Are cash jars still magical in an increasingly cashless world?

By Gail Johnson | Yahoo Finance Canada – Thu 9 Feb, 2017

Despite the prevalence of online banking and so many mobile money apps, some people turn to far more old-fashioned ways to manage their money.

Consider the “magic jar” concept that became wildly popular thanks to Gail Vaz-Oxlade and her pop-finance approach.

The author of several personal-finance books and host of the TV show “Til Debt Do Us Part,” who’s now retired, wasn’t available for an interview with Yahoo Canada, but the system works like this: get some Mason jars and label them as various categories of expenses, such as “debt”, “transportation”, “groceries”, “savings”, and “entertainment”. Once you’ve drawn up a budget, put pre-determined amounts in each jar on a regular basis.

“The jars aren’t actually the “magic” in making money work; the budget is,” Vaz-Oxlade writes on her website. “The real magic is the fact that people seem to want to use the jars – people hate to budget – and I think it’s because it’s so tangible. You decide how much to put in the jars, you put the money in, you live on it, you can see when the dough’s running out so you have to stop spending, and you get a real kick out of having money left in the jars.”

Used with a cash-only diet, the jars provide an easy, visual way for people to get a handle on their finances. But do they still hold up in our increasingly plastic world?

Yes and no.

The old-timey approach provides transparency—literally, in the case of clear, glass jars, physically limiting your spending on any given category to the money right before your very eyes, according to Noel D’Souza, money coach and financial planner with Money Coaches Canada. You don’t go into debt when there is no credit. Cash-only also makes for a troublesome way of going about your business—which, for those tempted to live beyond their means, is a good thing.

“The easier it is to spend, the more likely we are to spend,” he says. “Just like with healthy eating, the easiest way to not give into temptation is to avoid it entirely by not having junk food lying around. If you don’t want to spend, don’t have excess cash burning a hole in your pocket and make it at least somewhat inconvenient to get to more cash.

“The conveniences of our modern world–like credit and debit cards, Apple pay– make it very easy to spend and with little consequence at the time of purchase,” he adds. “Spending real cash triggers in us a sense of loss and a form of ‘pain’ by physically handing over cash that we don’t get back from the cashier. When we spend via a credit card or debit card, we get our card back, along with goods, like magic! The pain only comes when the bill arrives, but by that time the pain is too far removed from the act of spending to cause a change in behaviour."

However, it's also all too easy to dip into those jars, whether it's to borrow from one to feed another or to grab some cash for beer and a movie "just this once".

Although some people may swear by a cash-only system to stay on track, Scott Hannah, CEO and president of the New Westminster, BC-based Credit Counselling Society, doesn't see the allure lasting, with some banks shifting entirely to automated tellers and charging people to see a real, live financial service representative. There are other practical problems: the hassle of going to a financial institution and waiting in line; the potential for theft or loss of hard-earned funds.

"The concept is good in that it simplifies the budgeting process: as you take funds out of a jar and it becomes less full, you think more about the purchases you make and ask yourself, 'Do I really need to spend?'" Hannah says. "It may help the person who's maybe not as disciplined to think twice. When it's gone, it's gone.

"But cash-only is not as relevant today as it once was," he says. "We've moving more toward a cashless society all the time."

Because of that, the money-jar method of personal finance could use some modernizing.

Hannah recommends a combination of cash, automated payments, and online banking to manage expenses, with loonies, toonies, and bills being ideal for discretionary expenses like coffee. "Maybe give yourself an allowance, say $30 a week, that you do what you want with it and when it's gone it's gone," he says. "If you go to Starbucks three times a week you may be prepared to curb that back to once a week.

Saving is still best accomplished by paying yourself first and having that money go directly into a separate account that you don't touch; tracking and monitoring expenses are vital to avoiding debt.

Another downside of using nothing but cash is that it eliminates online purchases and the possibility of earning reward points with a credit or debit card.

D'Souza recommends a blended strategy as well.

"While my clients are re-training their spending behaviour to form good money management habits, I suggest they focus on using cash for their daily spending," he says. "Once they have adapted to spending within their spending plan, they could graduate to using debit cards with a set amount of funds in the attached bank account."