12/Money Matters

My money seems to disappear. I would like to know where my money is going and maybe even plan a budget, but I have no idea how to start. Is there a simple way to budget my money so I can get the things I really want and stop feeling constantly stressed about running out of money?

Everyone I know is stressed about money. What can I do to deal with my growing credit card debt?

My dad tells me I should start saving while I'm young. Even if I could save a little, it doesn't seem like it would be enough to make a difference. If I could save $5 a day, how much would I have in 10 years?

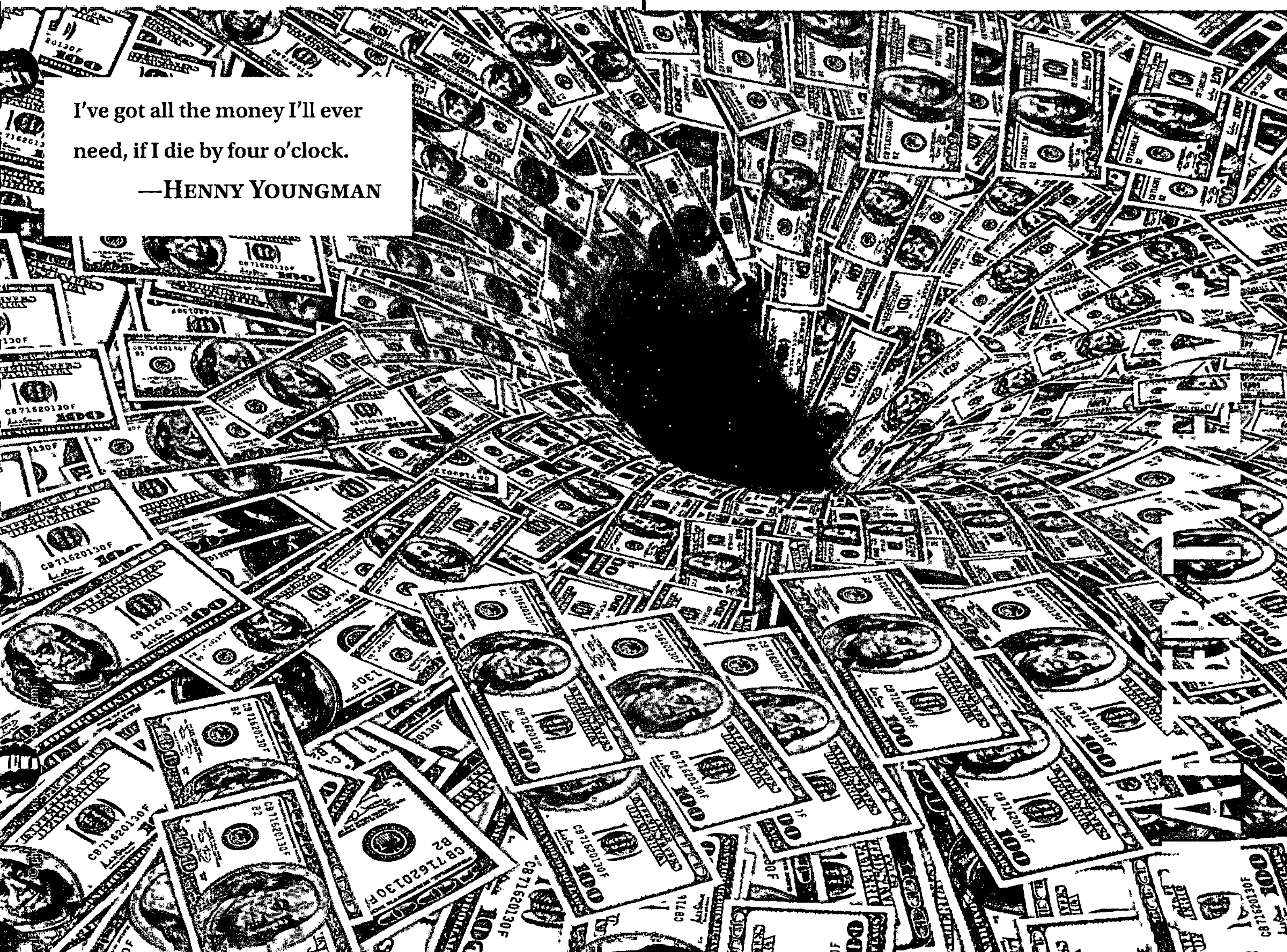
In Puerto Rico the people seem happy, even though most of them live in poor conditions. How does having money relate to being happy and feeling satisfied with life?

REAL PEOPLE, REAL STORIES

Sami's Story One day when I was a freshman, my friends and I decided to take off for the mall. It had been a tough week at school, and I needed something to make me feel better. I had plans to buy a new CD, but when I got ready to pay, my credit card was denied. I could have died from embarrassment! That had never happened to me before. I had acquired three credit cards since I started college, and it suddenly hit me that I was in way over my head.

* * *

The first time I applied for a credit card was on my first day on campus. Some guys with clipboards were signing people up—and giving away t-shirts. I liked the idea of being old enough to have my own credit card and promised myself that I would use it only for emergencies. It didn't take long for the first "emergency" to come along. My car clunked out, and it cost



I've got all the money I'll ever need, if I die by four o'clock.
—Henny Youngman

me nearly $200 to get a hose replaced. Before I knew it, I had maxed out the $1,000 credit card limit. When I couldn't make even the minimum payments, I used another credit card to get cash to make the payments.

I honestly don't know where the money went, but I knew I needed help. I went to the counseling center on campus, and the counselor helped me set up a budget, but even now, 3 years later, I still have a bad credit history.

Student Objectives

Study of this chapter will enable you to:

1. Explain the ABCs of money management.
2. Create and implement a plan for financial fitness.
3. Set financial goals to reduce money-related stress.
4. Discuss how doodads and credit cards contribute to financial stress.
5. Investigate what the research says about the relationship between money and satisfaction in life.

FYI

There's a Reason *Loan* Sounds Like *Moan*

The median cumulative debt among graduating bachelor's degree recipients at 4-year undergraduate schools was $19,999 in 2007–08. One quarter borrowed $30,526 or more, and one tenth borrowed $44,668 or more.

Source: 2007–2008 National Postsecondary Student Aid Study (NPSAS) conducted by the National Center for Education Statistics at the U.S. Department of Education.

Money Matters

DVDs, a new car, a nice apartment, a digital camera, new clothes, a cell phone—we face temptations to spend money every day. These are the things we *want*, but what about the things we *need* to survive in college? Tuition, books, computer, food, a safe place to live, and transportation to classes—these are just some of the many expenses one has to juggle to be a successful student.

Money is a leading source of stress for Americans, according to a 2007 survey by the American Psychological Association. In the survey, 73% of the respondents cited money as a significant source of stress in their lives. More than three out of every four American families are in debt, according to the Federal Reserve's Survey of Consumer Finances. Not surprisingly, an American Psychological Association study revealed that debt-related stress was 14% higher in 2008 than in 2004. Living above your means is a tremendous burden. The true cost of debt and financial problems isn't just the interest rate you're paying to Visa or MasterCard. The true cost is the toll that it's taking on your life and your relationships.

This chapter relates to one of the most common stressors around the world—not enough money. And though money truly won't make you happy, lack of money is one of life's great stressors. The bottom line is that money matters! In this chapter you will complete a series of exercises to start you on the road to financial fitness. You will learn how to manage your money so you can reduce your stress now and for years to come. We will also investigate the relationship between money and satisfaction in life. You might be surprised at what the research shows.

What is required to get your finances in shape? Just as we would like to have a strong, fit body without having to exercise regularly, we would prefer to have healthy finances without having to expend any effort. In the real world of college students, though, chances are slim that you will gain financial fitness without exercising some healthy habits to get you there.

Financial pressure ranks high in the list of stressors facing college students. Studies show that the majority of college students experience stress because of various academic commitments, financial pressures, and the lack of time management skills.[1] Financial problems rank up there along with poor grades as the major reason for dropping out of college.

A 2010 survey conducted by the Higher Education Institute at UCLA shows that the "challenging economic landscape" and grave unemployment rates are among the primary reasons that students are coming to college with high levels of stress and emotional tension. The portion of students reporting that their fathers were unemployed rose to the highest rate since the survey began asking the question in 1971. Also, 8.6% of students said their mothers weren't working, up from 7.9% a year earlier. The report identifies that the vulnerable economy which has led to high unemployment among parents and the steep costs of higher education are affecting students' college experiences.[2]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Financial pressure ranks high in the list of stressors facing college students.

Research HIGHLIGHT

Financial Worries Top Stressor List; Young Adults Most Stressed

Americans are feeling stressed., according to a national stress study. The survey of 1,000 men and women, ages 18 and older, revealed that 47% of respondents currently feel more stress than they did six months ago. And no surprise, the number 1 source of stress reported is personal finance concerns, the top response for almost half (49%) of those surveyed. The stress survey focused primarily on American's self-reported sources of stress and methods for coping with stress.

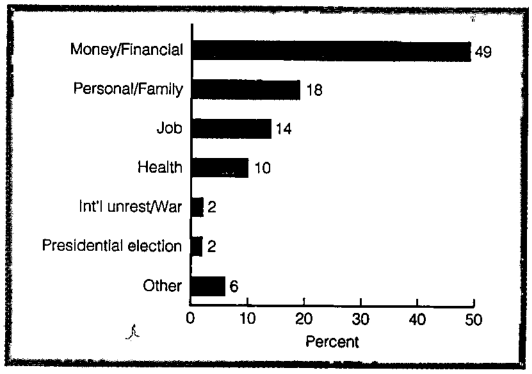
Young and Stressed, Older and Mellower

Young people report higher levels of stress than their older counterparts. Nearly six in ten respondents, in the 35–44 years of age category, reported high or very high levels of stress (58%), while less than one quarter (23%) of respondents in the 55-plus age group reported experiencing the same upper levels of stress. The youngest age group surveyed, those 18–24 years of age, registered the highest response (64%), indicating they are more stressed now than 6 months ago.

Americans Adapt New Age Approaches for Handling Stress

When asked about stress coping strategies, more respondents cited "meditation and breathing techniques" (28%) than the more traditional approach of "taking a vacation" (25%), which may also point to economic factors—which can turn vacationing into as much a source of stress as a stress reliever. On a healthy note, "exercise" tops the list of reported methods for tackling stress.

Figure 12.1 Sources of Stress.
Of the following, which would you say is the biggest source of stress for you?



Source: https://prnewswire.com/mnr/fboothresearch/35279/ ATLANTA – October 2, 2008/PRNewswire/

Source: "American's Stress Levels Rising - Financial Worries Top Stressor List" by M. Moyad, retrieved April 30, 2011 from http://healthnewsdigest.com/news/Guest_Columnist_710/American_s_Stress_Levels_Rising_-_Financial_Worries_Top_Stressor_List.shtml

So while the college years are often a time of getting out of shape financially, you will be relieved to know that you can undertake some specific financial exercises to help you develop financial fitness. The ABCs of money management can get you started.

The ABCs of Money Management

> We are obsessed with money. Yet we don't take money seriously enough.
>
> —Jacob Needleman

Management is necessary when there are many demands upon your finite amount of money, as is the case for most college students. Practicing the ABCs of money management can put you in control of your money instead of putting your money in control of you. The ABCs refer to **A**ssessment, **B**udget, and **C**ontrol.

Assessment Assessment means looking at where you are right now and evaluating how you got there. Assessment includes both awareness and analysis. All change starts with awareness of what has to change. So you should begin by becoming more aware of your current spending habits as associated with the thoughts and emotions linked to spending. Lab 12.1 at the end of the chapter can guide you through the assessment.

EXERCISE 1: Current Spending Habits

To get started, keep track of what you spend for one week. Write down every penny you spend, and what you spend it on, each day for a week. This will give you a clearer picture of where your money is going. For now, don't worry about your monthly expenses. Simply record your daily spending for a full week, including the weekend. Write down each item immediately so you don't forget.

Don't forget to keep track of how much you spend on pleasure and enjoyment. You might be amazed to find out how much you spend on movies, alcohol, coffee, CDs, or cigarettes.

FYI

What Matters Most

Members of the Financial Planning Association responding to a *USA Today* poll ranked establishing goals, paying yourself first, and sticking to a budget as the three most valuable steps people can take to improve their financial lives.

Source: "Financial Diet Tip #1: Carve Up Your Expenses," by M. Fetterman, *USA Today*, April 22, 2005, 1B.

Thoughts and Emotions Linked to Money In addition to allowing us to pay for the things we need, we sometimes use money to address our emotional needs. Assessment entails more than merely tracking where our money goes; it also is done to figure out *why* we spend money. We may believe that money can buy us pleasure, friendship, power, and happiness. We have to be careful not to let money become a substitute for emotional needs that we would be better off addressing in other ways.

Think carefully about how this money–emotion connection relates to you. Have you ever gone out and bought something expensive when you were sad or lonely, as a way to try to feel better? Or maybe you felt a real sense of power and importance when you picked up the dinner tab for four of your friends. Although we may get temporary pleasure from impulse buying and spending, those feelings of pleasure quickly turn into feelings of stress. If we don't feel regret the next day, we probably will when the credit card bill arrives!

Tip: As a way to deal with stress, people sometimes use shopping much like eating. When people spend money in an attempt to feel better, they are using shopping as a stress management tool. Shopping is not inherently problematic, but when it is used as a quick and temporary emotional fix, it may lead to higher stress levels from overspending and incurring debt. Take time to make a list of what you need before you go shopping, and stick to the list to avoid emotional shopping.

EXERCISE 2: Money and Emotions

As you track your spending for Exercise 1, analyze the thoughts and emotions attached to your spending. Begin to notice how often issues of stress and money are related. Did you head to the mall when you were bored? Was going to the movies a way to escape from studying? These things are not necessarily good or bad. The point of this exercise is to help you get in touch with the thoughts and feelings linked to spending so you can make conscious decisions about what is most important to you in relieving stress over both the short-term and long-term.

Budget Once the assessment is complete, you can move to the *B* of money management—budgeting. *Budget* is not a dirty word, even though the word has negative connotations for many. It is sort of like the word *diet* in that both create a sense of deprivation. A **budget** is just a plan you develop to manage your money so you can have what is most important to you and accomplish your financial goals. It is a road map to get you where you want to go. If more money is going out than is coming in, no matter how much money that is, you are creating a potential stressor. A budget can guide you in eliminating the stressor.

Tip: If you don't like the word *budget*, call it a *cash-flow plan* or a *money tally*—whatever works for you. *Cash-flow plan* has a positive ring, reminding you that cash actually flows both in and out.

EXERCISE 3: Financial Goals

The budgeting process starts by first writing your financial goals, and then developing a plan to accomplish those goals. Many people go through life not really thinking much about their financial goals. The first step in creating a successful budget is to develop your goals and write them down so you can see what you want with your money. After graduation you may want to reassess and set goals for the future, but for now, write your financial goals with an emphasis on your college years. Include both short-term and long-term goals for your years as a student.

Tip: In doing this, you are much more likely to accomplish SMART goals. **SMART goals** are **S**pecific, **M**easurable, **A**ction-oriented, **R**ealistic, and **T**ime-based. For example, you might set as a goal: "I will work 20 hours per week as a work-study student to pay for my room and board for spring semester." To say, "I want more money by the end of the semester" is meaningless. This is no time to be wishy-washy. The more specific you are in your goals, the more likely you are to succeed.

(Continued)

Here are some examples of short- and long-term financial goals to get you thinking:

- I will pay myself first by using direct-deposit to put 5% of my paycheck immediately into a savings account.
- I will spend a maximum of 10% of my paycheck on entertainment.
- I will graduate from college with no debt.

Once you have written your financial goals, look back to Exercise 1, where you recorded everything you spent for a week. Take a red pen and cross out all the expenditures that were unnecessary and did not contribute to your recently written financial goals.

EXERCISE 4: Income and Expenditures

To get an idea of your income and expenditures, begin by calculating what you expect your income to be over the academic year. Add up all sources of money, including from work, financial aid, and family. Next determine your expenses for the year. Think about tuition, room and board, books, car, and any miscellaneous expenses. Take a broad look at what is coming in and what is going out. What does this tell you about your balance of income and expenditures?

Now you are ready to develop a budget. The key to developing a budget is to make it as easy as possible. If you make it too complicated, you won't do it. The only things you need are a legal pad and a pencil. If you'd rather work on the computer, financial software such as Quicken or Microsoft Money can be a good way to view your financial picture. Remember, this is *your* plan.

EXERCISE 5: Develop Your Budget

You can develop your own budget in many ways. One simple, yet effective method follows these steps:

1. Get your checkbook, credit card statements, or other records of expenditures. (See Exercise 4.)
2. Make a column for each category of spending—for example: tuition, food, rent, entertainment, car expenses.
3. List each purchase as best you can under the proper column. Round to the nearest dollar.
4. Total each column.
5. Add all the column totals together.
6. Compare this amount with your income.
7. Make adjustments where necessary.

Step 7, "Make adjustments where necessary," is where we often need help. How do we do this? And what is necessary? This is where we start to take control of our income and expenditures. You can do this in many ways, as you will learn in the *C* step, Control, of the ABCs of money management.

Control Now that you can clearly see the money coming in and the money going out, you can begin to make informed choices on how to balance your financial picture to accomplish your financial goals and, as a result, experience less stress and more satisfaction.

One of the things you will notice from your budget is that you have some fixed expenses, such as tuition and car payments, and you have some flexible expenses, such as going out to eat or buying a new shirt. Many people find that a budget helps them daily with these flexible expenses that require frequent decision making.

TIME TIP

"Even though I try to stick to using one credit card, I tried an experiment to help save some time in determining how I was spending money. I used two credit cards, one for all my "needs" and one for my "wants." Each month I could review my statements to help me see how much I was spending on things I wanted, but didn't really need. Doing this saved me money, as I began to think more deliberately about my "want" purchases. I also saved time by having an easy record of my spending."

—Jim H.

This is a good time to differentiate between what you want and what you truly need, as the two are easily confused. How many pairs of jeans do you need? How many CDs or DVDs do you need? Do you really need a cell phone? Even though you don't always see it this way, you do have choices in both income and expenditures. The key to financial success is to understand that your budget does not mean simply recording your income and expenses but, in addition, consciously deciding how you will manage your money.

In the remainder of this chapter, you will gain information and receive practical tips to guide you in making adjustments so you can take control of your money. By decreasing your expenditures and increasing your income, you can take control in many ways. Although everyone's situation is different, some common factors can leave us feeling out of control in managing our money.

Stress Busting Behavior

MONEY MANAGEMENT CHECKLIST

The ABCs of money management require action. Check the box if you've completed the exercise.

- ☐ Recorded your current spending habits
- ☐ Assessed the thoughts and emotions attached to your spending
- ☐ Developed your personal financial goals
- ☐ Calculated your expected income and expenditures for the year
- ☐ Developed your budget

Completing each step provides you with valuable information toward financial freedom.

Doodads and Credit Cards

Two areas of financial management that deserve extra attention because they so frequently leave us feeling out of control and contribute to financial stress are doodads and credit cards.

Doodads Author Robert Kiyosaki[3] defines **doodads** as expenses, often unnecessary or unexpected, that take money out of your pocket. Doodads are small but steady expenses that can drain away our cash. Author David Bach[4] calls this the **latte factor.** The latte factor is a metaphor for where you are spending money on little things that you could cut back on without changing your lifestyle. He explains what happens when we spend $3.50 a day to buy a latte (or any other small, non-essential purchase).

Beware of the Latte Factor

A latte a day = $3.50
A latte a day for a week = $24.50
A latte a day for a month = $105
A latte a day for a year = $1,277.50
A latte a day for a decade = $12,775
A latte a day for 30 years = $38,325

The latte factor illustrates how we spend money without realizing how it adds up. Just think! The money you spend in one year on a daily $3.50 latte, or similar item, could buy a new computer; the money you spend in 10 years could buy a new car or a trip around the world. So whether it is beer, or bottled water, or newspapers you never read, or a drink and a candy bar during breaks, think carefully about whether the purchase is worth it to you. We waste a lot of money by not thinking carefully about the purchases we make.

EXERCISE 6: Doodads Do Add Up

Take a few minutes to think of one doodad—a small but steady expense that drains your cash—that is part of your routine. Maybe you can't walk by the bookstore without going in and buying a paperback or two, or maybe you eat lunch at the student union every day

(Continued)

when you could pack a lunch instead. Maybe you smoke a pack of cigarettes a day. Maybe you pay a $2 charge every time you use the ATM or $1.50 every time you dial 411 to get a phone number. Maybe you pay for many more minutes on your cell phone than you really need. Once you have identified your doodad, determine its cost. Calculate what you would save in a month if you were to eliminate the doodad. Then calculate the total savings for a year, 5 years, and 10 years. What could you do with that money in 10 years?

To carry the latte factor a step further, Bach illustrates the power of saving by explaining what would happen if you were to put the money you would have spent on a latte to work for you by investing the money.[5]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24/7 easy access to money can contribute to impulse buying and overspending.

The Strength of Saving

$3.50 per latte × 7 days a week = $24.50

If you were to invest $24.50 a week and earn a 10% annual rate of return, you would wind up with:

1 year	$ 1,339
2 years	$ 2,818
5 years	$ 8,257
10 years	$ 21,870
15 years	$ 44,314
30 years	$ 242,916

In these days of lower interest rates, 10% may be a little high, but you get the point. Saving money may be the last thing on your mind when you are in college, but you can easily see how saving even a small amount on a regular basis can help tremendously in achieving your financial goals and, as a result, bring you financial peace of mind.

Strategies for Saving Some strategies for saving include the following:

- Eliminate a doodad and deposit the money into savings.
- Pay yourself first. Put a portion of every check into your savings account before you pay your other bills. Make this automatic so the amount you set is automatically moved from checking into savings.
- Empty all your loose change into a big can and deposit it into savings when the can is full.
- Put your tax refund into your savings account.
- Save one hour a day of your income. For instance, if you make $10 an hour and work for 8 hours a day, have $10 automatically moved from your checking account to your savings account for every day you work.

Eliminating doodads can go a long way toward improving your peace of mind. The intent is not to eliminate the special things that bring pleasure to life but, instead, to thoughtfully analyze where you are spending your money to determine if the costs are worth the benefits. If going out with the guys every Wednesday for a soda and burger is something you look forward to all week, you will want to find a way to work that into your budget. But if you find that nearly every night you are putting three bucks into the vending machines for a soda and a snack, mostly because you need a break from studying, you might want to explore other options.


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Credit cards make it easy to buy lots of stuff, but stuff doesn't equal happiness.

FYI

Who Gets the Credit?

According to a 2009 report released by Sallie Mae, the average college student has a credit card balance of more than $3,173. Some of the more alarming findings from the study include:

- Half of all college students have four or more credit cards.
- Freshmen carry a median debt of $939 (triple that of 2004).
- Seniors graduate with an average credit card debt of $4,100.
- Thirty percent of students put tuition on their cards.
- Sixty percent of students were surprised by how high their credit card balances had gotten.
- Only seventeen percent of students regularly pay off their card each month, while eighty-two percent carry a balance from month to month and pay the necessary finance charges.
- Sixty-four percent of undergrads said they would have liked to receive some sort of financial management education in high school.
- Forty-five percent of students say they feel a lot of anxiety about being able to pay their monthly credit card debt.

Source: "Study Finds Rising Number of College Students Using Credit Cards for Tuition" by P. Christel and E. Eriksdotter, retrieved April 30, 2011 from https://www1.salliemae.com/about/news_info/newsreleases/041309.htm

Credit Cards Doodads are not the only money-drainers. Credit cards can be an especially subtle way to accumulate debt.

> Once upon a time, a frog jumped into a pot of hot water. Feeling the intense heat, it immediately jumped out and saved its life. But another frog jumped into a pot of cool water sitting on a burner over low heat. One degree at a time the temperature increased, but the frog became accustomed to it, stayed in the pot, and eventually was boiled.

The moral of this story is that gradual, hardly perceptible changes can do us in—like our slow but steadily increasing credit card debt. We become accustomed to the gradually increasing credit card debt until one day we open our credit card bill and wake up to the realization that we are in way over our head and see no way out. As Sami testified in the opening vignette, credit card debt can haunt a person for years to come.

Somehow, when you charge your purchases to a credit card, it doesn't seem like you are spending real money. Financial advisors estimate that we would spend about 20% less by switching to cash-only payments. Believe it or not, people used to get along just fine without credit cards!

Tips for Managing Credit What can you do to avoid becoming buried under credit card debt? Here are some suggestions that might work for you:

- Use credit cards only for emergencies or carefully planned-in-advance purchases.
- If you must use a credit card, make every effort to pay off the full balance each month.
- Limit yourself to one credit card. Do you really need the free t-shirt or clock radio that credit card companies are giving away to get you to sign up?
- Remember that credit is *debt,* not supplementary income.
- Don't pay just the minimum payment each month. Paying even $20 or $25 more than the minimum can save you thousands of dollars over time.
- Try to get a credit card with a lower interest rate.
- Learn to defer gratification. Avoid impulse buying by making your money or credit card hard to obtain. Leave your credit card home or take only a predetermined amount of money with you when you go out.
- Wrap your credit card and secure it with tape when you carry it with you. The mere act of unwrapping it might allow you time to reconsider if you really need to make this purchase.
- Limit the amount you allow yourself to put on your card every month.
- Be aware that student credit card deals aren't always your best bet. Students with a limited credit history are considered credit risks so although you may get the card, you'll probably have a high interest rate.
- Rather than a credit card, use a debit card so the money will come out of your checking account immediately. That way, you can't spend more than you have.

Our friend Anne shares this additional tip:

> When my husband started his first job after college, he wisely realized that he could go wild with his credit card if he didn't put up some kind of roadblock to using it easily. So he hid it in a book at home. The title of the book? *Irrational Man.*

Author Anecdote

Interest Rates on a Home Mortgage

The power of searching for a better interest rate became glaringly obvious to me when we became home buyers. This principle holds true, though on a much smaller scale, with credit cards. When we moved into our home, we had a mortgage interest rate of 8.64%. If we would have paid off the house in 30 years, we would have paid $370,302 in interest alone.

Three years later we refinanced the home. The balance had not decreased much, but this time we got an interest rate of 4.875%. If we pay the loan off in 15 years (rather than 30), we will pay only $71,024 in interest. By paying a little more principle each month and dropping the interest rate by slightly more than 4%, we will end up saving just under $300,000 on our home! That's stress reduction!

—MO

EXERCISE 7: Pros and Cons of Credit Cards

Although credit cards have the potential for creating financial havoc, they also can serve a valuable function if they are used carefully. Make a list of the pros and cons of having a credit card. Then reflect on whether the pros outweigh the cons. If you decide a credit card is valuable to you, what conditions would help you control your use of credit?

Your list might look something like this:

Pros:

- Establish a good credit rating so if in the future I want to buy something big, like a house or a car, I will be able to secure a loan.
- A credit card could save the day if a true emergency arises and I need money fast.
- Some credit cards include insurance for the items I purchase.
- A credit card might come in handy so I don't always have to carry cash.
- For some purchases—such as airline tickets—it is more convenient to pay with a credit card.

Cons:

- I might spend more money with a credit card because it doesn't seem like real money.
- Interest rates can be high, so if I can't pay off the balance, I might end up throwing away my money on interest.
- The fine print on the credit card agreement can be impossible to understand. I may not know what I am getting into.
- If I can't keep up on my payments, I can mess up my credit rating for 7 years (or more).

Managing your use of credit cards can go a long way toward reducing financial stress. Conversely, getting and using credit without a plan is like riding a bike without brakes full-speed ahead down a steep slope. The rush of the wind on your face may feel great, but you'd better brace yourself for the crash that's coming when you reach the bottom.

Additional Tips for Managing Your Money

What else can you do to manage your money wisely? Students in several classes were asked to list strategies they have found effective to prevent or reduce financial stress. Here is their advice:

- Look for activities that don't involve money, such as working out or playing intramural sports.
- Make a budget!
- Put away 3% of every paycheck for emergencies, no matter how big or small your check is.
- Carpool to save money—or better yet, walk or ride your bike.
- Take advantage of free or low-cost activities on campus, such as discount movies, sports events, and activities associated with free food.
- Eat in the cafeteria or cook at home. Eating out is expensive.
- Have your paycheck automatically deposited to the bank.
- Talk to the counselors and find out about scholarships. Many scholarships don't get used because students don't apply.
- Don't buy a new car!
- Have only one credit card, and use it only for emergencies and gas.
- Save on groceries by always shopping with a list of items you need and never shopping when you're hungry.
- Avoid buying on impulse and ending up purchasing things you don't need by never spending more than $75 on anything without taking 24 hours to think about it. This allows time to decide rationally whether the purchase is really necessary.
- Do laundry at your parents' house.
- Always go out with people who say they will buy.

FYI

Consequences of Credit

A typical minimum monthly credit card payment is broken down into 90% interest and 10% principal. By paying the minimum (2%) each month on a card with an 18% annual percentage rate (APR), paying off a $2,000 purchase will take more than 19 years. You will pay more than $3,800 in interest, so a $2,000 purchase will end up costing you more than $5,800!

Source: *Climbing the Steps to Financial Success*, by F. Williams (Lafayette, IN: Arolf Publishers, 2004).

Better is bread with a happy heart than wealth with vexation.

—AMENEMOPE (11TH CENTURY)

Learning to control spending is not easy in this time of instant gratification, but the payoff in reduced stress and financial management is worth the control. Applying the ABCs of money management can give you control over your spending habits and reduce your financial distress, but as you will learn in the next section, there is more to the topic of money and stress than just learning how to budget.

Can Money Make You Happy?

We have heard warnings such as, "There's more to life than money" and "Money can't buy you love." The well-known verse, "The love of money is the root of all evil," prompts us to explore the issue of how money impacts our life and our stress. Money is a good thing and a necessity to get what we need, but money also can contribute to stress, put a strain on relationships, and have other negative consequences.

What do we know about the relationships between money, satisfaction in life, and stress? Now that we have examined the practicalities of money management, we can benefit from exploring some philosophical issues. We need to understand that the source of much stress is not just money itself but, rather, the value we give to money. Stress-relieving money management may be just as much about managing our mind as about managing our money.

If we track American life since the end of World War II, we find that inflation-adjusted income per American has almost tripled. New houses have doubled in size. We have more clothes, requiring closets the size of our grandparents' bedrooms, and so many vehicles and toys that a two-car garage is no longer sufficient. Surely in this life of plenty, we must be much happier than our ancestors were half a century ago. Not so, according to polls taken periodically since the 1950s by the National Opinion Research Center. In the 1950s, about one-third of Americans described themselves as "very happy," and the percentage remains almost exactly the same today.[6]

Many people mistakenly believe that more money means more happiness. The *Time* poll found that happiness tended to increase as income rose to $50,000 a year. After that, more income did not have a dramatic effect.

An increasing body of social science and psychological research has shown no significant relationship between how much money a person earns and whether that person feels good about life. Edward Diener, a psychologist at the University of Illinois, interviewed members of the Forbes 400, the richest Americans, and found these very rich people to be only a tiny bit happier than the public as a whole.[7]

FYI

Who Wants to Be a Millionaire?

Have you always dreamed of winning the lottery? Surely then all your troubles would be over. A study of lottery winners found that they did not wind up significantly happier than a control group.

Source: "The New Science of Happiness," by C. Wallis, *Time, 165*(3) (2005): 2A.

Affluenza A millionaire was asked, "How much money would it take to make you content?" He replied, "Just a little bit more." No matter how much money we make, it seems we always want just a little more.

Research HIGHLIGHT

Can Money Make Us Happy?

What has the science of positive psychology discovered about what makes us happy? More than you might imagine—including what *does not* increase our level of happiness. Research has shown that once your basic needs are met, additional income does little to raise your sense of satisfaction with life.

Would you say you are happy...	most or all of the time	some of the time	not very often
Under $35,000 a year	68%	24%	7%
$35,000 to $49,999	81%	14%	5%
$50,000 to $99,999	85%	13%	2%
Over $100,000 a year	88%	11%	1%
U.S. total	78%	16%	5%

This *Time* poll was conducted by telephone Dec. 13–14, 2004, among 1,009 adult Americans, by SRBI Public Affairs.

Source: "The New Science of Happiness," by C. Wallis, *Time 165*(3) (2005): 2A.

We live in a culture that encourages consumerism and overspending. This ongoing battle with consumerism can lead to a dangerous trap—living beyond our means. The more we make, the more we spend. This never-ending desire to acquire has been given a name: **affluenza.** Affluenza describes the disease-like epidemic that is causing our society to have more and more material possessions and to spend money we don't have, resulting in growing debt. We confuse the "have-to-haves" with the "want-to-haves."

As with the millionaire, we always want just a little bit more. The more we have, the more we have to insure and maintain. It is like running on a treadmill when you have to run faster and faster just to stay in the same place. As Leo Buscaglia pertinently said, "The more you have, the more you have to worry about."

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Affluenza, the never-ending desire to acquire, is a source of great stress. Happiness and peace are not dependent on possessions. More "stuff" does not make us happier.

Reference Anxiety—Keeping Up with the Joneses The phenomenon in play here seems to be what sociologists call **reference anxiety,** in which people judge their possessions in comparison with others, not based on what they need. If your friend has a newer, more expensive car than yours, even though your car works just fine and gets you where you need to go, you may experience reference anxiety from comparing what you have with what others have.[8]

Some financial distress is of our own making. When we are fixated on always getting more, we fail to appreciate and be grateful for what we have. We can look around and invariably see someone else who seems to have more—and when we gauge our happiness on that comparison, we end up chasing money rather than meaning. The outcome is stress, frustration, and dissatisfaction with what we have. Money no longer provides a sense of well-being, even when we have more than an adequate amount to meet our needs.

In nations with high levels of income equality, such as the Scandinavian countries, well-being is reported to be higher than in nations with unequal wealth distribution such as the United States, where the gap is widening between the wealthy, the middle class, and the poor.[9] Because wealth is so visible in today's society, it triggers dissatisfaction and results in wanting more. Benjamin Franklin said, "Who is rich? He that is content. Who is that? Nobody."

> It is the preoccupation with possession, more than anything else, that prevents men from living freely and nobly.
>
> —BERTRAND RUSSELL

It is sad to think that we can be financially wealthy and yet emotionally bankrupt. We can spend most of our waking hours away from the people we love and working in jobs that we find boring and unfulfilling. Why not do everything in our power to find a job that is nourishing to our checkbook as well as our mind and soul? Increasingly, people are expressing the desire to find meaningful life work. Many want to make a contribution rather than merely working for a living.

The point is, of course, that money can't make us happy. If we believe this to be true, we don't act like it. We spend most of our time and energy pursuing money and the things that money can buy at the expense of activities that create real life fulfillment, such as nurturing relationships with friends and family and helping others. Some people even lose their health in the quest for money and, ironically, once they have lost their health, most would pay anything to have it back. An American Association of Retired Persons (AARP) survey showed that 20% of Americans over the age of 45 say financial stress caused them health problems.[10]

Money and Relationships Money is a source of stress in many relationships. It is not just the perceived shortage of money that causes stress in relationships, but also the time we spend making money rather than being with family and friends, as well as disagreements on how money should be used. Respondents in one survey said that managing their finances is the biggest strain on their relationships. Figure 12.2 depicts complaints of respondents with financial issues.

What we find is that money management is really mind management. Once our basic needs are met, the money, or lack of it, is not necessarily what causes us stress. How we think about money is what determines the

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Managing finances is a major stressor on relationships.

CULTURE Connection The Haves and the Have-Nots

An international survey of college students in the mid-1990s compared national differences in positivity (positive feelings) and subjective well-being. Relatively poor Puerto Rico, Colombia, and Spain ranked as the three most cheerful locales. These results are surprising if we equate money and material possessions with high spirits. The results are not so surprising if you look at cultural norms that support the premise that Latin Americans are happier because they tend to look at the sunny side of life and believe life in general to be good.

Source: "It's a Glad, Sad, Mad World," by W. Kirn, N. Mustarfa, and E. Coady, *Time, 165*(3), (2005): 65-A.

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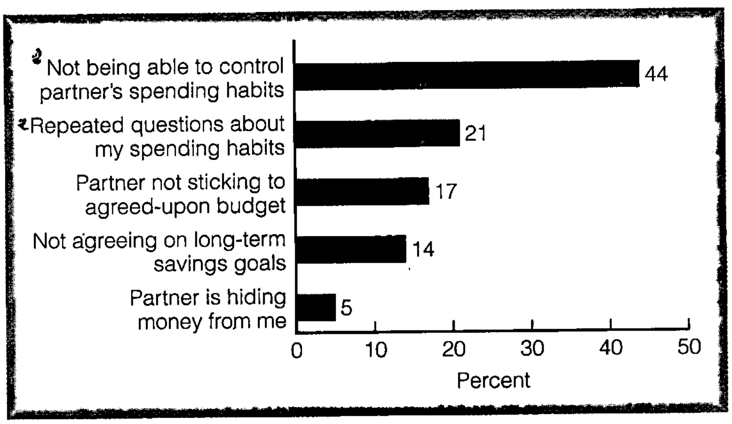
Cultural norms in some populations support the intention of looking at the sunny side of life and believing life, in general, is good, regardless of material possessions.

Figure 12.2 Complaints Between Partners with Financial Issues.

Source: "Money and Relationships," by D. Haralson and S. Parker, *USA Today*, March 15, 2005.



role it plays in our well-being. We determine the value we give to money and, as a result, either the satisfaction or distress it produces.

Being poor can indeed contribute to stress and unhappiness. Sociologists in Europe and the United States have found that the poor are more often unhappy in part because of the never-ending frustration and stress of poverty. But worth considering is the repeated finding that after people reach a certain level of income, happiness and money don't seem to have much relationship to each other. Placing too much value on money can be a source of unnecessary fear and distress.

Putting It All Together—What the Experts Say

Dave Ramsey, the well-known financial guru, was asked this very important question: "What is the most important financial principle?" This was his reply:

> The Dave Ramsey Show" and my company, the Lampo Group, have become very well known for teaching people how to get out of debt, save money, and get on a budget. All of us on staff here are very thankful for the response we've had to these concepts, but another financial concept is the hinge on which the door of successful personal finance swings. I have only begun to realize the full significance of this concept during the last year or so. When you understand this concept, all the other concepts work, and until you implement it, none of them will work. When you stick this concept deep in your soul, it becomes easy to save money and even have money to invest. Getting out of debt happens quickly once you learn how to apply this concept in your life. Budgeting is made easier, and your marriage or relationships regarding money are freed up and made smooth. This is the most important financial concept.

Contentment. That's right, contentment. Contentment brings peace. Not apathy. Not the deadhead fog of Prozac or Valium. Only contentment brings peace. We live in the most marketing-focused society in the history of the world. The very essence of marketing is to disturb your peace. We say things to ourselves like, "I'll be happy when I get that boat," or "I'll be happy when I get that china cabinet," or "I'll be happy when I get that house." Or, or, or, or!!!

NOT TRUE. Happiness is sold to us as an event or a thing, and consequently, our finances have suffered. *Fun* can be bought with money; happiness cannot.

We live among a bunch of people who are deeply in debt and have no money saved because their emotions were tricked. Just like drug addicts, people have been conned into believing that happiness will come with the next purchase. So, Daddy works hundreds of overtime hours and Mommy works 40-plus hours a week . . . all in the name of STUFF. You probably think I am writing about someone else, but I'm not. I am writing about you. I know because I suffer from the same disease, but I am recovering and so are many of you. The human spirit was not created to attain peace, contentment, or fulfillment by gathering more stuff.

You *can* get out of debt, save money, and get on a budget, but until your intellect forces your emotions and your spirit to accept that STUFF does not equal CONTENTMENT, your finances will always feel stressed. At our office we counsel every week with folks who are making $25,000 per year as well as folks making $250,000 per year. These people share a common problem: they all suffer from some level of "stuffitis," the worship of stuff. Change your focus and change your life for the better."[11]

Author Anecdote

How Money Changes People

I was watching a television show about child actors and where they are today as young adults. The program presented story after story of how life had taken a turn for the worse when opportunities faded for these child actors. In most cases, relationships with family and friends were strained. One young woman in her 20s said, "I just wanted my dad to be my dad, not my manager. He told me if he couldn't be my manager, he wouldn't be my dad."

A young man made a simple, yet profound statement in saying, "Money changes people." He described how he had completely severed his relationship with his parents because he believed they cared only about the money he generated. Some cases had even ended up in court with parents suing children or children suing parents—and it all revolved around money.

Although you may have trouble relating to the problem of too much money when you are scraping by to pay the rent, stories like this do give rise to questions about the value we put on money. A student in class shared her sadness that she had not spoken to her brother, her only sibling, in more than five years because of a disagreement about who should get what after their parents had been killed in a car accident. Another student said that his older brother cut off all contact with their parents because they would not lend him money for a down payment on a house.

Don't lose sight of the important message that money can't buy love or happiness. When money becomes a priority over people and relationships, it can become the source of great stress and sadness. It is up to you to decide.

—MH

Conclusion

Even though changing how you spend and save money can be challenging, it can bring a lifetime of financial freedom. You have to be flexible, however, and give yourself some time to get it right. In any case, you deserve the financial peace of mind that comes with managing your money so you can have the things that are most important to you. The ABCs of money management can guide you in developing a plan that will help relieve financial stress. Think of a budget not as giving up what you want but, instead, getting what is really most important to you. Evaluating how issues including doodads, the use of credit, and savings impact your financial status will give you the information you need to make informed decisions about your money.

Using money involves more than just earning and spending it. Money often is connected to feelings, and wealth is mistakenly believed to represent the road to happiness. Not having adequate money can and does contribute to stress, but money in and of itself does not ensure happiness. Happiness and satisfaction with life are more about good health, supportive relationships, and finding meaning in life than about accumulating more money. Talking about money is sort of like talking about religion. It is a highly personal topic. The key to reducing financial stress and finding contentment is to assess what is most important to you and then implement a plan to achieve it.

Money is neither good nor bad. It is simply a tool, just as a pencil is a tool. Robert Kiyosaki writes:

> A pencil can be used to write a beautiful letter or a memo firing someone from a job. While a pencil is designed to write with, it can also be used as a lethal weapon to stab a person in the eye. The thing that makes the difference isn't the object, but the motives of the person holding the pencil—or handling the money.[12]