First Counselling Stage

Consumer and Credit Education

SPENDING AND SHOPPING HABITS

The average person falls into a pattern of spending, though not necessarily saving, almost unconsciously. The way we dispose of our money is deeply ingrained in our personalities - our backgrounds, occupations, lifestyles, values and tastes.

What type of consumer are you?

We live in a society in which consumers are under constant pressure from advertisers to pick their particular products out of a vast array of others. We should be aware of these pressures and our own psychological response to them so that we can exercise our best judgement in making spending decisions that match our financial needs and goals.

Our buying habits are highly individualistic, growing out of such personal factors as our upbringing, schooling, experience, personal relationships, neighbourhood and occupation. Although no two consumers are exactly alike, marketing experts have been able to identify the buying habits of a few general types of personality and focus on these in preparing their advertising and promotional material.

The type of consumer you are exerts more influence over your shopping behaviour than you might imagine. In fact, you might not even know you belong to a certain type until you've examined the way you spend. For instance, have you ever stopped to consider why you choose a certain brand of food or cleaning product? Could it be that it's what your mother always used? That would indicate you're a **conservative, traditional-minded type** - as a consumer at least. Or is the product something new and different you saw advertised on television? In that case you may be a rather **impulsive consumer** who is willing to take a chance. Or, you might be a **combination** of the two - impulsive about small purchases, conservative when buying expensive items.

Do you go for prestige products that boast a premium price? In other words, are you inclined to be **status-conscious**? Or do you reach for the item that's on sale, regardless of the brand name? If so, you **lean toward thrift**. Some consumers will buy the most popular brand on the market because they like to feel *"like everybody else"*. Another will haunt small speciality shops to find things that appeal to their *sense of individuality*.

People also vary in their reactions to advertising. Some will feel a small thrill when an ad tells them that a product will make them more exciting persons to be with. Others will perk up at the sight of some expensive luxury. You'd be surprised at how much you can learn about yourself by monitoring your own responses to advertising and sales displays. Psychologists say that behaviour can be modified by self-knowledge.

By analysing your buying habits, you learn that they are habits and as such they can be changed. There's no need to become a different kind of person. But it does help to know what basic type you are.

What can you do?

... The self-aware competitive type might fight back the temptation to spend more than the household can afford to have something better than the neighbours.

... Impulsive people who know their own tendencies might be less likely to grab at items in the supermarket which only end up going to waste.

... People who long for luxury might give a second thought to whether some purchases are really necessary.

... Those who tend to be impressionable may become somewhat more critical of advertising claims.

The object of this self-analysis is simply to bring a little thought to bear on something that was formerly done out of habit. And with that thought may come a little extra restraint.

BEING A SMART SPENDER

Listed below are six rules of smart spending which can assist you in keeping costs down and getting maximum value for your money.

1. Ensure that all of your spending falls within one of your budget categories. If not, or if no funds are left in that category, postpone the expenditure until a later date if at all possible.

2. Before shopping, plan what you are going to buy and to spend for each major item or category. Stick to this plan unless it is absolutely necessary to make changes or substitutions.

3. Avoid "impulse" buying based on attractive store displays.

4. Comparison shop, especially for major expenditures. Consider such factors as:
   - Price
   - quality, including reputation of the manufacturer
   - warranties, both manufacturer and dealer
   - return policy

5. Attempt to buy in a "buyer's market", for example:
   - during off-peak selling seasons (example, cars in winter, air conditioners at the end of summer)
   - at discount houses, auctions, pawn shops and second hand shops

6. Do not hesitate to bargain or "haggle" with the seller and ask for a discount if you are paying cash. While such bargaining may not be possible in department stores or chains, it can often result in a reduced price from owner-managed shops.

MANAGING YOUR MONEY

Spending money is easy. Spending your money wisely is something else again. To get the maximum benefit from your dollars you must know how to plan and how to shop.

Planning and shopping go hand in hand. You need a plan to tell you what and how much you can buy, and you need sharp shopping skills to get the most value for your money.

Your first step to sound money management is to develop a spending plan to fit your needs, wants, and income. A budget is a plan for managing your money that enables you to live within your means. To develop a budget to fit your lifestyle and your wallet, follow these six steps:

1. **Determine your monthly income**. This is the amount of money you can count on each month. If you earn money occasionally, don't figure this into your budget. You can put this money into a separate fund to buy something special, but you can't count on it as a steady income.

2. **Keep a record of expenses**. Every time you spend money, write it down. At the end of the month, take a look at where your money went. Then ask yourself: If you had to do it over, would you spend your money in the same way?

3. **Sort out needs from wants** after seeing where your money went. Your needs are necessary expenses. They're the things on which you must spend money, such as basic living maintenance. Your wants are the things you'd like to have but are not necessary.

4. **Subtract your needs from your income**. The money left is what you can spend on your wants.

5. **Sort your wants into short- and long-range goals**. Short range includes such things that you might spend during the month. Long range consists of things for which you must save your money for, such as car insurance, vacations, RRSP's, etc. Also, be sure to put some money aside for emergencies, such as repairs.

6. **Make choices**. This is the most difficult part of budgeting. You can't afford everything you want. If you buy one thing, you'll have to give up something else. Before you buy anything, it is important to think about what you could buy in its place. An example of a choice is buying a CD or going to a concert. Sometimes you may have to choose between immediate pleasure or saving your money to purchase something special.

There is no "right" way to budget, except your expenses should not exceed your income. What is important to you may not be important to someone else so other family member's wants and needs must be considered. When budgeting, think about all the ways you could spend your money. Then ask yourself the following questions:

- Is what I plan to buy more important to me than what I'll be giving up?
- When I look back on my purchases, will I be satisfied and not regret my decisions?

If the answer to both is "yes", you know you're using your money in ways that bring you the most satisfaction. If your answer is "no", you should sit down and take another look at your spending habits.

A common pitfall of budgeting is setting goals that were too difficult to reach. To expect not to spend any money for two months is unrealistic. When determining goals, make sure they are reasonable.

Operating and maintaining products can be costly and consumers often forget to include these costs when planning their budgets. These costs are called "hidden expenses". Before buying a product, get a general idea of how much it will cost to use it.

Developing and sticking to a plan is only half the task of sound money management. The other half is shopping wisely.

Remember to get your children involved in preparing a plan. Parents need to help children understand the economic fact that *"If we choose this, we won't have that."* This approach is healthier than saying *"We can't afford that."* By saying, *"We choose this, for now,"* parents show that they are in control.

In anger, some children may say hurtful words and blame parents for loss of work or divorce or compare their family's buying power with others. It helps to remember that children also insult parents who have not lost a job, gone through a divorce, or who are not experiencing financial difficulty. Family goals and wants can be ranked to avoid the frustration of never reaching all of them.

HINT: Don't forget allowances for the children. A good rule of thumb is $1 per year of the child per month. For example, a 10 -year-old will receive $10. One-tenth should be put aside in a savings account, one-half of the balance ($4.50) should be set aside for something the child is saving for (bike, clothes, etc), and the last half or $4.50 is the child's spending money.

TEN STEPS TO SUCCESSFUL BUDGETING

1. From past experience, make a detailed list of all income and expenses on both a monthly and yearly basis. Don't be limited to the categories appearing on pre-printed budget forms. This list must be complete because it will be the basis for setting future goals and developing an action plan.

2. Start preparing another detailed list of income and expenses, which will represent the planned expenditures for the next year. Follow steps 3 to 8 in developing this plan.

3. Set aside 10% of net income as savings, before all other expenditures are calculated.

4. Plan non-discretionary ("needs") expenditures first, such as food, housing, clothing, transportation and health care. Remember that even these types of expenses often have some flexibility and consider 5% to 10% reductions if possible in order to comply with step 3. Don't make the mistake of overusing the "needs" category.

5. Next set goals for discretionary ("wants") expenditures. Set reasonable goals, i.e. ones that probably can be achieved and/or which can be sustained.

6. With the exception of a mortgage, avoid planning any future debt and make the payment of existing debt a top priority for your "discretionary" expenses.

7. Recognize that the budgeting process is a family effort. Obtain family agreement on all major budget goals and objectives.

8. Don't be impatient about achieving results, or worse, guilt-ridden if goals aren't achieved quickly. Changing personal spending and budgeting habits takes time and perseverance.

9. Find positive motivations for saving money - example, quit smoking to improve health. Don't adopt a "do without" mentality for all cost-saving measures.

10. Ensure a system is in place whereby records are adequate enough to monitor progress against the planned budget.

TRACKING EXPENSES

In order to set up a budget, you have to know where every penny is being spent. By tracking expenses, you will be able to see where the money is going and where to make changes in your spending patterns. You will then be ready to set up a personal budget plan. The first step is to track income.

INCOME

		Deductions from Gross Income								
	Gross Income	Tax	CPP	EI	Medical/ Dental	Pension Plan	RRSP Savings/CSB	Union	Other	Net Income
Self										
Spouse										
EI										
Child Tax Benefit										
Social Assistance										
Other (specify)										
TOTALS										

The second step is to track expenses on a weekly basis using the Budget Planner on the next two pages. We suggest that you track expenses **for at least 3 months**.

Use the monthly chart so you can plan annual or irregular expenses. To catch all of these, you may have to go over your spending for the last year to obtain yearly amounts and the dates of when certain annual payments are due. These expenses can include things like car insurance, house insurance, life or contents insurance premiums, and membership fees. Irregular expenses can include costs of gifts for birthdays or holidays, home repairs, and vacations.

BUDGET PLANNER

EXPENSES

REGULAR MONTHLY EXPENSES		Week 1	Week 2	Week 3	Week 4	Total
HOUSING EXPENSES						
	Rent/Mortgage					
	Property Tax/Strata Fees					
	Telephone					
	Cable & Internet					
	Electricity					
	Water					
	Furniture					
	Other (specify)					
PERSONAL EXPENSES						
	Smoking, Alcohol					
	Dining/Lunches/Restaurant					
	Entertainment/Sports					
	Gifts/Charitable Donations					
	Allowances					
	Other (specify)					
NON-RECOVERABLE MEDICAL EXPENSES						
	Prescriptions					
	Dental					
	Other (specify)					
LIVING EXPENSES						
	Food/Groceries					
	Laundry/Dry Cleaning					
	Grooming/Toiletries					
	Clothing					
	Other (specify)					
TRANSPORTATION EXPENSES						
	Car lease/payment					

	Repairs/Maintenance/Gas					
	Public Transportation					
	Other (specify)					
INSURANCE EXPENSES						
	Vehicle					
	House					
	Furniture/Contents					
	Life Insurance					
	Other (specify)					
OTHER EXPENSES						
	Payment to Trustee					
	To Secured Lender (other than mortgage/car)					
	TOTAL					

SEASONAL OR IRREGULAR EXPENSES

Seasonal or Irregular Expenses may include: Vehicle Expenses, house or apartment insurance, birthday, anniversary gifts, property taxes.

JANUARY	FEBRUARY	MARCH
	Valentines Day	
APRIL	MAY	JUNE
Easter	**Mothers Day**	**Fathers Day**
JULY	AUGUST	SEPTEMBER
Vacation	**Vacation**	**School Supplies**
OCTOBER	NOVEMBER	DECEMBER
Halloween		**Holidays**

THE USE OF CREDIT

Credit can be defined as the advance of goods and/or services in exchange for a promise to pay at some future date. In short, "buy now and pay later". When you think about credit, remember these factors:

1. Credit is a mutual expression of faith between the lender and the borrower
2. Credit is a privilege extended by the lender; not a right owed to every consumer
3. Credit is a form of debt

The advantages to buying on credit are:

1. It is convenient
2. Usually 30 days free credit have been offered on credit card transactions
3. Needs can be satisfied immediately
4. Can take advantage of a special bargain or sale when cash is not available
5. Making monthly payments may lead to a habitual monthly set-aside
6. Using credit can be a hedge against inflation as prices rise
7. A good credit rating makes it easier to get credit in emergencies
8. Finance payments may be withheld until defective or broken goods are repaired or replaced in some cases.

The disadvantages to credit are:

1. It encourages impulse spending
2. Comparison shopping is discouraged because not all stores accept credit cards
3. Money tied in instalment payments is not available for future needs
4. Credit costs increase the cost of goods purchased
5. It payments are not met, the item may be repossessed and money already paid lost
6. A poor credit rating makes it harder to get credit
7. The consumer may agree to something that he or she does not want because the contract is not understood
8. Credit buyers tend to buy higher priced merchandise because they are given a longer period of time to repay the debt
9. Some credit buyers unknowingly pay more for goods than cash buyers do who shop around for a "cash discount"
10. Credit buyers are more easily defrauded by shady operators who trick them into signing-without-knowing it credit contracts, who alter the contract by adding additional charges, or who charge exorbitant prices for shoddy goods

WARNING SIGNS OF FINANCIAL DIFFICULTY

One of the causes of consumer indebtedness is lack of control over credit purchasing. Credit creates the illusion that the buyer has money and often the purchase is put out of mind even before the bill is received. A person who has trouble meeting the minimum payment is seriously at risk to financial difficulty.

Learning good money management skills and following a controlled budget help prevent financial difficulty. Other warning signs of financial difficulty include:

1. You continually go over your spending limit.

2. Use your credit cards as a necessity rather than a convenience.

3. You pay only interest or service charges monthly and do not reduce the total debt.

4. You are always borrowing money to make it from one payday to the next and need for short-term loans from family and/or friends.

5. You pay only interest or service charges monthly and do not reduce the total debt.

6. Selling personal goods which would otherwise not be sold. Utility companies cut off service because of outstanding bills.

7. Not being able to keep up with current bills and reoccurring NSF cheques. Dipping into savings to meet regular expenses, such as rent or utilities.

8. Selling personal goods which would otherwise not be sold.

9. Creditors harass you for payment, threaten to sue or repossess your car, furniture or television, or hire a collection agency to recover the money for them.

BELOW ARE SEVEN RULES TO FOLLOW WHEN USING CREDIT

1. Where possible, save for purchases rather than use credit. Avoid using credit unless absolutely necessary.

2. Ensure that your Total Debt Service (TDS) for mortgages and other loans is manageable. Most financial institutions set upper limits of about 40% of net income for TDS. Consumers should strive for a lower TDS percentage. For example, if your gross income is $3,000 a month, monthly payments on your loans, credit cards and mortgage (or rent) should not total more than $1200 a month.

3. Arrange credit in advance. If you wait until afterwards, your flexibility is reduced and you will probably end up paying a higher interest rate.

4. If it will take more than a few months to pay for a credit purchase, get a bank loan.

5. Do not use credit cards that have relatively high interest rates unless you can pay for the purchase within the interest-free period.

6. Watch out for hidden costs of credit, such things as credit card fees and prepayment penalties. Comparison shop and remember that the lending institution is really selling you a service.

7. If it is not possible to meet your credit obligations on time, contact your creditors and make appropriate arrangements. This will minimize the damage to your credit rating.

If you have any questions regarding the information in this booklet kindly contact our office at 604.605.3335 or please ask us at your second counseling session.