

# Critical Thinking About Money

Over the years, critical thinking hierarchies have been developed to help you tackle your financial problems in the right order.

## **First: Do you have enough income to cover your basic living expenses?**

If you do not, this is the problem you must solve before tackling any other financial issue.

- It would be silly to criticize your use of a credit card, for example, if you can't afford food for your family in any other way. Sit down and figure out what income you need to cover housing, transportation, food, insurances, health, and utilities; no frills, just the basics needed to sustain life.
- If you do not have enough income for basics, of course you are going to be in trouble financially.

There are only two ways to solve this problem; increase your income or reduce your expenses.

- You may want to go back to school to acquire some marketable skills.
- Consider how you can reduce your cost of living. Many people find multigenerational housing or shared living space a good way to reduce their costs.

## **Second: Do you have a lot of high interest rate debt?**

Debt is the enemy of your financial security.

- Payday or title loans, credit card debt high interest car loan; these suck the life out of your financial future. Start planning now so that you can avoid ever having to use it again.
- Use debt only for appreciating assets such as a house, education, or small business. Notice that a vehicle is not included in this list.

## **Third: Do you have any emergency cash?**

A stash of cash may make all the difference; make this task a priority.

- Most Americans use their credit cards as an emergency fund.
- Short term goal; save \$500-\$1000 for those unexpected expenses – which we should expect – car and appliance repair, health issues.
- Longer term, hold three to six months of basic living expenses in a safe place, like a savings account.

## **Fourth: Are you ready to start thinking about longer term saving and investing goals?**

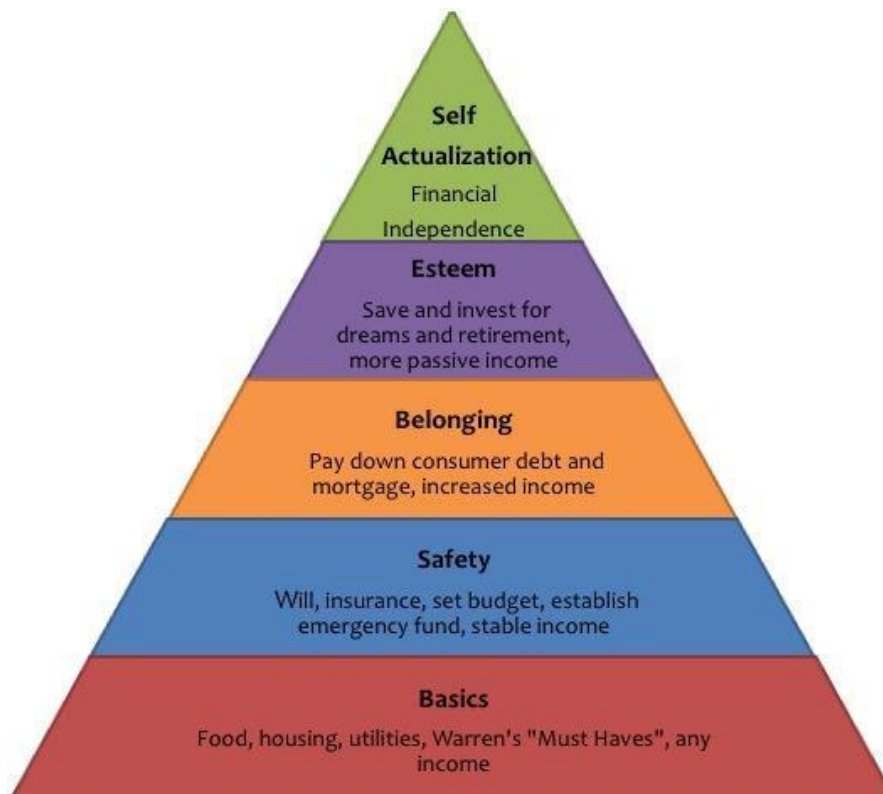
But until you have completed tasks one through three, you aren't ready yet.

- Most people think that the most important decision is what to invest in; not so. The most important decision is simply the decision you make to save.
- If a person earning \$30,000 annually saved 2 percent each year from 1994 through 2009, he or she would have \$13,364 - \$20,723.52 depending on the investment. But if she or he saved 6 percent instead of 2 percent, the amount would be \$40,093 - \$62,170!

# Critical Thinking About Money with Maslow's Hierarchy of Human Needs

Abraham Maslow is the psychologist best known for his hierarchy of needs. He basically said that humans need to have more basic needs fulfilled before we try to satisfy higher level needs. If we try to attain higher self-esteem while more basic needs like steady employment or a stable family life go unmet, we will feel uncomfortable and stressed out.

## Financial Hierarchy of Needs (from Balance Junkie)



Income is referred to at each level. Regardless of what people may say, your income level really does matter. It should never be used as an excuse for saving nothing, but the truth is that it is a lot easier to save and move up the pyramid when you have more money coming in.

The top level of the pyramid is **financial independence**. This will mean different things to different people. For many it will mean retirement and therefore someday we are all going to need to be financially independent. When you start waffling on savings or getting lazy with the budgeting, try to remind yourself of that fact, and revisit the math.

### The specifics of the hierarchy aren't quite as important as the principle behind it:

- **Success in anything happens one step at a time.**
- Skipping steps will only lead to pain, discomfort, and occasionally long term damage.
- Focus on one level at time and you'll reduce your stress level immensely – and probably avoid landing in financial traction or paralysis!