Introduction to Personal Finance

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Biblical Foundation (as shown in Proverbs)

- Wealth is considered a sign of God's blessing (Prov 10.22)
- Wealth is connected with character and wisdom (Prov 8.18, 13.21, 22.4)
- Wealth is gained through hard work (Prov 10.4, 14.23)
- Generosity is normative for God's people (Prov 11.24-25, 19.17, 28.27)
- Righteousness and faith are considered better than wealth (Prov 11.4, 11.28, 16.8)
- All people, rich or poor, are under God's sovereignty (Prov 22.2)
- Debt is servitude (Prov 22.7)

Some Additional Principles

- Wealth is a *means*, not an *end*. We don't pursue money for the sake of having more (Matt 5.19-21; Luke 12.13-15). Wealth is a tool that enables us to do things—nothing more, nothing less.
- We can do only *three* things with money: spend it, save it, give it away.
- God calls us to be *responsible stewards* of everything, including our finances.
- Debt should be avoided if at all possible. You experience a much greater degree of freedom when you pay cash.
- The key to financial success depends on a little knowledge but mostly your behavior. Like most things in life, a simple, disciplined approach will enable you to achieve your goals.

Seven Steps

These seven steps are taken from Dave Ramsey's material (see http://daveramsey.com/).

Step 0.1 – Develop a monthly budget. Track all of your income and expenses, and make a new budget every month. This is essential—you have to know where your money goes.

Step 1 – Save $1,000 in an emergency fund. Use a high-yield savings account or money market account to automatically begin saving (see the resources below and Michael Gowin's web site – http://michaelgowin.com/blog). Don't simply "allocate" part of your checking account as an emergency fund—this money needs to be separate so that you use it only for emergencies. Start with as much as you can, even if it's only $25/month.

Step 2 – Pay down debt. Make a list of all your debts, from the smallest to the largest. Make extra payments to pay off the smallest one first while continuing to make the minimum monthly payments on the others. Consider working an extra job to make the additional payments. The sooner you pay off your debts, the less you pay (because of the interest they accrue). NOTE: if you have an emergency that requires using some of your savings from Step 1, STOP making the extra payments here and get your emergency fund back up to $1,000.

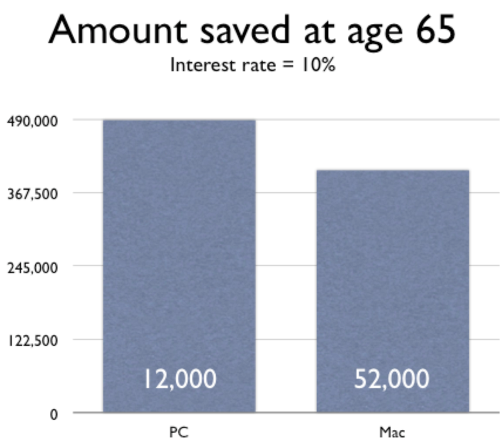
Step 3 – Save 3-6 months' expenses in your emergency fund. Once your debt (except for your home) is paid off, get your emergency fund fully funded. A common goal is $10,000.

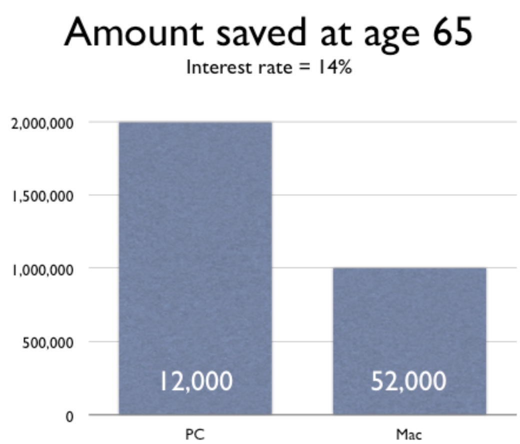
> *Important note for missions students:* Consider working as far into Step 3 as possible *before* leaving for the field. This will give you peace of mind (not worrying about having to pay off debt) and be a more responsible use of your supporters' resources.

Step 4 – Invest 15% in retirement. If your business or organization offers a retirement plan (401(k), 403(b), matching contributions, etc.), take full advantage of it. Invest additional money in Roth IRAs (contributions are not tax-deductible like traditional IRAs but the earnings and withdrawals *are* tax-free). To maximize your money's growth, invest as early and as much as possible. Bear in mind the following scenarios:

- Two people, PC and Mac, invest $1500/year in retirement savings.
- PC started at age 23 and quit at age 30 (total contribution $12,000).
- Mac started at age 30 and made payments for the next 35 years (total contribution $52,500).

The graphs below show the total amount of their savings at age 65.





The lesson? Start early! Compound interest can work for you or against you—especially if you buy on credit and have to pay interest.

Step 5 – Save for college. Saving for childrens' education will help them avoid debt. Take advantage of educational savings accounts (ESAs) and 529 plans to allow your earnings to grow tax-free.

Step 6 – Pay off your home. Make additional payments to pay off your mortgage early. If you don't have a home, "pay it forward" and start saving for a home now.

Step 7 – Build wealth. Now that you're completely free of debt, spend, save, and give in any way that you choose!

Miscellaneous Thoughts

Living a frugal life – As previously mentioned, simplicity and discipline are essential to financial success. Here are a few suggestions.

- Shop at thrift stores and garage sales.
- Make meals at home (eating out is e-x-p-e-n-s-i-v-e).
- Buy used cars.
- Don't spend.
- Ask for discounts (it never hurts).
- Walk or ride a bike instead of driving.
- Use the library or media center to get movies and books.

Banking – Doing your banking online is easy, secure, and efficient. Here are four to consider:

USAA.com – free checking, free deposit-by-mail envelopes, ATM fees from other banks' machines are refunded

HSBCdirect.com – good savings rates

INGdirect.com – good savings rates

Wamu.com – free checking

Insurance – Here's a brief overview of the types of insurance you'll need.

Life – Life insurance is intended to protect income for your spouse/dependents in case of your death. If you're married and/or have children, get a term-life policy that will cover their expenses until the children are out of the house (consider $500,000+ for wage earners, $250,000 for non-wage earning spouses). Avoid whole and universal life products—these are a poor use of your money). If you're single, you don't need life insurance.

Auto – For new(er) cars, get liability, comprehensive, and collision. For older used cars, you need only liability.

Home/Renters – Get replacement coverage as well as significant liability coverage ($300,000+).

Health – Health/medical/accident insurance is crucial, especially for families. Most employers offer coverage. Shop around if you need to be self-insured.

Long-term disability – Necessary for wage earners. Most employers offer LT disability coverage for little or no cost.

Wills and Estate Planning – Don't die without a will or trust. You can set up a will and/or estate plan through LCC's estate planning office for less than half of what other law offices charge. Contact Rick Hobler.

Resources

Books

Davidson, Jeff. *The Joy of Simple Living.* New York: Rodale, 1999.

Dominguez, Joe and Vicki Robin. *Your Money or Your Life.* New York: Penguin, 1999.

Ferriss, Timothy. *The 4-Hour Workweek.* New York: Crown, 2007.

Ramsey, Dave. *The Total Money Makeover.* Nashville, TN: Thomas Nelson, 2003.

Tobias, Andrew. *The Only Investment Guide You'll Ever Need.* San Diego: Harvest, 2005.

Courses

"Financial Peace University." Offered around the country at churches and possibly other locations.

Online

DaveRamsey.com – http://daveramsey.com – Lots of helpful resources. Free budget worksheets and a good FAQ.

Get Rich Slowly – http://getrichslowly.org/blog – One man's attempt to get out of debt and help others do the same. Outstanding with lots of articles on finances and simple living.