

DCC Dollars & Sense

Volume III, Issue 5

May 2007

Living Below Your Means – A New Concept?

There's an epidemic affecting the majority of American households; it's commonly summed up in two words – instant gratification.

Credit is defined by dictionary.com as “confidence in a purchaser's ability and intention to pay, displayed by entrusting the buyer with goods or services without immediate payment.”

Centuries ago, before vendors began extending credit, people simply purchased what they could afford. If they didn't have the money, they didn't buy the item. That all changed when credit became available; people began purchasing the things they wanted before they could afford it. Instead of saving their money for the purchase, they bought it on credit and paid a premium on their purchase... INTEREST. And thus the saying made popular by the cartoon characters Wilma Flinstone and Betty Rubble, “charge it!”

Overdraft protection was later provided by bankers as another form of credit to cover the money consumers didn't have available in their accounts. Consumers can now write checks or use debit cards to represent money they don't necessarily have by paying a fee or charge to the bank.

As is the case with most new ideas and inventions, along with the pros are some cons.

The following are some instances when credit is a relief.

- You or a family member is in need of emergency dental or medical attention that is only partially covered by your insurance, or not covered at all, *and* you don't have the money?
- Maybe you prefer to carry a credit card instead of cash for security purposes.
- It's a great convenience to have a credit card when making travel reservations.
- Maybe you use a credit card to pay for expenses as a bookkeeping tool, and then pay the bill in full each month.

The growing problem is that consumers have been using credit without putting aside money for the purchases; in effect, treating credit as free money.

The truth of matter is that credit is a product, the product is money, and consumers pay for it.

Lets illustrate this. You want to purchase new furniture for your living room. The total comes to \$2000, but you have only \$150 to spend. The sales specialist offers you the option to have the balance financed so that you can get the furniture now. In addition, they tell you that you have an entire year that you don't even have to make a payment. Should you take the offer?

Here are some things to consider:

- The vendor is bargaining on you not being able to pay off the debt within the year of non-accruing interest, thus expecting to make a profit.

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- The vendor is not giving you a year to pay off the debt out of the goodness of their hearts. They have strategically planned on consumers falling into the trap of instant gratification. They are planning their profit on consumers spending money they do not have.

The vendor is bargaining on you expecting that you will be able to pay off the debt within the year based on your expected income, not necessarily taking into account possible unforeseen occurrences such as losing a job, loss of income, disability, etc.

Another ploy used by the sales people that consumers often fall for, is convincing them that they *deserve* the items they're trying to sell. Beware of entertaining a champagne lifestyle on a beer budget, as the saying goes.

It would be a mistake to depend on the sales person or finance company to encourage you to do otherwise. After all, they're in business to make money, and they make money when you spend. In addition, the longer you take to pay the money back, the more money they make.

Do you recall the television commercial where the man of the house is mowing his lush lawn with a state of the art mower in front of his large posh home and the luxury vehicle parked in his driveway? He's wearing a strained smile and asks how he can afford all of this. He answers that he's in debt up to his eyeballs. The commercial is comical, but the reality that it illustrates for so many American's lives is not.

Abiding by the following spending rules is a surefire way to stay out of debt, and accentuate your life with possessions that *you* own instead of the bank you've borrowed the money from.

- **Prioritize your spending.** Determine your necessities; figure what you must have versus what you can do without. You may refer to our July 2006 issue *Promoting Prosperity – Away From Debt* for helpful budgeting tips.

- **Spend only what you have.**

- **Be realistic about what you can afford now, and make plans to afford what you want for the future.** You *do* deserve to live the life you desire with the things you wish to have. We encourage that you do so according to your budget. And when you want things that your budget doesn't currently afford, consider your options for increasing your income and put them into practice prior to making the purchase.

In summary, simplify your spending habits. Budget your money so that you can become your own credit reserve. Then the things you've acquired will actually belong to you, as opposed to belonging to the bank that lent you the money at a price.