The Psychology of Money

Grady County OHCE Leader Lesson
January 2017
Introduction:
Why do we spend money the way that we do? Why do some people save money easier than others? Why do others enjoy spending money? The process of spending and saving money begins before the actual process. How we view money and value money many times are influenced by how we were raised and habits that we have established with our money. This lesson will explore the psychology of money and how our habits and attitudes influence our financial management decisions.

What you will need:
1. Leader Guide
2. Member Guides—one for each member
3. How Do You Spend Money? Your Spending Personality Type Quiz for every member
4. Money Habitude Cards (optional activity)

The Psychology of Money:
How people handle their money has been linked to their habits and attitudes toward money along with the recent discoveries in brain research. Researchers who are studying brain activity have recently discovered that when a person does a certain activity, the insula of the brain (an area in the brain) is stimulated. The more stimulation of the insula, the less likely a person will continue doing that activity. When it comes to money, insula stimulation can stop a person from spending money. On the other hand, the act of saving—either by having cash in a bank or by experiencing a significant savings on a product or service—brings savers intense pleasure. Researchers have concluded that people who have more insula activity in their brains are more likely to be savers and those with less tend to be spenders.

What can we learn from this discovery?
For those that tend to be “spenders”
1. Never use credit cards or lines of credit. By using cash, you force yourself to consider just how much you are spending.
2. Withdraw cash from your bank account yourself, so that you can see the dwindling balance.
3. Pay as you go. Pay for everything as it comes, and you will better understand how all that money just “gets away from you.”
4. Be vocal about your savings goals. If you tell close friends or family how much you intend to save and by what date, they will hold you accountable.
5. Reward yourself when you meet your savings goals, but only by spending a responsible percentage of what you saved.
6. Stop and ask yourself before each and every purchase whether or not you truly need the item.
Look at the future, no matter how uncomfortable it is. Ask yourself questions like “how much money do I need to retire” or “how will I pay for the next big purchase (car, house, college education).

**Money Habitudes:**

What are “Habitudes?” The word “Habitude” is a combination of habits and attitudes that shape our behavior. In this case, we are referring to money. Actually our attitudes and habits affect many parts of our lives. For the purpose of this lesson, we are talking about money, savings, spending, and any other financial management practice.

Attitudes are our thoughts and feelings. Habits are our recurrent, unconscious patterns of behavior that are acquired through frequent repetition over time. Both habits and attitudes are automatically triggered by people, places, events, experiences and situations. “Habitudes” are so much a part of who we are, we don’t even notice them.

“Habitudes” are present in every aspect of our lives, and typically, they have their roots in our childhood. They are:

- Primarily determined by our families.
- Influenced by our social group, community, standards, government policies, the media and our religious or spiritual upbringing.

For example, let’s talk about your reaction to dogs: What happens when you see a dog?

- Your attitude is what you automatically think or feel and is determined by:
  - Your own experience with dogs.
  - How your parents felt about dogs
  - Your culture and its relationship to dogs.

- Your habit is your automatic behavior when a dog approaches you.
  - You may approach and pet the dog.
  - You may avoid it or run away.
  - You may throw something to chase it away.

Back to money habitudes:

**What about charitable giving?**

- Were you raised with the attitude that it is your responsibility to help others who are less fortunate even if you have little yourself? Then perhaps, your habit is to automatically share whatever you can and to feel good about being generous with your money or gifts.

- If you were raised to believe that you are entitled to whatever you have because your family worked hard to earn it, your attitude might be that giving to others takes away their incentive to work hard and creates a harmful dependency. Then your habit is likely to only give to others when it is tied to specific outcomes.
And what would be a habitude related to debt?
- If your attitude is that all debt is bad, your habit may be that you will not get a loan to start a business, buy a house or attend college.
- If your attitude is that everything will work out in the end, your habit may be to borrow money or use credit even if there is a high risk that you won’t be able to pay it back.

Gina’s Spending Habitude
Gina’s story represents how habits and attitudes are the result of many different influences. Her spending habitude reflects the attitude that money is easily available and will be provided because she deserves it. Her habit is to spend often and buy the best.

How did this habitude develop?
A quick look at Gina’s family reveals that her grandmother had been very poor. She never had a doll of her own and always wore hand-me-down clothes. She struggled financially while raising her own children and had to make do in order to survive.

Over time, however, life got much easier and she had more disposable (spendable) income. Then her only granddaughter, Gina, was born, and Grandma vowed that Gina would never want for anything.

Gina was raised hearing that she was special, deserved the best and should never settle for less. Gina’s mother was delighted that her mother showed so much interest in Gina and helped her obtain things that they could not afford. Both grandmother and mother saw their dreams coming true when they indulged Gina.

But, Grandma died when Gina was 23 and the steady stream of extra money and gifts stopped. Gina had never thought about money and wasn’t concerned about it; she just assumed it would be there when she needed it. She continued to make spending decisions the same way she had always done. She shopped as a routine pastime, bought the “best” and treated herself to expensive cosmetics and hair treatments. Gina was proud of how striking she always looked and loved to see her mother’s proud reaction when relatives would comment on how lucky she was to have such a beautiful daughter. She was never concerned about the mounting pile of unpaid bills.

Can Habitudes Be Changed?
The simple answer is yes, but it’s not easy. Our habitudes are an integral part of who we are and are supported by many of our automatic routines. Therefore, changing a habitude requires making a very intentional choice and commitment based on the strong belief that the change is possible and the benefits are worth the effort.
Changing the money habituation has been documented when a person is empowered to change because:

- When they become aware of the underlying habits and attitudes that have been influencing their decisions, it gives them new insight to approach problems.
- They see strengths they didn’t know they had.
- They see options to be able to face challenges they had felt were beyond their control.

Individuals will not change their habits and attitudes until they are ready. Unless the underlying patterns of habits and attitude are discussed, it usually takes a major life event to trigger a commitment to change. The following examples are life events that can cause change:

**Feeling limited**

If someone has a fear of a situation (for example a fear of dogs), the fear of dogs may prevent them from visiting friends who have a dog or going for a walk in the park for fear of being confronted by other park visitors with a dog. The fear of not having enough money or fear of legal repercussions can force a person to change their habits to avoid those situations.

**The shock of reality**

Although Gina hated the phone calls from creditors, Gina had no idea that her $23,000 credit card debt and habitual late and missed payments would impact other areas of her life. It came as a shock when she wanted to relocate and her poor credit rating interfered with her getting a job and renting an apartment.

**Seeing real benefit**

Mike thought keeping his money safe in a savings account was adequate even though his wife kept telling him to invest it more wisely. When he attended a course and realized how much of difference even 2% could make on his savings over time, he immediately sought advice and invested his money differently.

**Fear of consequences**

Jan had never learned to say “no” and was extremely generous. She made large financial contributions to her religious community and other charities, gave a dollar to every needy person she met and regularly gave money to her adult children. When her husband died at 57 and she took responsibility for managing the finances for the first time, it became apparent that there was not much money to support her. The fear of becoming dependent on others fueled her determination to say “no.” She learned to allocate a reasonable fixed amount to charity and make intentional decisions about where and when she would help others instead of randomly giving money away.
**Life-changing events**
Jake was seriously injured by a drunk driver. Before the accident, he just let life happen and didn’t concern himself with money or planning for the future. After he recovered he became very serious about getting his life and his finances in order because he had a mission—to work with others to get tough drunk driving laws passed and enforced.

**Exposure to a new experience**
Rachel grew up in a small town and her family had a very modest lifestyle. Gifts were practical, visiting relatives in the next state was the only travel her family did beside the one big trip to Disney, and their social life centered on church activities and the family. She married a man who was raised quite differently and was used to going to the theater and concerts, traveling to other countries for vacations, and giving more lavish gifts. She enjoyed all of these new experiences and embraced the new lifestyle. Although it took a long time, she was eventually able to enjoy costly experiences without guilt.

**Couples and Money**
Trying to understand one’s own habits and attitudes is very difficult sometimes. When couples integrate finances into a relationship, the relationship can be strained to the point of breaking. All couples need to talk about money issues before they get out of control. Understanding each other’s habits and attitudes about money and toward money can help a couple build a stronger relationship and a stronger financial management strategy for themselves and their family.

Talking about money is very important for a healthy relationship. The “talk” is difficult because no one wants to appear selfish. When talking about money leads to conflict, it may feel like the relationship is failing. Because men sometimes make more money, women think they do not have the right to express their feeling about money. It may lessen the worth of child care and management she provides in the home.

Understanding each other’s habits and attitudes towards money will give some insight as to why money is spent on certain items or in different ways. This insight may help couples to negotiate pitfalls or problems that occur when they do not understand each other’s money habitudes.

**Conclusion**
Money habitudes influence our spending and saving habits. Understanding our “habitudes” will give us additional information to understand our individual value of money. How can OHCE members use this information:
1. Understand their habits and value of money to derive financial goals for 2017.
2. Develop a financial spending plan for 2017 to achieve those goals.
3. Share this information with family and friends who may be struggling with their financial management skills.

4. Use OSU Fact Sheets to help derive 2017 Financial Goals and a Spending Plan.

OSU Fact sheets available are:
T-4316 The Financial Puzzle: Goals, Choices, and Plans
T-4201 Couples and Money: Let’s Talk about It
T-4149 The Financial Puzzle: Putting the Pieces Together

Money Habitude Card Game (optional)
A “Money Habitude” card game is available for Lesson leaders to use with this lesson. If you as the leader do not feel comfortable to lead this part of the lesson or need help, please contact Susan Routh at the Grady County Extension office. Susan is also available to attend your local group meeting and help lead this activity. Please schedule in advance to insure that Susan is available for this date.

References:

