

The Biggest Ways People Waste Money; They run the gamut, from the smallest things (coffee, anyone?) to the largest (do you really need that big house?)

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FULL TEXT

For David Bach, few purchases are a bigger waste than a new car.

The average American will have to work about two or three months a year just to make the payments on a new car with insurance, says Mr. Bach, co-founder of AE Wealth Management and author of several books on personal finance. It's a huge, unnecessary expense, he says, at a time when many Americans have little if any savings and aren't putting anything away for retirement.

But he is particularly scornful of a much smaller purchase: coffee.

"I do not start my day without coffee," Mr. Bach says, "but I make it at home every morning for 20 cents instead of spending \$5" at a cafe.

Everyone has a different take on the biggest ways Americans waste money. We asked a group of experts about where they see the biggest financial waste—and what can be done about it.

Below are edited excerpts of conversations The Wall Street Journal had with Mr. Bach; Robert Shiller, a Nobel Prize-winning economist and Yale University professor; Danika Waddell, a certified financial planner at Goddard Financial Planning in Seattle; Soo Kim, an assistant professor of marketing at Cornell University's Samuel Curtis Johnson Graduate School of Management; Ellen Weber, a certified financial planner in Seattle, and Jonathan Bricker, a psychologist at the Fred Hutchinson Cancer Research Center in Seattle.

WSJ: What are some of the biggest things people waste money on?

DR. SHILLER: Big houses are a waste. People are still in a mode of thinking about houses that is kind of 19th century. As we modernize, we don't need all this space. For example, we don't need elaborate kitchens, because we have all kinds of delivery services for food. And maybe you don't need a workshop in your basement, either. You used to have a filing cabinet for your tax information, but now it's all electronic, so you don't need that, either. And bookshelves, for people who read a lot. We have electronic books now, so we don't need bookshelves anymore. Subscriptions to health clubs are notorious, and capitalize on people's failure to anticipate their future laziness.

MR. BACH: Small-dollar purchases like coffee and bottled water. When you ask people why they don't save, why they don't invest, why they don't use their 401(k) plans, the No. 1 reason is "I don't make enough money." Five dollars a day makes a huge difference. If you're sipping a latte right now and you're not saving, well, that's dumb.

MS. WADDELL: The primary thing I see people waste money on is "convenience" items and unplanned grocery-store trips. Lack of planning leads to people stopping to pick up one or two things and then spending \$100 or more.

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DR. BRICKER: It's often in quickly consumable items—mostly things you can put in your mouth, so convenience foods, sweet foods, and things you can drink. You can consume them immediately, so there's an immediate reward that you get from it. And you are not seeing the longer-term perspective on how that consumption is not only harmful to your wallet but also harmful to your long-term values—what we want to be doing with our life.

There also is wasted spending on the things you deep down don't really care about or you're not ready to commit to doing something about. You buy the Peloton bike for \$2,000 because you care about your health, but you are not ready to do the hard physical work, so it sits in your basement.

MS. WEBER: When children become adults, I often see parents who are reluctant or forgetful about moving their adult children on to paying their own car insurance and cellphone bills, things that have a family plan, even though the kids may be 27 years old.

Some parents tend to overschedule their younger children. It would benefit both parents and children to take a look at how much they're actually getting out of some of those extra activities and whether it would be better to focus on just a few and not try to have their kid have a finger in every single pot or club or sport.

I also think people waste money buying more house than they need. This whole notion that every single person in the house needs their own bathroom is somewhat ludicrous. And yet most homes now are built with that kind of space, even though families are shrinking. More and more of our stuff is stored electronically; we should need less storage for it. There's also a tendency to buy houses with big yards that most people do not use but end up spending lots of money paying someone else to mow and maintain.

DR. KIM: Compensatory purchases. Essentially anything that people use to signal to other people that they are successful in some domain because they don't feel so successful in reality can be a compensatory product. So, conspicuous things like luxury goods and accessories that have big showy logos, to signal that they have money and social status.

But even a relatively small-ticket purchase could be a compensatory purchase. I think this logic could be applied to many of the "fancy/hip" brands today, even with those handling smaller-ticket items like coffee.

WSJ: Why are people spending money on such purchases?

DR. SHILLER: Having a big house is a symbol of success, and people want to look successful. People have to know about your achievements. How do you know, really? Who knows what people are doing in their day job? But you do see their house.

MR. BACH: We spend money unconsciously. It's a habit. You don't stop and think about it.

MS. WADDELL: Lack of planning ahead and lack of time. People take shortcuts, rely on convenience without price shopping. Also, a lot of people justify indulgences as they work hard and feel they deserve it. There's definitely nothing wrong with this, but people should find one or two things to splurge on, such as a daily latte, and then focus on bringing lunch from home or trimming the budget in other ways.

MS. WEBER: You don't want to be seen as the bad parent or the cheap parent who is not giving their kids all of the life experiences and education that they could.

With older kids, there's a lot of sympathy for how difficult it can be for new graduates to get launched in a career and they're having a little bit of a tight budget. I think learning to live on a tight budget and learning to do without when you need to is a valuable life experience.

With automation, we are not forced into reviewing purchases every month, like in the old days when you got a paper bill statement. So, it's very easy for those things to creep up. I know I'm guilty. My cable bill has crept up. I know if I took the time to call the cable company and talked to them I could get it knocked down. But, have I done that yet? No.

DR. BRICKER: People are avoiding discomfort and they're seeking pleasure. Often that conflicts with what they

care about in the long term and in terms of what's important to them, what gives them purpose, what gives them meaning in their lives.

DR. KIM: To show that they are something, perhaps something they currently feel that they are not. In other words, to compensate for what they don't feel that they have. We have found that people who have purchased items that symbolize a discrepant area of the self actually do worse in subsequent tasks, like solving math questions or persisting in a difficult task.

WSJ: How do high- and low-income earners waste money differently? Similarly?

DR. KIM: There's research saying that higher-income groups are happier buying experiences, whereas low-income groups are happier buying things and materials that are obviously more tangible and long-lasting. So, in the context of compensatory consumption, perhaps higher-income groups will try to signal success by going on uber-fancy vacations, whereas lower-income groups will try to signal success by buying branded objects.

DR. SHILLER: At every income level, within your group, you want to be respectable. Sociologist Leon Festinger said it's natural to compare yourself with others, but when people do, they tend to compare themselves with others close to them in the hierarchy.

WSJ: What are some ways consumers can curtail wasteful spending?

MR. BACH: Start by tracking where you spent money for a day. The fastest way to find money is to go through what you've already signed up for that you pay for automatically every single month. There are a lot of apps that make this easy.

MS. WADDELL: Meal and grocery planning is one of the biggest ways to trim your budget. If you plan a week's menu and grocery shop once per week for those items, you're far less likely to stop at the store and spend on unexpected items. My own personal version of this is getting a subscription to a meal-delivery kit. While not the absolute cheapest thing, it cuts way back on grocery-store stops and saves me a lot of money in the long run.

DR. BRICKER: Take 30 seconds just to notice the urge to make a purchase, and say: "Can I let this pass?" And if you can wait five minutes, you will very likely discover that urge to buy that thing will have come and gone.

DR. SHILLER: When it comes to housing, there are books about this in the last 20 years—including "The New Small House"—that talk about designing houses to look impressive as well as function with a smaller scale.

Just like we're developing Uber and Lyft and Airbnb using existing resources more efficiently, we can also build houses that are better at serving people's needs without being big.

It Adds Up

Coffee Run

\$1,277: What you would save annually if you didn't spend \$3.50 daily on coffee

\$85,305: What you would earn over 30 years if you instead invested the money monthly and earned an annual 5% return

Bottled Water

\$548: What you would save annually if you didn't spend \$1.50 daily for bottled water

\$36,608: What you would earn over 30 years, if you instead invested the money monthly and earned an annual 5% return

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Share Your Thoughts

What purchases do you find most wasteful? Join the conversation below.

Credit: By Chris Kornelis

DETAILS

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