

MONEYWISE

VALUING PEOPLE. VALUING MONEY.

VOLUME 16 • ISSUE 1

THIS MONTH'S TOPIC: FORMING HEALTHY FINANCIAL HABITS

Have you ever wished you could change the way you handle money? Learn more about the science of forming habits and how you can use these strategies to improve your finances.

HOW HABITS ARE FORMED

James Clear, author of *Atomic Habits*, describes habits as behaviors that we repeat so many times they become automatic. There is a four-step process to creating a habit that forms what he calls the “habit loop.” Those four steps are:

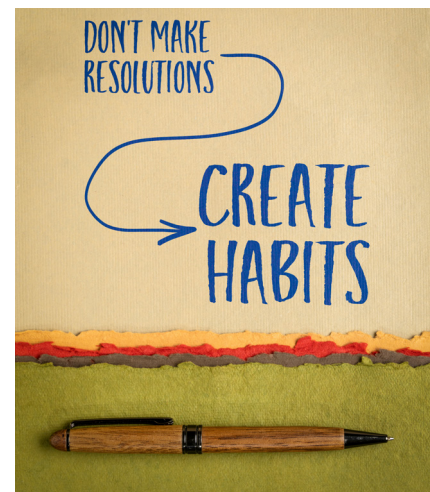
Cue → Craving → Response → Reward

The first two steps involve *responding to a problem*. The last two steps involve *arriving at a solution*. By becoming more aware of our habit loops, we can take actions to create a good habit or break a bad habit.

HABITS AND MONEY

So how do we apply this to personal finance? Think of something you want to change about your money habits. Maybe you want to reduce the number of times you eat out each week. You might accomplish this by going to the grocery store and cooking at home.

First, identify what “cues” you to eat out in the first place. The **cue** may be hunger. For example, you saw a commercial for pizza,



drove past the sign for a delicious sit-down restaurant, or it was 6 p.m. and that is your normal dinner time! The **craving** is for food. The **response** is to buy the food, and the **reward** is that you are no longer hungry.

In order to change this cycle – and the money spent on it – there are things we can do to reinforce a good habit, as well as things we can do to avoid a bad habit. The table below breaks down this dinnertime “habit loop.” Namely, you want to make a new habit obvious, attractive, easy, and satisfying. Similarly, you want to make an old habit invisible, unattractive, difficult, and unsatisfying.



Cycle of Habit Loop	Form a Good Habit – <i>Make it ...</i>	Break a Bad Habit – <i>Make it ...</i>
Cue: Hunger	Obvious: Plan ahead. Place the recipe for tonight on the counter or save a picture to your phone.	Invisible: Avoid TV and internet before mealtimes if advertisements trigger you to eat out. Or go home a way that avoids restaurant temptations.
Craving: Food	Attractive: If cooking is a chore, then pair an activity you enjoy with it. Maybe call a friend or listen to music, or an audiobook or podcast.	Unattractive: Give yourself reminders of why you don't want to eat out. Put a picture of what you're saving for in your wallet to remind you not to spend.
Response: Buy food	Easy: Prepare your cooking space the night before, so when you come home from work it's a breeze to get started.	Difficult: Make visiting restaurants more of a chore. Delete apps that allow for restaurant delivery or remove phone numbers for call-ahead orders.
Reward: Full	Satisfying: Reward yourself for sticking to the plan! Prepare a small dessert to complement your meal or plan a fun after-dinner activity.	Unsatisfying: Appoint someone to hold you accountable and remind you of your commitment.

CHANGING YOUR HABIT LOOPS

Use this blank chart to note a financial habit you would like to create or change. First, decide on the habit, then identify the parts of the cycle in the first column. Finally, brainstorm ways to reinforce a good habit in the second column and/or find ways to make a bad habit less appealing in the third column.

New Habit: _____

Cycle of Habit Loop	Form a Good Habit – <i>Make it ...</i>	Break a Bad Habit – <i>Make it ...</i>
Cue:	Obvious:	Invisible:
Craving:	Attractive:	Unattractive:
Response:	Easy:	Difficult:
Reward:	Satisfying:	Unsatisfying:

REFERENCE:

Clear, James. (2018). *Atomic Habits: An Easy and Proven Way to Build Good Habits & Break Bad Ones*. Avery Press.

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