

Needs vs. Wants

Karen Slunecka | SDSU Extension Family Resource Management Specialist

To be able to save money and live on a budget, it helps to clearly understand the difference between needs and wants. It is easy to spend money, but not so easy to spend it wisely. One way to help spend wisely is to separate needs and wants, spending primarily on needs.

A good financial plan including goals will help in determining the difference between wants and needs.

Needs are usually defined as the basic things that are essential for survival such as food, shelter, clothing, water, utilities, health care, and transportation. Some expenses that relate to employment may also be needs.

Wants are usually defined as items that would be nice to have. They generally make life more interesting and fun, but individuals could survive without them. People may interpret wants differently. Clothing is considered a need, but designer jeans would be considered a want. Everyone has wants, but needs have to come first. Before buying something, ask yourself, "Do I need this, or do I just want it?"

Needs may be different at different times in our lives, such as retirement, loss of a job, divorce, or being sick and not able to work. One person's wants may be another person's needs. There is no right or wrong answer. That's because people define needs and wants differently; they usually base them on values. So some items may be flexible. For example, one person may need an iphone for work, and for another person it is a want.

Think of your last five purchases. Decide if each item was a need or a want? Next, list your needs and wants on the worksheet below. Estimate the monthly cost of each of these items. In other words, what is the total monthly cost of your "needs" such as housing, food, and clothing? What is the total monthly cost of your "wants" or items which payments are being made on that were purchased to satisfy those "wants?"

Is the spending list more for the "wants" or for "needs?" Are there wants on the list to give up so more money could be saved? For wants, write down a reasonable alternative that may cost less.

NEEDS VS. WANTS WORKSHEET				
Needs (items necessary for survival)	Monthly Cost	Wants (items purchased out of desire)	Monthly Cost	Alternatives to wants
Total Cost of Needs		Total Cost of Wants		

A car may be needed to get to work, but a brand new sports car may be a want. Financially decide what your spending plan (budget) allows, and what is most important.

Get the family involved. Sit them down and explain the difference between needs and wants. Have them make a list of needs and wants using the worksheet. Determine if their items are needs or wants. See if they can estimate the cost for each. Show them how long it will take using an allowance to pay for it.

The purpose of examining wants versus needs is to reduce spending and ultimately reach your financial goals. Maybe a goal is to buy a home, create an emergency fund, save for retirement or send children to college. It is ok to want things, but put hard-earned money towards financial goals. Limit spending to the things that matter most and use the remaining to power your financial future.