Dealing with Deficit Spending
Money Management for Graduate Students

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Objectives:

• Help you think about your relationship with money and if necessary, inspire you to change it.
• Give you a different perspective (perhaps!) on your investment in graduate school.
• Show you why using credit cards to finance your lifestyle is a bad idea.
• Take a closer look at your spending habits to identify opportunities for change.
• Explore strategies for managing and reducing different types of expenses
Spenders vs. Savers
Opportunity Cost of the Spending Lifestyle
Investing in Your Future
Deficit Spending for Grad School is Normal

HS Dent Modified
Life Cycle Hypothesis

Both spending and income follow a curve based on age. In late retirement, spending exceeds income as savings are used.

Income
Savings
Consumption

Time
Maximizing Your Investment

Example: Buy a $100,000 Home

- Mary puts $1000 down and finances the rest.
- Bill puts $10,000 down and finances the rest.
- Other than the amount borrowed, the loans are otherwise identical.
- Ten years later, they sell for $120,000.
- Who received the better return on their investment?
- Mary invested $1000 (plus payments) and ends up with $120,000 less the loan balance ($80,000) for a gain of $40,000.
- Bill invested $10,000 (plus payments) and ends up with $120,000 less the loan balance ($70,000) for a gain of $50,000.
- Who received the greater return on their investment?
Mary’s initial investment of $1000 grew to $40,000 (40 times her initial investment)

Bill’s initial investment of $10,000 grew to $50,000 (5 times his initial investment).
Credit Card Dangers

- Using credit cards to live beyond your means.
- Relying on creditors to set your credit limit.
- Carrying a balance on credit cards.
- Buying the wrong items on credit.
- Making only the minimum payment on credit cards.
Paying Off a Credit Card

- You owe $1000
- Annual Percentage Rate (APR) is 18 percent
- Required minimum payment: two percent of outstanding balance.

- If you only make the minimum payment, how long will it take you to pay off the balance?
Three Scenarios

- Pay only the 2% minimum and it will take 19 years and 4 months—including $1,931 in interest.
- Pay $20 per month (the current required minimum) and it will take 7 years and 2 months—including $860 in interest.
- Pay $50 per month and it will take 2 years, including less than $200 in interest.
Bottoming Out
Where Does Your Money Go?
Fixed Expenses
Variable or Flexible Expenses
Occasional Expenses
Plan Spending to Meet Needs
Reducing Expenses

- Involve the entire household.
- Give it up.
- Find cheaper alternatives.
- Economize.
- Use community resources.
- Barter and/or Coop
Summary

- Spending is the default saving—you have to learn to save.
- Spending more than you earn is normal for grad students.
- Minimize the cost of grad school will maximize the return on your investment.
- Credit card debt is more expensive than you might think.
- A spending plan is a tool to make sure your money goes where you want it to go.
To spend is human, to save—divine!