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Spend Smarter This Holiday Season

Follow these tips to save money, shop wisely and avoid fraud

FRANKFORT, Ky. (Nov. 25, 2013) – Once the Thanksgiving traditions are complete and the family members have recapped all they're thankful for, many Kentuckians will turn to sale fliers to plan their Black Friday or Cyber Monday attacks on Christmas shopping.

The Department of Financial Institutions (DFI) would like to remind consumers to spend wisely this holiday season by shopping smarter, saving money and avoiding fraud.

"Creating a plan and sticking to it is one of the best ways to save money this holiday season," said DFI Commissioner Charles Vice. "And having a savings plan can lead to less holiday stress and a more prosperous new year in 2014."

Develop a spending plan

Make your list and check it twice. Decide who you plan to buy for, how much you expect to spend, and include some gift ideas to help guide you while you're shopping. Total up your holiday budget and make sure it's within your means. A rule of thumb is to make sure your spending is less than 1.5 percent of your household annual income. For example, a family with an income of \$50,000 should try to keep its holiday spending below \$750. And don't forget your budget should include all the extras – gift wrap, bows, cards and postage. If you have a hard time staying on budget, consider an envelope system. Set aside the amount for each person in a labeled envelope; when it's empty, you stop shopping.

Consider paying cash for purchases

Leave your credit cards at home while shopping. Using cash or your debit card costs less in the long run. Consider the cost of credit:

- Shoppers around the country say they are planning to spend an average of \$801 for gifts this holiday season, according to the 29th annual survey on holiday spending from the American Research Group Inc.
- If you put \$800 on your credit card at 15.5 percent interest and only make minimum payments, it will take about three and a half years to pay it off and you will pay \$238 in interest. (This assumes \$25 minimum payments.)

- Don't sign up for store credit accounts just to receive a discount. Only apply for offers that you can afford and that you will use responsibly. Remember that every credit account you open or close affects your credit score.
- If you do use credit, make sure you have a plan to pay off the balance – the sooner the better. Don't be afraid to talk with a credit counseling agency if you're having trouble.
- Spend as you go. Don't spend December's "extra" paycheck or holiday bonus before you have it.
- If you are using a debit card, know your balance prior to making a purchase, so you don't incur overdraft fees.

Comparison shop and use discounts

Do your homework before hitting the stores. Compare prices for gifts – especially larger-ticket items – to ensure you are getting the best deal. Use coupons, sales, customer rewards programs, lay-away and free shipping offers. If you have a smartphone, download apps to help you compare prices. Take sales fliers with you, as some stores will price match. When giving gift cards or prepaid credit cards, watch out for fees and expiration dates. And remember that procrastinating can lead to rushed shopping and overspending. People are more likely to buy on impulse when tired, hungry or rushed.

Be creative if you need to cut back

If you find you need to scale back spending this year, there are lots of ways to approach it.

- Talk to your friends and relatives about the idea of cutting back. Maybe set a spending cap. Parents might decide to skip gifts for each other in order to focus on the children.
- Set up a "Secret Santa" or "White Elephant" gift exchange. Everyone would get a gift, but each person would only have to buy one.
- For those who are crafty, consider creating a handmade gift. The possibilities are endless, and many are fun projects that children can help with.
- If you have a talent – or time on your hands – create personalized coupons for a specific service, special outing or "free time" that the receiver can redeem in the new year.
- If your budget isn't adding up, consider increasing your income. Pick up a seasonal job or do "odd jobs" to earn some extra shopping money.
- Don't worry about what others are doing. Remember that big spenders are often the most in debt. Make sure you're on the right financial path for yourself.

Stay safe

Avoid fraud and identity theft by checking your statements regularly. When company comes to visit, make sure your mail and personal papers are filed away and not out on counters. Shred all unneeded paperwork that contains personal or banking information. If you shop online, make sure you are using trusted, secure sites.

Help someone else start saving

Teach a child the value of saving by depositing money into a savings account or establishing a 529 college savings plan - a tax-advantaged investment vehicle designed to help families set aside funds for future college costs - in his or her name. Instead of buying an expensive toy, give your child cash and promise to help him or her budget, save and shop for the desired item. Review your child's wish list with him or her and have a conversation about how much the family or Santa might realistically be able to give – it could be a great lesson on prioritizing and opportunity cost.

Save for every season

Get in the habit of paying yourself first – set aside money regularly all year so that you have it when you need it. If you have direct deposit, earmark some money from every paycheck for savings. Or consider a holiday savings account to regularly set aside funds. Take advantage of the chance to earn interest. If you haven't saved all year and are now caught unprepared, cut back something in the short term and use the savings for your shopping. For example, if you usually go out to lunch at work, bring your lunch one or two days a week and put that savings aside.

DFI, <http://kfi.ky.gov>, is an agency in the Public Protection Cabinet. For more than 100 years it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence and encouraging economic opportunities.

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