

Cash-only transactions may limit your spending habits

By TRACY HANES Special to the Star
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If you've been too indulgent with your spending habits and have gained some uncomfortable debt, it may be time to try a cash diet.

Rather than spend with credit or debit cards, a cash diet means using cash — and only cash — for expenditures.

Going all-cash for the short term will help you develop an awareness of your spending, says **Christine White, a money coach with Money Coaches Canada**, who works with clients in Toronto East and Durham Region.

“As humans, we are very visual. There is a study that found when we hand cash over to people, pain sensors fire in our brain,” says White.

“When you swipe a debit or credit card, it doesn't have the same engagement with the brain. And many credit cards have rewards, so we think we are getting something when we use them.

“A cash diet is a phenomenal awareness tool,” adds White. “I liken it to a cleanse or detox to kick-start your financial health. But I have not seen many cases where it is sustainable long-term. Like any diet, if it is too much work, it's not sustainable.”

Meaghan Lloyd, 25, a project manager for a textbook company, is a millennial who has crafted her own version of the cash diet. She uses her credit card for all her expenses but only spends what she has in her bank account. She pays her card's balance off in full each month.

“I use my card because I like to see my spending all in one place,” she explains. “You can't trick yourself about how much you are spending when you see it. I use an app on my phone that constantly updates what I'm spending and I check it all the time and pay off what I've spent at the end of each week.”

Lloyd was 16 when she got her first credit card. Her parents live in the country and when Lloyd started driving, they wanted her to have a card in case of emergency. “My parents scared me about what would happen if I didn’t pay it off right away — how the interest charges would build up and how it would affect my credit score,” she says.

If Lloyd has a big purchase in mind, she saves until she has the funds to buy it. “When I wanted a new laptop, I put away \$25 each paycheque until I had enough money. I don’t believe in accruing interest.”

Mindful spending and commitment to not buying can pay off, as Lloyd can attest. She and her fiancé, who follows similar financial habits, were recently able to buy their first home in Oshawa.

Jennifer Beale, 53, of Mississauga, who produces business networking events, created her own version of the cash diet when she saw her debt climbing while she was also looking to save and invest. She uses her debit card for daily purchases and brings out her credit card for online purchases and for travel.

And, again, she only spends the money she actually has.

“I used to be like most everyone else,” says Beale. “If I didn’t have the money, I would put a purchase on my credit card and I ended up with debt.”

She started tracking her daily expenses and was shocked at how her little expenditures added up. “It was hundreds of dollars. So, I stopped spending when I was out and about.

“Now, I do all my shopping on Saturday — I make a list and make sure my pantry is stocked with the things I need. If I run out of something on Wednesday, I make it to Saturday without it.” The approach has not just saved her money, but freed up her time.

Beale admits that her old habits don’t die easily. “I’ll think ‘I need this, I need that,’ but then I tell myself I can wait until Saturday — and by then, I find I may not need it after all. It takes being aware, moving to intentional spending rather than instant gratification.”

Once a collector of teas, Beale realized she didn't need all of the specialty brews.

“And, oh my goodness! Can I do clothes!” she says. “But I have rule that if I buy a piece of clothing, I have to give a piece away, so it's mindful consumption. I like athletic wear and can talk myself into buying new pieces, but I remind myself I already have pieces that look good and only need so many.”

Money coach White says this is one of the keys to putting our spending habits on a diet: identifying “needs” rather than “wants.”

She adds that cash diets are doomed when people don't realistically budget for their spending categories by creating too little space for things like entertainment or toiletries, for instance. “It's about finding a sweet spot between your day-to-day lifestyle, paying off debt and saving for the future.

Tips for spending on a cash diet

- Track daily expenses to see how little purchases add up.
- Identify items that are “a want” rather than “a need.”
- Budget realistically for unattainable goals
- Limit shopping to a single day and make a list of items you need to buy.
- If tempted to make an impulse purchase, wait a few days. Often, the impulse will pass.
- Use a paper clip or envelope system to separate cash into spending categories (food, gas, entertainment, etc).