

## 3 REASONS YOU OVERSPEND

Learn why your wallet runs dry before each payday and avoid common money mistakes.



By: Maryalene LaPonsie - May 31, 2019

It's hard to resist the allure of impulse purchases. While everyone knows the importance of making smart money decisions, many people fall into the trap of overspending even while trying to cultivate good financial habits.

Timothy McGrath, a certified financial planner and managing partner with financial firm Riverpoint Wealth Management in Chicago, says he sees some clients who make major purchases like cars or recreational vehicles that don't appear needed. "It seems like they have to have it, and I'm not sure how much they enjoy it," he says.

While some people may overspend by neglecting their savings, others may waste money on impulse purchases rather than focusing on priorities like family travel, retirement or college. The silver lining: Once you know the how and why behind overspending, you can break the habit. Read on to learn more about how and why overspending happens and expert-backed tips for eliminating wasteful purchases for good.

### How Overspending Happens

Curtailing small expenses like a daily morning latte is often touted as the quintessential example of maximizing savings and improving your budget. However, buying little luxuries like coffee isn't a problem, says Chad Chubb, a certified financial planner and founder of the advisory firm Wealthkeel in Philadelphia. "If you value coffee and that's where you want to spend your money, that's fine," he explains.

The problem comes from people buying that coffee – or another indulgence – when they can't actually afford it. "There's a huge problem in our country with people having debt," says Scott Butler, a retirement income planner at the wealth management firm Klauenberg Retirement Solutions in Laurel, Maryland. Most often, it's not big purchases that add to consumer debt but small purchases made repeatedly, he says.

Even if you're not going into debt, wasteful spending can still pose other long-term financial problems. "You could still be potentially overspending if you're not saving enough," says Joe Lum, a wealth advisor and director of family office services for the wealth management firm Intersect Capital in San Ramon, California.

In short, people don't overspend because they buy an overpriced coffee, but because they are going into debt for that coffee or purchasing it instead of saving for emergencies, retirement or long-term goals.

### Why People Overspend

The reasons behind overspending can be nuanced, but they generally fall into one of the following three main categories:

- Ignorance.
- Making purchases with a credit card or digital wallet.
- A lack of self-discipline.

Discover more about why people overspend, according to finance experts.

#### Ignorance

Many people overspend because they have no concept of how much money passes through their wallet on a daily basis. They may have an estimate of what they pay for gas, groceries and clothing, but that number is often far from reality. "I think it's such an eye-opening experience to see where the money is going," Chubb says. That's part of why tracking purchases can be one of the easiest ways to combat overspending.

#### Making Purchases With a Credit Card or Digital Wallet

Paying with a credit card, debit card or digital wallet like Apple Pay is convenient. But that added convenience can make it more challenging to monitor your spending habits. "It's so easy to part with your money," Lum says. Even those who sit down and add up the receipts at the end of the day may have difficulty tracking spending while it's happening. Handing over physical cash can make the cost of the purchase more obvious and lead people to think twice before buying, Lum says.

#### A Lack of Self-Discipline

It takes willpower to say no to something you want immediately. "One of the big reasons people overspend is that they don't think ahead," Butler says. The financial planner came to understand that firsthand a few years ago when sitting in a Chick-fil-A drive-through. He was about spend \$10 on a meal when it occurred to him that he hadn't started saving for his child's college education yet. Butler says immediate needs – such as his fast-food lunch – often take precedence over more important priorities like college savings because people lose sight of the big picture when making purchases at a particular moment.

#### How to Stop Overspending

Understanding why you overspend is an important first step toward curbing poor habits. Then, you must take action. Get your money under control by using these six expert-backed strategies:

- Make a spending plan.
- Create small concrete goals.
- Automate savings.
- Spend in moderation.
- Calculate the work cost.
- Find other ways to reward yourself.

#### Make a Spending Plan

Whether it's called a budget or a spending plan, writing down how you want to use your money can help you stay on track financially. "Everyone needs to track expenses every month," McGrath says. That way, it'll be easy to identify budget categories in which overspending is taking place. Free apps like Mint and Personal Capital can sync to bank accounts and make it easy to record spending and create a budget.

#### Create Small Concrete Goals

Financial goals such as retirement are often so far in the future that they feel unattainable. Lum suggests incorporating micro goals to balance out the long-term ones. These may be paying down a credit card balance by \$100 next month or having \$1,000 in a savings account by summer. Since the impact of these goals can be immediate, setting these intentions for yourself may be more motivating than distant goals alone.

#### Automate Savings

Setting up a direct deposit from your paycheck or otherwise automatically transferring money to a savings account can limit the amount of cash available to spend. Even if you do overspend on a credit card, there will be money set aside to help cover the overage. To stay motivated to save, use a portion of the money to pay for personal priorities. "Maybe you're not going on family trips when family trips are what you value," Chubb says. In that case, use these savings to help fund outings.

#### Spend in Moderation

Don't make the mistake of eliminating all purchases in response to overspending. "People think they need to punish themselves," Lum says. However, that approach can backfire. Those who feel deprived may go overboard when they finally do allow themselves to spend again. A better approach is to budget a reasonable amount of discretionary money that can be used as you'd like each month.

#### Calculate the Work Cost

Another method to curb overspending is to consider how much work went into earning the money needed for a purchase. Butler says people should ask themselves, "How much does it cost in actual time?" To calculate that, divide the price by your hourly rate of pay.

#### Find Other Ways to Reward Yourself

McGrath says people can fall into the trap of thinking they deserve expensive treats, whether that's a night out with friends at the end of a long week or new clothes after a promotion. "You can reward yourself in other ways outside of spending money," he says. Break the overspending habit by finding less expensive ways to reward yourself, such as taking the afternoon off after a big project or reserving the latest bestseller from the library rather than buying it at the bookstore.

Scott Butler, CRC, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

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