specialist

If you find there is too much month at the end of the money, 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 fall for “something for nothing?” It has been said millions of dollars are spent to get something free. Many fail to examine the true cost of that “something” for nothing.

4. _____ Do you spend to keep up with the Jones? Some people feel that it is important to have what others have whether or not it fits their own life styles.

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.

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 have a tendency to buy worthless things? Many of us have a lot of gadgets or trinkets that we don’t use or need.

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 often waste things you buy? You may throw out food or other items not use things you bought, or not take good care of things to make them last longer.

To rate yourself as a money manager, give yourself 10 points for each answer you marked “no.” 100-90 points means you are an excellent money manager. 80 points, you are above average. Everyone has a few weaknesses. 70 points, you need improvement. 60 points or less, you had better analyze your spending habits fast. You are wasting hard-earned dollars.

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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.

TRADE-OFFS

Think in terms of trade-offs. A trade-off is a realistic choice between alternatives. If you decide to spend money on a recreation vehicle, you trade-off that purchase for something else, perhaps new furniture. Since you can’t buy everything you want, choices have to be made. The important thing is to think carefully about what you are willing to trade-off so that you can have certain things.

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.

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. Or, have you fallen into the “minimum-payment” trap?

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?

Money has its own rules, and “…the first and clearest rule is that you have to keep track of your money,” according to the authors of The Seven Laws of Money. Some form of accounting is necessary to manage one’s financial affairs.

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 use cancelled checks as a record of items paid for by check. Keep a small notebook to record cash expenditures.

Keeping track of your money may sound difficult. It isn’t hard and you don’t need to account for every penny. People train themselves to do certain tasks, such as water the plants regularly or change the oil in the car. We can train ourselves to keep track of money just as easily.

EXAMINE YOUR SPENDING

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

1. **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.

2. **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, such as retirement, have been taken out. It is used for basic needs, such as food, shelter, clothing and transportation plus the things you want.

3. **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 needs 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.

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