



## Handling Holiday Spending

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The season of gift-giving and fellowship too often creates the spirit of giving far beyond what you can realistically afford. However, there are things you can do before, during and after to go into the new year guilt- and debt-free.

### Preparing for the Holiday Season

#### 1. Estimate what you can afford to spend

The holidays require a lot of planning. You need to make wish lists, shopping lists, baking lists, and more. **But the very first thing you need to do is decide up front how much money you can afford to spend on the holidays.**

If you haven't been shopping throughout the year the first thing to do is to figure out what you can afford – not what you want to spend, but what you realistically can spend without putting yourself in debt or making a deep reduction in your living expenses in the first months of the new year. Use a spending plan to give yourself some guidelines to work within. **Develop a spending plan before you make your Christmas lists.**

#### 2. Develop Gift Guidelines

There are a few ways to respond to the “gimmies” that kids may request during the holidays. Consider **setting a specific dollar amount for each child**. Or limit the number of gifts to **three items per child**. Remember, some people make spending money on gifts for kids a sort of competition, but attempting to keep up with them comes with a heavy price. Teach your children early that it really is the thought that counts. Thoughtful gifts don't have to cost a lot of money. In any case, what's important is appreciating what you've already got.

#### 3. Keep Track of Your Spending

Use a notebook to keep track of all the gifts you intend to buy or make, and record the amount of money you'll spend on each person. This simple tool can help you stay within your spending plan.

Tracking spending is a good habit to get into. To start, keep track of all your expenses for a month. At the end of a month, sit down and see where your money went, and where you can cut back. If see that you're spending \$12 a week on coffee, put that money instead into a savings account, and by the end of the year, you'll be \$563 richer. If you invested that money over the course of a lifetime you could earn yourself \$30,000.

## During the Holiday Season

### 1. Say No to Last-Minute Temptations

A general guide: if it's not on your "approved" list, then the answer is no. Exceptions can occur, of course, but keep close watch on overall costs.

### 2. Decide how to Pay (cash or credit) and Stick with It

Financial advisors often recommend an "all-cash" philosophy to avoid overspending your budget, but sometimes a credit card makes more sense (easier returns, some merchandise protection, having a paper trail). For those purchases, **select a single credit card** for careful tracking and research which rate or limit works best with your need.

### 3. If You do Pay on Credit

Don't charge more than ½ of the available credit on the card – doing so triggers a reduction in your credit score (so, on a card with a limit of \$2,000, don't charge more than \$1,000). If you exceed this guideline then your card issuer might increase your interest rate. About 30 percent of your credit score is based on your outstanding debt – the total amount owed and the number of credit cards at or near their limits.

## After the Holiday Season

If you ended up throwing financial caution to the wind, then there are a couple things you can do to help reduce the stress and cost of repaying credit card debt.

### 1. Never, Ever Pay the Minimum!

Sometimes you may be in a position in which you can pay only the minimum – but if you can afford to pay more than the monthly minimum on your credit cards, **DO IT!**

If you had to repay \$3,000 on a credit card making minimum monthly payments of 2% on the outstanding balance of a card with an 18% APR (and made no additional charges), it would take 30 years to repay. In the end you'd pay a total of \$10,013, including interest of \$7,013.

### 2. Pay Debts with the Highest Interest Rate First

Some people recommend first paying off cards with the smallest debt, and ignoring interest rates all together. This can cost you a tremendous amount in unnecessary interest payments. Debts with higher interest rates continue to grow quickly. By not tackling them first, it will take you longer to pay down your debt.

Depending on what you do before, during and after the holiday gift-giving season you could either be struggling to pay the bills you've run up, or you can be doing more pleasant things. With a modest amount of work and some good decisions you can get through the holidays well within your spending limits.