When it comes to how you spend, small choices can make a big difference in ***how much*** *you save.*

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FINANCIAL NEWS YOU CAN USE

Cash or Credit? Let's talk about that.

Lunch? Put it on the card. • Plane ticket? On the card, please. • Big screen TV? That's what the card is for, right?

When it comes time to pay the bill, using a credit card is as common as shaking someone's hand. Credit cards are convenient and simple, but let's add some complexity to the picture. If the balance on the card is rolled over from month to month, interest could eventually make that $5 lunch cost $205 by the time the tab is really settled. The $205 plane ticket may cost $2,005 and the $2,005 big screen TV could eventually cost … well, you get the idea.

Layering

Behavioral finance, a relatively new field of study that focuses on investor psychology, shows that some financial errors are attributed to a behavior known as *layering*. What is it? Well, layering refers to the way people treat their money when they're not dealing with actual money. For instance, using debit cards, credit cards or even room numbers at a hotel are all ways that consumers can create psychological layers of distance between themselves and their money. Think about it — you are likely to spend more when there is more distance between you and your cash.

Here are a few examples of layering and why you might spend more in these instances:

Layer	Effect
Credit cards with electronic signature required receipt	E-sign technology, used at retailers such as Target and Wal-Mart, speeds up the sales transaction and leaves you less connected to the money you spend.
Automatic Pay	You agree to a 30-day free trial for a magazine subscription with the option to drop, but when you forget to act, you are charged for a year with automatic renewals.

Take the Cash Challenge

If you want some insight into your spending, take this cash challenge. Put away your credit cards, debit cards and even your checkbooks, and try using cash exclusively for a week or two. The amount of cash you realize you are spending will be eye-popping, and may help you curb some unnecessary spending.

Let's face it, paying with cash all the time is not practical. Instead, organize your spending into two categories — discretionary spending and nondiscretionary spending:

Discretionary Spending	Nondiscretionary Spending
Cash is king.	**Credit is smart.**
Restaurant dinners Movies and sporting events Clothes, such as a $50 sweater Gifts Gourmet coffee	Gasoline Groceries Car repairs Home repairs
Tip: *Try to keep discretionary spending under 20% of your take-home pay. When you put away the credit cards and use cash for these items, you'll see how fast the spending adds up.*	***Tip:*** *Using your credit for these types of expenses and paying off your balance each month can help you maintain good credit and, in some cases, earn valuable reward points, depending on the issuing company or bank.*

The point is, many of us are so distanced from our funds by electronic statements and layered forms of payments that we really don't know how much we're spending, how much we owe and how much we have. Funds show up automatically and electronically in accounts, while many bills are automatically deducted. Perhaps the most important step you can take to become more efficient with your spending is to keep your spending methods simple and clear. Start today by setting a budget and eliminating any high-interest credit card balances. Remember, the closer you stay to your hard-earned money, the more control you have over it.

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HEC13117 02/15

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