Extension
UNIVERSITY OF WISCONSIN–MADISON

Handling Holiday Spending

The season of gift-giving can lead you to give far beyond what you can afford. However, there are things you can do before, during and after the holiday season to keep strong finances. This sheet covers how you can buy gifts for your friends and family and stay within your budget.



Before the Holiday Season

1. Estimate the Amount You Can Afford to Spend

The very first thing you should do is decide how much money you can afford to spend on the holidays. You should not select the amount you want to spend, but the amount you realistically can spend without taking on debt or having future financial challenges. Use a spending plan to give yourself spending guidelines before you make your holiday gift list.

- Make a list of people to buy presents for: spouse, children, and others. You may want to buy a gift for everyone you know, but it may be best to limit your list to your closest friends and family.

- Once you have your spending amount, spread it out among people on your list by putting an amount next to each person's name.

- Use a budget worksheet to stay on track. This allows you to know how much you have spent. Check your budget each time you buy a gift.
- Decide how to budget and save your holiday money. You can set money aside in a savings account or use an envelope system (put cash in an envelope). People with strong budgeting skills usually include a special holiday savings category in their monthly budget throughout the year.

2. Develop Gift Guidelines

If you have multiple children on your list, think about setting a specific dollar amount for each child or limiting the number of gifts per child (ex: three gifts per child).

It can help to teach children that the thoughtfulness of a gift is important and that thoughtful gifts do not have to cost a lot of money.

3. Keep Track of Your Spending

Tracking your spending is a good habit for strong personal finances. You can use a notebook or mobile app to track your gift purchases and spending. Remember, a habit does not need to be perfect from the beginning. Getting started with this habit is what is most important!

During the Holiday Season



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- **Say No to Last-Minute Temptations**

A general guide: if it is not on your "approved" list, then the answer is no. Exceptions can occur, of course, but keep close watch on overall costs.

- **Decide to pay with Cash or Credit & Stick with It**

Some financial experts often recommend an "all-cash" approach to avoid overspending, but sometimes a credit card makes more sense because it can offer easier returns, stronger purchase protection, and a record of your spending. If you use a credit card, it can help you to select a single credit card to make purchases because it makes it easier to track your purchases.

- **If You Do Pay with Credit**

Do not spend more than 30% of the available credit on the card before paying off the card's balance. Keeping your balance in this range can help raise your credit score.

For example, on a card with a limit of $1,000, do not charge more than $300 before paying off the balance. If your balance goes higher than 30% of your available credit, then your credit score could drop. This could happen because about 30 percent of your credit score is based on the amount of your outstanding debt – which is heavily influenced by the total amount owed on your credit cards.

<u>After the Holiday Season</u>

If at the end of the holiday season you realize you spent more than you planned, then there are a couple of things you can do to help reduce the stress and cost of repaying credit card debt.

- **Pay More Than the Minimum Each Month**

Sometimes you may be in a position in which you can pay only the minimum – but if you can afford to pay more than the monthly minimum on your credit cards, you should do it! Paying just the minimum amount can result in a long debt payoff period with a lot of your payments going towards interest.

For example, if you have a $3,000 debt on a credit card with an 18% annual percentage rate (this is the rate of interest you pay on your debt) and make minimum monthly payments, it could take 30 years to pay off the debt. In the end you would pay a total of $10,013, including interest of $7,013.

- **Decide Which Debt Payoff Plan Is Best for You – the Debt Snowball or Debt Avalanche?**

If you have multiple debts, then you will want to decide the payoff strategy that works best for you.

With the debt snowball, you should list all your debts in the order of smallest balance to largest balance. Then, you should pay the minimum balance on each debt except the smallest debt, which you should pay extra money towards. Because you will pay off small debts more quickly, this strategy can help you stay motivated to pay debt.

With the debt avalanche you should list all your debts in the order of highest interest rate to lowest interest rate. Then, you should pay the minimum balance on each debt except the one with the highest interest rate, which you should pay extra money towards. This strategy can help you save lots of money paid towards interest.

Either strategy can work. Pick the one you like most!



Depending on what you do before, during and after the holiday gift-giving season you could either be struggling to pay the bills you have run up, or you could be doing more pleasant things. With some focus and good decisions, you can have a great holiday season and stay within your spending limits.

You can talk about holiday spending, and other financial topics, with your county's financial educator. Visit https://counties.extension.wisc.edu/ for more information.

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