# How To Save More Money

Saving money is a challenge. For starters, you have to know how much money you have coming in (Income) and how much you have going out (Outgo). This sounds easier than it is, particularly the Outgo.

In fact, most people don't know where their money is going. They have a good idea, in the sense that they know what their fixed expenses are (housing, utilities) and can think back over the last month and recall some of their purchases, but many people don't know their own financial story. If they did , they would notice that they are probably spending money in ways that benefit no one at all. That wasted money can instead be saved. In many cases that wasted money represents 10 to 20% of all expenses. Given that a typical savings rate (for those of us who are trying to save) is 10 to 20%, this means that a typical person can double or even triple her savings rate. That's a big change.

Credit: the ideas presented in this essay represent my attempt to briefly paraphrase ideas in Your Money or Your Life (Dominguez and Robbins). The good stuff below mostly comes from D&R. The mistakes all come from myself.

## How to "Save Money" Without Actually Succeeding

If you read a typical "news" article on how to save money, you will likely see the following suggestions:

- Set up automatic payments, so some income is moved to a savings account when each paycheck comes in. That way, you will get used to having a smaller amount of money to spend. A fairly painless way to set this up is to adjust the amount of automatic savings each time you get a raise. That way, instead of getting used to the idea of having more money to spend, you can instead increase your savings rate. That's for those of you who have jobs and get raises.

- Make a list of expenses and look for expenses that can be skipped.

- Spend less money by looking for small expenses that can be skipped. Do you really need that double-mocha-latte every day? Do you?!?

- Spend less money by looking for large expenses that can be delayed. Do you really need a new refrigerator right now instead of a year from now? Really?!?

The first of these suggestions is a straight-up good idea and an excellent first step. The rest are pretty weak. The problem with making "a list of expenses" is that most people haven't a clue as to what their expenses actually are (some of us can barely remember what we ate for breakfast). This information on Outgo is very important, however, so we'll come back to it. The final two suggestions are, in my opinion, out-and-out self destructive. How in blazes can any sensible human being think that constant guilt-tripping will lead to a healthy life, financial or otherwise? One might as well go with an alcohol-fueled "Save a dollar? Take a shot!" plan. Seriously. My point is that this often-suggested method of saving money really doesn't work.

Before moving on, let us return to that second suggestion. The fact is that the only way that I know of to obtain an accurate picture of one's Outgo is to record every expense over the course of one of more months. Without this information, I personally might never have noticed those books I was habitually buying and shelving, unread. Recording expenses is kind of a pain, especially at first. If it becomes a habit, the pain is reduced quite a bit. Because recording one's expenses involves actual effort, few media articles suggest doing so. On the other hand, recording expenses is incredibly useful, because knowledge is power. This is the key to successfully saving money.

**How to Succeed at Saving Money (the short version)**

Read Your Money or Your Life (Dominguez and Robbins). Follow the steps. Continue doing so until financial independence is achieved. For what it's worth, this is what I did, except that I have yet to achieve  financial independence. (I am making a lot of progress, though). If I were willing to emulate the famous Mr. Money Mustache (Google him—he's entertaining) and move to a city with very low house prices I could quit working tomorrow.

**How to Succeed at Saving Money (the less short version)**

Here I am out-and-out paraphrasing and oversimplifying just one aspect of YMOYR (D&R).

1. Track your expenses. If you have a smartphone, then you can use an app for that (use a simple app, there is no need to manage all your accounts, just to record expenses). It helps to save all receipts and, if there is no receipt, to record the expense on the spot. If I spend $5 on a cup of coffee and don't get a receipt, I take one of the remaining $5 bills in my wallet, fold it, and put it back (even if I later can't recall what I spent $5 on I will at least record it).

2. Organize expenses into categories.  If you want you can pick out a set of categories in advance.  If you are like most people, however, the categories will not become obvious until you begin recording expenses.  I have about 15 categories, organized into a few major headings (Civic Activism, Fun Stuff, Required Stuff, Work).

3. At the end of each month, evaluate expenses in each category.  D&R suggest first noting how many hours of your life you spent working in order to bring in the money spent (this is not as simple as dividing the total by your hourly pay—see D&R; for one thing, an hourly pay rate does not account for commute and "decompression" time). Was it worth it?

4. The second way to evaluate the expenses in each of your categories is to consider what positive experience, if any, you received for your money. If you bought a shirt, did you wear it?  Did you enjoy wearing it?  Will you ever enjoy wearing it? Unworn clothing is less than worthless—it takes up closet space and living space. If you are like most people, living space is probably your biggest monthly expense (if you bought or rented a bigger house just to store rarely-used stuff, you might have a big opportunity to save money). This idea is straight out of D&R.

5. A third way to evaluate expenses is in terms of your values. Was this expense consistent with your values? If you value the environment and/or your health, then buying organic may be worth the extra money. Buying junk food, other other hand, my not be worth the money, even at half the price. This idea is also straight out of D&R. However, faith-based savings programs have also been known to emphasize this same point. Either way, if you are spending money on a car with an environmentalist bumper sticker attached to it, you may have some 'splaining to do.

This last step may seem like a repackaging of the "guilt trip" that I so enthusiastically disparaged, but is isn't. The difference is that evaluating expenses after the fact allows reflection, without the pressure to make a decision. Evaluating an expense after the fact also allows one to draw a conclusion. The expense was either a good decision or it wasn't. This makes learning possible. After a while one can learn to make fewer bad decisions. The result is a small change in spending. According to D&R, a typical person can spend 20% less with no change in lifestyle or quality of life, simply by not purchasing items that are rarely or never actually used for anything. The classic example is “collecting” things that just end up in a box in a closet. Given that a typical “saver” saves less than 20%, this represents more than a doubling in the rate of savings.

To summarize:

A typical saver saves less than 20% of income.

A typical recommendation is that one save about 20% of income (less if you start in saving while young, more if you wait until you are over 40 to get serious). This is enough savings to allow retirement at “retirement age.” A cynic might say that retirement age is the age at which most people are too old to enjoy retirement, but I think this is pretty far off the mark, especially if one lives a healthy lifestyle. Nevertheless, I tend to think of this as the “rat race” scenario. I like to think we can do better.

By recording and evaluating expenses, a typical saver can save an additional 10 to 20%, for a total of 30 to 40%, well above the 20% “rat race” scenario. This can be accomplished with no change in lifestyle or quality of life, simply by not spending money on things that barely contribute to that quality of life.

In closing, I wish to point out that saving money is only one small part of a healthy financial life. Other important elements are investing to bring in income (to eventually replace income from paid employment) and planning for financial independence (investment income > expenses). The key is to value your money by spending it only in ways that add value to your life. This approach values the time that was spent earning that money and, by extension, values life itself.