$499.95 is the new $924.85

Years ago a couple of psychologist began a study of a group of five year olds. Of the many things they were studying was how delayed impulse control affected future success. They asked the group a simple question. Would you prefer one cookie today or two cookies tomorrow? Tomorrow is close to forever to a five year old mind.

The psychologists tracked this group through high school, college and into working life. One key finding was those children who chose to delay gratification, getting two cookies tomorrow, were more likely to graduate high school, complete college and to score higher on a variety of key success measures later in life.

Today, as consumers, we face the cookie question each time we get ready to buy something. We may feel we deserve a reward after working hard and accomplishing a difficult goal. Or we may feel emotional distraught after a break up with our significant other and need to pamper ourselves. Or we may want to feel the envy of others as we become the first to have the latest techno-gizmo on the block.

However, as we get closer to or are in retirement we need to change the way we look at how we spend money. After all, we no longer have a paycheck to bail us out of impulse buys. The money we now spend comes from a fixed source. What we spend today may be needed for something critical tomorrow.

Marketers know how to manipulate all sorts of emotional triggers in consumers. We may have valid reasons for purchasing something, but prior to purchase we should know the true cost of what we are purchasing. Maybe we are getting ready to spend $495.95 on the latest designer handbag or the newest way-cool cell phone. We may tell ourselves that $499.95 is really $500 and the marketers cannot fool us. But what is our total cost?

First there is sales' tax at 5% is another $24.95. If we charge the purchase and take one year to pay it off at a simple 10% interest that is another $52.50. But, wait. In order to pay off the entire amount we must earn some money first. If we earn money we must pay federal and state income taxes and payroll taxes. This can add up to 30%. We must earn $824.85 to net the amount to pay off the credit card. This cookie is getting to be quite expensive.

But, that is not all. Economists talk about opportunity costs. This is the loss of savings on the money we used to make our purchase. If we are to retire in five years, instead of spending the money today we save the $500 and get a simple 4% a year in interest would be another $100 in five years. So now $495.50 has become:

Purchase	$499.95
Sales tax	24.95
Interest	52.50
Payroll tax	40.00

Income tax	207.45
Opportunity cost	100.00
Total	$924.85

Our emotions may overwhelm us on an impulse buy but we should be thinking real costs. Is that designer bag or cell phone worth $924.50? Would we be happier with an additional $924.85 at retirement instead of an out-of-fashion handbag or an old technology cell phone? Are we a one cookie person or a two cookie person?