



# BUDGETING: NEEDS VS WANTS

Whether you have a lot of money or a little money, we all have a limited amount of money and a budget helps us to make the most of what we have.

- ▶ Budgets are especially useful when we have less money and are struggling to make ends meet.
- ▶ A budget can help you to identify where you are spending your money and places where you can be more efficient with your money.

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## BEGINNING YOUR BUDGET

Start by identifying your needs and your wants.

### NEEDS

- ▶ Needs are things you can't live without. eg. food, a place to live, etc.
- ▶ Needs can also be things you need for work.
- ▶ Some examples of needs:
  - Food
  - Rent or Mortgage
  - Utility Bills
  - Insurance
  - Health Care & Medication
  - Work Expenses (eg. uniform, transportation)
- ▶ Needs are the foundation of your budget and usually take up the largest portion of your income.

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### WANTS

- ▶ Wants are things you can live without but that help you to live more comfortably.
- ▶ Some examples of wants:
  - Travel
  - Gym Memberships
  - Dining Out
  - Entertainment
  - Electronics
  - New Clothing
  - Home Purchases
  - Streaming Accounts
- ▶ Wants aren't unimportant or bad and they can provide some benefits such as helping us keep in touch with others or maintain a healthy outlook on life.
- ▶ Wants differ from needs in that they aren't essential to your survival.

## NEEDS vs. WANTS

Determining whether something is a need or a want can sound like a simple thing to do but it's not always as straightforward as it might seem.

For example: While food is a need, buying organic food or eating out would be a want.

### FACTORS THAT AFFECT WHETHER AN EXPENSE IS A NEED OR A WANT:

- ▶ The intended use of the item
  - Eg. Determining whether your new computer is a need or a want comes down to how you plan to use it. If you need it for work, it's probably a need. If you just plan to use it to play video games and surf the internet, it's probably a want.
- ▶ Choosing between a variety of levels
  - Eg. Having a mobile phone to communicate with family and friends, make appointments, etc. could be considered a need. Choosing the newest smartphone over a basic model cell phone could push it into the category of a want.
- ▶ There can also be a mix of needs and wants within a category
  - Eg. When buying groceries, you may pick up some vegetables, grains, proteins and dairy which could be considered needs. You might also pick up some potato chips and ice cream which would probably be considered wants.

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## SAVINGS AND DEBT REPAYMENT

### SAVINGS

Is saving money a need or a want?

- ▶ It can be seen as an extra expense that isn't required for your immediate survival and especially when money is tight, it's easy to put off saving for another time.
- ▶ However, saving for retirement, emergencies or to pay off debts can also be seen as an investment into paying for your future needs.
  - Eg. While buying a new stove when the old one is working fine is a want, buying a new stove when the old one stops working suddenly makes it a need. Without savings, you may not be able to afford this unexpected need.

*So saving money should be considered a need.*

### DEBT REPAYMENT

Is paying off debt a need or a want?

- ▶ While paying off debt as quickly as possible doesn't seem urgent or necessary to your survival, it does affect your long-term overall quality of life and well-being.
- ▶ Paying interest on money you've borrowed is a constant drain on your finances and can affect your ability to pay for your needs down the road.

*So paying off debt should be considered a need when budgeting.*

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## HOW TO HANDLE WANTS AND NEEDS WHEN BUDGETING

Once you've identified your wants and needs, you can begin to make your budget.

- ▶ **Step #1:** Budget for your needs first
- ▶ **Step #2:** Once your needs are covered, you can go through and prioritize and budget for your wants
  - Look at your wants carefully and make some choices
  - Which wants can you afford and which ones are unaffordable?
  - Which wants are most important to you and which ones aren't as important?
  - If you choose one want over another, how does that affect your budget?

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## 50/30/20 BUDGET RULE

A popular budgeting concept is called the 50/30/20 Budget Rule. This rule states that when you budget, you set aside 50% of your income for your needs, 30% of your income for your wants and 20% of your income for savings and debt repayment.

- ▶ This is just a starting point. No one budget method will suit everyone.
- ▶ You may need to adjust the percentages based on your own income and situation.
- ▶ Find a balance that works for you.
- ▶ Be flexible and allow yourself to go back and re-evaluate your budget regularly to find which areas are working and which ones aren't.