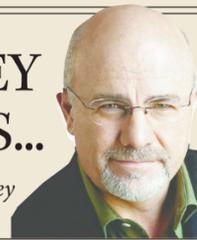


MONEY

MONEY TALKS...

By Dave Ramsey



ADOBE STOCK

ARE YOU 'SPAVING'?

How to save instead of overspending to get a discount or free shipping

KATE ASHFORD | Nerdwallet

Have you ever added something extra to your online cart so you'd qualify for free shipping? Bought five items to get a multi-item discount? Spent \$100 in a store so you could use a \$20-off coupon?

Guess what? You're "spaving."

Spaving is a mashup of spending and saving — spending more to save money by landing a discount or free shipping.

The term may be new-ish, but the behavior isn't. Amazon introduced free shipping thresholds in 2002, initially offering free shipping on orders over \$99.

Marcel Miu, a certified financial planner in Austin, Texas, admits to "spaving" when he's trying to meet an order minimum. He has a small child and often orders things from Amazon that he needs the next day.

"But you have to go over the \$35 minimum," he says. "So that just forces you to buy more stuff."

Is it extra clutter? Not necessarily — spaving doesn't have to be a money suck, depending on how you use it.

"It's a bit of a calculation that somebody needs to do in order to determine if the juice is worth the squeeze," Miu says. "I'm sure there have been many instances where I probably could've deferred the additional purchase and just waited a little longer."

THE PSYCHOLOGY OF THE SPAVING TRAP

Spaving happens because people don't like paying money for something they could've gotten for free, or for less. Because it's so commonplace to get free shipping, we balk at paying a fee — and will order extra toilet paper or another pack of socks to get around it.

"When a website tells us we are only \$15 away from a reward, it creates an open loop," Miu says. "Human psychology hates open loops. We buy the extra item just to finish the task and get the dopamine hit of a victory."

Retailers have done their research, and free shipping minimums are carefully crafted. "You're not going to beat them at their own tricks," says Andrea Woroch, a money-saving expert who shares budgeting tips on her website, andreworoch.com. "They know if they put that shipping minimum on their orders, that most people are going to spend more."

The same goes for coupons, limited-time deals and discounts when you buy multiples. We feel like we're being thrifty, even if we weren't planning on buying something at all.

This creates a "just one more item" association, says KJ Dykema, a financial consultant in Seattle and founder of retirement planning site Family Retirement. "When you go in the next time, you can't just buy one thing — you know you're sitting down and getting five."

THE FINANCIAL AND PHYSICAL CLUTTER COSTS

Spaving doesn't have to bust your budget. If you're buying extra paper towels or dog food to hit a shipping minimum or land a multi-item discount — and you'll use those products eventually

— you may just be shifting spending.

Miu calls this "forward paying," meaning you're bringing spending forward that could likely have been delayed for months.

But if you're adding an extra pair of flip flops or pajamas to your cart, and you didn't really need them, spaving may be costing you extra over time.

"If you were to add up all the times you spent more to save and what you really got out of that, that could have amounted to a big chunk of money you could've put away into a savings account," Woroch says.

And if you're frequently over-buying household essentials, you may also find that your pantry (or basement or garage) is getting overcrowded. And physical clutter has its own consequences.

"I went on a subscription service, totally forgot I went on this subscription service for paper towels, saving \$2," Dykema says. "I now have three boxes of paper towels. Twenty-four packs."

HOW TO USE SPAVING JUDICIOUSLY

Spaving can be a problem if you're purchasing more than you need — or things you never needed at all. But being mindful about shopping can help you keep a lid on overbuying.

For instance, take a 24-hour break before hitting "purchase" on impulse buys. Or bookmark an item on social media so you can come back to it later if you still really want it.

"Give yourself time to think through the purchase," Woroch says. "Is it something you need? Do you have something like this already?"

Take regular inventory of what you have, which may help you avoid amassing a year's worth of nonperishables. "Do you have packages or things that still have tags on them?" Dykema says. "How much is your back stock of that product?"

One more tip: Delete payment information from your browsers and apps so you have to scrounge for your credit card every time you make a purchase, Woroch says. That gives you time to think.

Once you're aware of the tactics being used to get you to spend more, you can decide whether the "savings" are actually worth it.

"We have to understand that these sellers are very aware of this dynamic," Miu says. "And the more we are educated to understand it, the more we can try to get ahead of it."

Kate Ashford, WMS, writes for NerdWallet. Email: kashford@nerdwallet.com. Twitter: @kateashford.

When is enough ... you know ... enough?

Dear Dave,

I'm 65 years old, and I work part-time. My wife is 59, and she works full-time earning about \$160,000 a year.

We're both self-employed, so at what point do we stop buying term life insurance?

I have a \$500,000 policy, and we have \$500,000 in savings. We're debt-free, except for two car loans that total \$25,000.

— Franklin

Dear Franklin,

Okay, first let's clean up those car loans. With your combined incomes, plus the money you two have in savings, there's no reason to have car payments hanging around your necks. Aside from that, you're in pretty good shape.

When it comes to life insurance, you should ask yourself some questions: Why am I buying this? Who am I trying to help with it? How much will they need?

Life insurance is all about taking good care of the folks you leave behind.

It sounds to me like you've done a good job of looking out for your wife.

If you passed away any-time soon, God forbid, she'd have a half-million in insurance money, plus an income of \$160,000 a year.

On top of all that, there's another \$500,000 already in the bank, plus a paid for home. She wouldn't exactly have to struggle financially, would she?

Now, if she passed away first (again, God forbid) you'd still have half-a-million in savings, plus a house that's paid for. And don't forget your part-time income.

Guess what, Franklin? At this point, you two are very close to being self-insured.

On the other hand, if you want to spend a little money on a term policy for your wife over the next few years — and you can do so and still continue to build your nest egg — that's okay, too.

— Dave

Dave Ramsey is a nine-time national bestselling author, personal finance expert and host of "The Ramsey Show." He has appeared on Good Morning America, CBS This Morning, Today, Fox News, CNN, Fox Business and many more. Since 1992, Dave has helped people take control of their money, build wealth and enhance their lives. He also serves as CEO for Ramsey Solutions.



ADOBE STOCK