



Needs vs Wants

There are things you need to live a healthy life, like a place to live and food to eat. There are also things that you'd like, such as a warm vacation or new ski boots. It's possible to have it all, but not all at once. If you can't afford to pay your bills for necessities like rent/mortgage, groceries, and utilities, you're not ready to soak up the sun on a sandy beach. When you learn to live by a 'first things first' rule and manage your spending carefully, you can create a budget that balances financial needs and wants while setting money aside for emergencies and long-term financial stability. It starts by clearly defining needs versus wants.

Financial Needs - Financial needs are expenses that are essential for you to be able to live and work. They're almost always recurring costs and typically consume much of your paycheque. The most common financial needs are housing, transportation, insurance, utilities, mobile phone, and food. They can also include loan and credit card payments.

Financial Wants - Wants are the things you spend money on to make life more comfortable. While you could live without them, life is a little nicer when you have them. For example, while buying food is necessary, spending money on restaurant meals is a want. Other wants include travel, entertainment, gym memberships, streaming services, subscriptions, and designer clothing.

For example, a \$5,000 credit card balance, with no new purchases, and only the minimum monthly payment (which is very sneaky because the monthly minimum payment slowly declines as does the balance owing), will take 226 months to pay off in full.

Payments will total \$9,798.89, almost DOUBLE what the original purchases were.

Where the Line Gets Blurry - Needs and wants are different for everyone. For instance, you may need transportation to and from work. In some professions, a higher-end vehicle is required for safety or to generate income. In other cases, you could get by with a bus pass or a good bicycle, so the financial need would be lower. The same applies to less expensive things, such as your mobile phone. Your life might be easier if you had a newer phone, but the upgrade is an expense you don't need to take on. You may need a suitable wardrobe for your job, but designer clothes are a want.

Budgeting for Both Wants and Needs - There is a way to budget for needs and some wants, but it takes intention and some financial discipline. Begin by understanding exactly how much you make monthly. Then, list everything you spend money on each month and divide it into need and want columns. If you spend more than you make, you've got to cut things from your 'want' column.

If you're making more than you spend, good for you! Now, examine what you're spending money on in your 'want' column and ask yourself if you could save that instead. Mindful budgeting like this allows you to align your priorities to get ahead. Ideally, you're spending 50% on needs, 30% on wants and 20% on savings and debt repayment, putting you on a steady path toward financial well-being.

Questions about financial wants and needs? Give us a call!

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