

Psychological of spending, debt and budgeting

Michael Larson PhD
Clinical / Health / Pain Psychologist
Marshfield Clinic Health System



Disclosures Statement

I, **Michael Larson PhD**, do **NOT** have any relevant financial interest or other relationship(s) with a commercial entity producing health-care related product and/or services.



Overview of the Psychology of Money

- Discuss basic issues about how the brain works
- Review how habits work
- Discuss the environmental forces that are at play that influence spending
- Discuss embracing the pain to get to the future of less pain

How the brain works – Motivational Triad

Motivational Triad:

- **Avoid Pain**: Primary goal of our brain is to avoid pain
- **Seek Pleasure / Answer Desire**: This is where dopamine comes in. When we do things that allow pleasure or answer desire, dopamine is released. This was required to get us out of the cave to interact, gather food and build relationships.
- **Least Amount of Effort**: Our brain and body want to limit effort and be efficient whenever possible. Food and goods are now so easy to obtain that we can gain pleasure / answer desire with very little effort. This leads to an ever increasing **over-desire** that is making all of us fat and all of us spend way too much money.



How the brain works - Thoughts

The basic process by how our brain “thinks”

- Thoughts >>>> Emotions >>>> Behavior / Actions >>>> Outcomes
 - All emotions come from our thoughts
 - We have the ability to manage / control our thoughts / beliefs
 - This means we have the ability to manage our emotions by managing our thoughts
- The problem is that we have 60,000 thoughts in a day, some are in the conscious part of our brain but most are unconscious (habits, routine thoughts, automatic thoughts).
 - The conscious and unconscious / subconscious thoughts all have the ability to create emotions
 - When we experience emotion, we likely are going to influence our behavior



How the brain works - Emotion

5 options to deal with emotions:

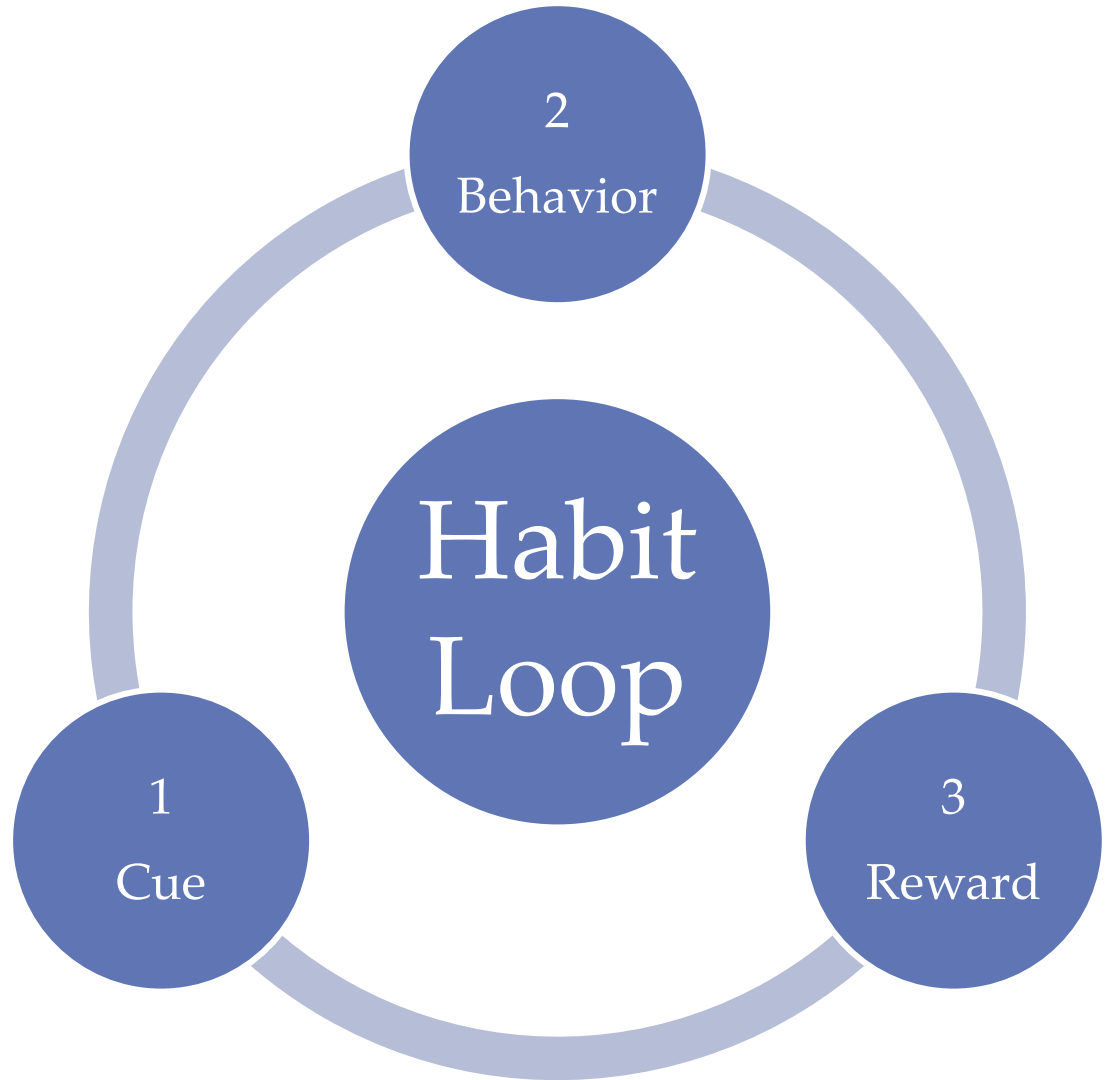
- **Self-pity**: This just feeds into the emotion
- **Avoid**: Humans are great at avoiding emotion thru eating, games, spending, etc. Procrastination fits here and is highly rewarding
 - Anxiety builds as we think about doing something that requires effort and will be hard.
 - The second we say “I will do that tomorrow” the anxiety goes away (negative reinforcement), same experience of withdrawal symptoms and then using a substance that removes the withdrawal symptoms.
- **Resist the emotion**: Is hard work and leads to you feeling tired
- **Have coffee with the emotion**: Good option because it identifies thoughts
- **Change the thought that is causing the emotion**: Complete freedom to do this, it is your own thought! You have the ability.



How the brain works - Habits

Basics about the Habit Loop (general information):

- Takes about **300 repetitions** to develop a well-formed habit.
- Well-formed, means that the cue drives the behavior to occur “without thought” or automatically.
- Reward is important and the only reward that is relevant is the one that occurs immediately after the behavior.
- Punishment after reward has no impact on behavior.
- 5 years of rare or no use for the brain to “prune” or discard a well-formed habit.
- New habit must develop off of cue.



What does this mean for spending, budgeting and money?

All the same rules apply and lead to the same problems, whether it is eating, exercise, budgeting, spending, substance use, alcohol use, etc. It is all about managing our habits, urges, desire, etc. So, what do we need to do:

- Bring together your 60,000 thoughts daily to identify your plan for the day.
- Be the CEO of your brain, tell the thoughts what are your expectations for the day.
- Focus on spending everyday, prepare yourself for cravings and expect it to be hard.



How do I manage my wants and my desire?

Reducing debt and truly managing your money is hard work, few keys:

- Don't avoid it, face the fears straight on
- Try different systems to see what fits you
- **Best Practice: Use cash** – does two things:
 - We have an emotional response to paying for things in cash because it is “**real money**”. It is harder to part with it.
 - When you only bring the “**right amount**” with you for shopping, you can only spend that amount and have to make **choices**. This is super helpful but agonizing.



Everyone in the household on same page

The debt and spending model has to be something that everyone agrees to in the household (kids and spouse/significant other included), few keys:

- Meet as a team. Share what you can with kids (I suggest sharing more information not less).
- Do not blame anyone, you are starting fresh.
- Start with a small emergency fund, focus on having that cash.
- Lay out your base (every month) expensive. Realize how expensive TV, Cell Phones, Internet is every month.
- List your debt, the monthly payment but also the total debt and interest rate for that debt. Be aware of how much that interest will add up to for the year (this is scary – address the fear).



Everyone in the household on same page (continued)

Continue the discussion:

- You may need a month of “data” to determine how much you are spending on various things per month (e.g., groceries, gas, personal items, etc.)
- Take the time to collect the data and someone has to be monitoring the information. Do not hide your head in the sand.
- Cash envelopes are a really good way to manage your budget (Dave Ramsey technique). Put away cash every month, 2 weeks or weekly depending on what you decide for:
 - Groceries. This is what you get, no overspending.
 - Estimate for gas and be aware of using gas.
 - Personal items, envelope for each family member to use.



Final notes

- This will be emotional and hard.
- You have to deal with your desire for “what other people have that you don’t have and may never have”.
- Focus on the debt reducing and support each other in following the plan. If an unplanned expenses come up, talk about them and determine how to fund them (emergency fund? But then need to fill it back up).
- Have everyone make choices for wants / needs now vs wants / needs in the future.
 - No one gets to buy things that they do not have the money to pay for NOW.
 - Only buy things when you have the money already in possession.



Way too much information

- Contact Michael Larson PhD with questions or comments.
Larson.michael@marshfieldclinic.org
- Thank You!

