Wholehearted Money

WH M

Creating a financial plan to enable the life you were meant for

"Whatever you do, work at it wholeheartedly as though you were doing it for the Lord and not merely for people." Colossians 3:23

About this course

Welcome! This is a course about how to use our finances to create freedom to live the lives we were meant for. Finances are a stumbling block for many people that limits our pursuit of living with meaning and purpose as God has designed us. We also avoid thinking about our finances because they are often a source of stress and frustration. But avoiding our finances actually makes us think and stress about them more over time.

Which leads us to the main purpose of this course:

To thoughtfully create a financial plan so we can spend less time distracted and limited by our finances and more time living with meaning and purpose.

Here is what you can expect from this course:

- A conversational values-based approach that integrates your life and finances
- An emphasis on financial habits and behaviors along with technical knowledge
- A balance of spiritual and practical knowledge
- Lots of examples, exercises and worksheets[1]
- An unbiased approach to personal finance (or at least biases acknowledged)
- 7 weekly sessions with videos designed to be completed in ~1 hour in a small group or on your own

My hope is that God + your efforts in this course = finances that improve lives.

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WH M

Integrity - "the state of being whole and undivided" - is critical to how we view our finances as they must fit with our other pieces of life to comprise the life we want

[1] If this line doesn't get you excited, I'm not sure what will. By the way, I like footnotes. They may be be used throughout this workbook for relevant but mostly irrelevant information.

About this course

How to use this workbook

This workbook is comprised of 7 sections to follow the weekly sessions with each section containing:

1. An overview of the week's content and how it fits within our overall financial plan
2. Notes to follow along with the video discussion
   - Answer key in Appendix
3. Discussion questions to consider as a group or individually
4. Action steps to complete as part of creating our financial plan
5. Additional reading for more in-depth discussion related to the week's topics
6. Worksheets for each section are included in the Appendix
   - Electronic copies of worksheets available online and are recommended[1]

Course Schedule

Week 1 - Overview & Roadmap

Week 2 - Stewardship and spending

Week 3 - Goals and spending plans

Week 4 - Debt

Week 5 - Investing for retirement and college

Week 6 - Avoiding big spending mistakes (Houses, Cars and Insurance)

Week 7 - Giving and putting it all together

[1] Available at www.wholeheartedmoney.com

Table of Contents

Motivational picture[1]

1 To keep printing costs lower, I will keep these inspiring type of pictures common to workbooks to only a few and is definitely not because I'm too lazy or uninterested in trying to connect finance topics to photos in some vague way….

Week

One

Overview & roadmap

Introduction to Week 1

This week we set the stage for the entire course and the plan we will follow to enable our finances to better support our lives. But first we start with personal questions:

(1) How satisfied are you with finances today?

(2) Do you sometimes wonder if your finances are not all they could be?

C.S. Lewis[1] once wrote the following about how some Christians live:

"It would seem that Our Lord finds our desires not too strong, but too weak. We are half-hearted creatures, fooling about with drink and sex and ambition when infinite joy is offered us, like an ignorant child who wants to go on making mud pies in a slum because he cannot imagine what is meant by the offer of a holiday at the sea. We are far too easily pleased."

We are far too easily pleased. Does this describe how you interact with money? Could we be settling in our finances and not asking enough from them? It is certainty hard enough to earn money and we spend a lot of the time we have in our lives to do so, but then we spend very little time intentionally planning how to use this money.

We can change our approach to money and we have not been left alone to figure this out. There is a reason the Bible talks more about money than any other topics as it is critical to how well we can live the lives God designed us for.

This is what is at stake when we talk about money - our ability to follow God's design for us.

[1] I hope quoting C.S. Lewis convinces you what a serious scholar I am of Christian literature

The big picture goal

To become responsible managers of our finances to enable us to live and focus on what God's design is for our lives

- **"Responsible managers"**
  - It all starts with our _______________ (1) and _______________ (2) with money and taking responsibility
- **"Enable"**
  - Money is a ________ (3) that can provide us with freedom, or it can _______ (4) us
- **"Focus"**
  - Money can cause distractions, or it can help ___________ (5) them
- **"God's design"**
  - There is a bigger ______________ (6) for our money

What God wants for us with our money[1]

- _____________ (7) to pursue our lives, rather than restricting our lives
  - Galatians 5:1; John 8:31-32; 2 Corinthians 3:17; John 10:10
- Perspective with money placed in its appropriate _____________ (8)
  - Matthew 6:33; 1 Timothy 6:10; 1 Corinthians 4:17; Luke 16:10-13
- To use it wisely as a tool to _______________ (9) Him and others
  - Ephesians 2:10; Luke 16:9; Proverbs 3:9; 1 Timothy 6:17-19; Luke 10:33-34; Acts 20:35

[1]Feel free to use any version of the Bible for these verses (can use biblegateway.com or the Bible app if don't have a Bible). Or you could pay for the King James version read by James Earl Jones, I haven't tried it but I can't see how the voice of Darth Vader and Mufasa could subtract from the experience.

Key concept in this course: Opportunity costs (i.e. trade-offs)

Spending money in one way means it can't be spent in another way. So we give up the "opportunity" to use money in a certain way when used in another way.

Implications:

- Spending decisions can't be made without considering our values and goals
- Spending decisions _____________ (10) our ability to serve God
- Spending decisions affect our ability to ______________ (11) others
- Each spending decision is a _______________ (12) towards a direction in our lives

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Why is money so hard?[1]

Some statistics:

- Money issues are cited as the #1 cause of divorces
- Money issues are cited as a leading cause of stress
- More than 70% of people live paycheck to paycheck
- ~50% of people over age 55 don't have any retirement savings
- ~40% of households carry credit card debt (average balance of ~$9K)
- ~45% of households have zero charitable giving in a year
- Savings rates in the U.S. have steadily declined over time

[1] You can't have a finance course or book without endless statistics about how bad we're at with money, I tried to keep it short

Why do we struggle with money? 5 examples

1. We try to use money to buy things that can’t be bought

Money can’t buy:

- Happiness or ________________ (13)
- Security and ______________ (14)
- Close relationships with other people
- A deeper __________________ (15) life

No matter how much we try. It works for a while. But then we get bored.[1] So we get frustrated and disappointed. But then we try again and the cycle continues. And all we’re left with is less savings and more debt but not more happiness, meaning, peace, security or real relationships.

Solution: Know your identity and values and what you really want, and constantly remind yourself of them

2. We believe money is ours to do whatever we want with it

- Does everything we have come from God? ____________ (16)
- Does everything include our time and ability to earn money? Yes
- If our ability to earn money comes from God, then who really ___________ (17) the money? God
- If God owns the money, then can we do whatever we want with it? No

This is called a stewardship perspective and it means <u>all of our spending has spiritual consequences.</u> There is a ___________________________ (18) with our spending and money management.

Solution: Practice a stewardship perspective

[1] This is a concept called “hedonic adaptation” in case you need a new vocabulary word to impress others and we’ll discuss further in week 6

Why do we struggle with money? 5 examples

3. We don't know how to get started with money and it's complicated

It can be very difficult to get started with managing money because of:

- Millions of people "selling" financial advice and products that frequently contradict to get our ____________________ (19)
- Advice and products made more complex than needed to justify new or higher fees
- Fees that are often ___________________ (20) or difficult to understand
- Can involve lots of math and uncontrollable factors

But there is a core set of time-tested, relatively simple advice that research and history have shown perform just as well or better than more costly advice. The hardest part is actually consistently following the basic steps.

Solution: Create a plan, keep it simple and automate as much of the plan as possible

4. We face a lot of influences over money and most are not helpful

- $151B was spent on advertising in the U.S. in 2018 resulting in thousands of messages per day about how we'd be happier if we just spend money in some way
- Our culture celebrates wealth and spending as signs of __________________ (21)[1]
- Social media often reinforces the feeling we're ______________________ (22) in a competition to live our "best lives"

This all adds up to a culture of comparison and envy that can drive our spending in ways that are inconsistent with our values and leads us away from contentment and happiness. Achieving other people's goals in your life will only lead to dissatisfaction with your life.

Solution: Follow a spending plan tied to <u>your</u> values and <u>your</u> goals

[1] Have you ever noticed that there is a tendency to encourage listening to wealthy people as if they are wise about money or wise about other aspects of life? Does this mean I should listen to a reality TV star or lottery winner for personal finance tips? Or not listen to Jesus?

Why do we struggle with money? 5 examples

5. We have little flexibility in our finances

Having flexibility in our finances allows us to (1) take advantage of opportunities as they arise and (2) more easily handle life's unexpected events. Not having flexibility means saying "no" to opportunities and experiencing additional stress if there is any bump in our financial paths. Having little flexibility in our finances means:

- Our monthly expenses are equal to or exceed our monthly income
- We don't have money in short-term savings
- We have accumulated credit card or other types of debt
- We have made significant long-term financial commitments that stretch our finances

Solution: Establish and follow a plan that reduces costs, increases savings, pays down debt and aligns your finances with your long-term goals

Quick check-in

Mark down below whether any of these examples are applicable to you to some extent

Frequency:	A lot	Sometimes	Not at all	No idea
1. Try to buy what can't be bought				
2. Lacking perspective				
3. Don't know where to start				
4. Unhelpful influences				
5. Little flexibility				

Discussion questions

10 min

1. Why are you in this class and what are you hoping to get from it?

2. Why do you think we struggle with money?

3. Did you relate to any of the five examples of how we struggle with money? Why or why not?

Roadmap

Our Framework

5 habits

- Reinforce our identity
- Set goals and track our progress with accountability
- Become an intentional spender
- Automate our finances as much as possible
- Review our finances on a regular basis

We focus on what we can control
(our habits and behaviors)

Which enable us to achieve our financial goals
(may not always be within our control)[1]

5 goals

1. Save 1 month of essential expenses
2. Pay off high interest debt
3. Save 3 months of essential expenses in a flexibility fund
4. Save for retirement in a Roth IRA / 401k
5. Save for other personal financial goals:
    a. Buying a house / car
    b. Paying off remaining debt
    c. Saving for college
    d. Starting a business or changing careers
    e. Giving more away
    f. Retiring early

[1] If any personal finance person / class / book tries to guarantee results, please increase your skepticism accordingly. Thanks.

Introduction to 5 habits[1]

1. Reinforce our identity

a. We identify and ____________________ (23) ourselves frequently of what God says about us, our motivations and our values

b. We need these reminders to counteract the unhelpful influences we are constantly exposed to in society around spending

2. Set goals and track our progress with accountability

a. We set our _________________________ (24) based on our motivations and values so that we avoid meaningless achievements

b. We then develop a plan to achieve the goals, keep track of them and tell someone else

3. Become an intentional spender

a. We _________________ (25) our spending with our values and goals and set "guidelines" for spending

b. We aim to consistently spend the most on what matters while cutting spending for things that don't

4. Automate our finances as much as possible

a. We make good financial practices __________________ (26) so that we don't stumble when motivation wanes or distractions happen

b. We aim to spend less time on money and more time on what matters to us

5. Review our finances on a regular basis

a. It's like a quiet time, but with money

b. It's a scheduled time to check in on progress and make any ______________ (27) to our goals and plans as needed

[1]You can call these "behaviors", "practices" or "disciplines" if you prefer

Introduction to 5 goals

1. Save 1 month of essential expenses

a. Defined as spending you can't ____________ (28), such as housing, utilities, basic food and transportation

b. We do this first to have some breathing room in the event of losing a job or minor unexpected expenses

2. Pay off high interest debt

a. Focus is on short-term debt with higher interest rates (5%+), such as credit card debt

b. Longer-term debt with relatively lower interest rates (e.g., car loans, student loans, mortgages) can be prioritized in goal #5

3. Save 3 months of essential expenses in a flexibility fund

a. This is an additional 2 months on top of completing goal #1

b. We do this to allow for flexibility in pursuing ____________________ (29) and to handle larger unexpected expenses with less distraction

4. Save for retirement in a Roth IRA / 401k

a. Even if we love our jobs, we will all likely need to stop working at some point and _____________ (30) money set aside for those years

b. A Roth-type account provides for more flexibility in using the saved funds

5. Save for other financial goals

a. This is where we ___________________ (31) our financial goals and finance becomes more "personal"

b. May include buying a house, paying off all debt, saving for college, giving more, starting a business, etc.[1]

[1]These are common financial goals, some other possible goals that didn't make the list of examples include paying someone to take the yellow M&Ms out of the candy bowl for you or vacations with your in-laws

Getting started: Exercises

Exercise #1 - Motivation (5 minutes)

- We have to start with being clear on why we want to get better with our personal finances so that when we have to make difficult or uncomfortable financial decisions, we can remind ourselves of the greater purpose for doing so
- These "why's" need to be personally meaningful to you and are a reflection of who you want to be (i.e. your values) and what you want to do with your life
- Examples can be directly related to finances (wanting to buy a home) or indirectly related to finances (wanting more time with your family), can have a "higher" purpose (giving more) or just fun (a boat that doesn't sink)

Write down the immediate motivations that come to mind on this page without thinking too much about them. We will finish this exercise later by using Worksheet #1, including reviewing our personal values to ensure our "why's" are consistent with them

Exercise #2 - Schedule Time (3 minutes)

- Open your calendar on your phone and schedule 1 hour per week for the next 7 weeks at the same day and time to set aside for working on your finances
- If you don't use the calendar on your phone, then think about when you are generally free during the week and write down the date/time here
- Do something enjoyable in this time each week while reviewing your finances - have a donut, some chocolate, a favorite beverage; any small inexpensive reward
- Each week, we will use this time to start building good financial habits and complete the action items in this class

Discussion questions 10 min

1. How can we motivate ourselves to get better with our finances - initially and ongoing?

2. What have you learned in the past when you overcame something difficult or changed a habit holding you back?

A reminder…

Regardless of our past history with money, we can only ____________________ (32) from today just like with anything else in life.

Two thoughts to consider:

1. "You can't go back and change the beginning but you can start where you are and change the ending." C.S. Lewis

2. "Therefore, there is now no condemnation for those who are in Christ Jesus." Romans 8:1

Action Items: Week 1

1. Finalize your scheduled 1 hour time slot for each week and your (inexpensive) reward

2. Worksheet 1 - Define your "why's"

Take some time to finish thinking about and writing down your motivations for getting better at dealing with money, including how they reflect your values. Narrow it down to the 5 most important ones. Getting better at money often requires trade-offs so we need to be crystal clear on what we are getting when potentially giving something else up. When struggling or facing temptations, these will be our reminders to keep going. These motivations can come from many sources:

a. Spiritual ("I want to serve God by having more to give away")

b. Career ("I want to start a business and/or leave this job I dislike")

c. Family ("I want to work less to have more time with family")

d. Emotional ("I want to worry less and feel more in control")

e. Materialistic ("I really want a 80 inch TV, massaging recliner and $4 donuts")

What are your main takeaways from this week's discussion?

Why ask "why's"

For some people it will be easy to identify their values and purposes ("why's") for their lives. For other people, asking yourself your values and purposes can be very difficult questions. For still others, you are just tired of me using the word why. But we need to be clear on our values and purposes before we can get better with our finances because we need very strong reasons to be able to make hard changes in our lives. Also, what is the point of having more money if you don't know what to use it for? If you're not careful, you could end up leaving it all to your dog or cat.[1]

So if you are not clear on your purposes or have not thought about them in a while, here are some tips to get started. It may not be shocking but the Bible has some advice on how to live our lives. Jesus summarized the Bible with: Love God and love others. So any purpose / value / goal / why needs to start with: how is this related to loving God or loving others?

Then for a detailed look at God's purposes for our lives, I highly recommend ***The Purpose Driven Life* by Rick Warren**. He outlines five purposes that God has for us:

(1) Worship - Getting to know God
(2) Church - Being part of a community
(3) Discipleship - Becoming like Jesus
(4) Ministry - Being part of serving others
(5) Mission - Sharing Jesus

So do your "why's" have something to do with knowing God better, being part of a church community, growing in character to be like Jesus, serving others or sharing the Bible?

At this point, if you need a reminder on why living a life of purpose and meaning is important, I suggest checking out ***Man's Search for Meaning* by Viktor Frankl**. It shows the difference that having a purpose for your life can have in overcoming difficult situations, and no matter how bad your financial situation is, it does not compare with what Frankl observed about people surviving in a World War II concentration camp. We are designed to want a meaningful life so we do what is necessary with our finances to enable that pursuit rather than be distracted from it.

Finally, I recommend one last very practical book that helps examine your life in ***Designing Your Life* by Bill Burnett and Dave Evans.** They are professors that have taught a class for years to students to help them figure out what they want to be when they grow up. And really we are never too old to figure out what we want to be. But we have to continuously try something and take action and try something else if that doesn't work.

Two last questions to consider in your pursuit of identifying your why's:

(1) What problems in the world emotionally impact you more than others and how can you contribute to solving them?

(2) What personal struggles have you had in your past or currently have that you could use to help others going through similar struggles?

[1] RIP Leona Helmsley and her dog Trouble

Week

Two

Stewardship & Spending

Introduction to Week 2

In week 1, we reviewed the roadmap to enable our finances to create more freedom in our lives with a focus on five key behaviors we want to establish:

1. Reinforce our identity
2. Set goals and track our progress with accountability
3. Become an intentional spender
4. Automate our financials as much as possible
5. Review finances on a regular basis

This week we focus on:

(1) Reinforcing our identity by reviewing how the Bible views our role with money

(2) Becoming an intentional spender by determining where we currently stand with our spending - both from historical and current perspectives.

For some of us, it may not be pleasant to look at our spending in detail as it may reveal some uncomfortable truths. But we remember our motivations that encourage us to do the difficult things we need to with our finances.

So take a minute now to think about those motivations you identified.[1]

Then we will get started with discussing our ultimate source of motivation - how God has designed us to use money and the implications for our lives.

And finish the week with starting the first step in creating our financial plan by beginning to understand our spending.

[1] Look back at last week's discussion and worksheet #1 if you don't remember

Stewardship

Let's look at three examples from the Bible on owner / manager relationships and the implications for how we use our resources

- Luke 12:35-48: the "you best be watching" parable[1]

- Luke 16:1-15: the "shady deals" parable

- Matthew 25:14-30: the "you best do something" parable

Talking about money in the Bible....

- More verses about money in the Bible than any other topic - over 2,000 verses[2]
- Jesus spoke a fair amount about money - 11 of his parables mention it to some extent
- King Solomon was likely the richest person in the Bible - some estimate he had a net worth in the billions in today's dollars
- 1 "talent" commonly referenced in the Bible is worth over $1 million in today's dollars

[1]Unofficial parable names
[2] Reading the three verses above for 5 to 10 minutes doesn't sound so bad now given the universe of verses we could be reading

Luke 12:35-48

35 Be dressed for service and keep your lamps burning, **36** as though you were waiting
for your master to return from the wedding feast. Then you will be ready to open the
door and let him in the moment he arrives and knocks… **38** He may come in the middle
of the night or just before dawn. But whenever he comes, he will reward the servants
who are ready…

40 You also must be ready all the time, for the Son of Man will come when least
expected.” **41** Peter asked, “Lord, is that illustration just for us or for everyone?”

42 And the Lord replied, “A faithful, sensible servant is one to whom the master can give
the responsibility of managing his other household servants and feeding them. **43** If the
master returns and finds that the servant has done a good job, there will be a reward. **44**
I tell you the truth, the master will put that servant in charge of all he owns.

45 But what if the servant thinks, ‘My master won’t be back for a while,’ and he begins
beating the other servants, partying, and getting drunk? **46** The master will return
unannounced and unexpected, and he will cut the servant in pieces and banish him with
the unfaithful. **47** And a servant who knows what the master wants, but isn’t prepared
and doesn’t carry out those instructions, will be severely punished. **48** But someone
who does not know, and then does something wrong, will be punished only lightly.
When someone has been given much, much will be required in return; and when
someone has been entrusted with much, even more will be required.”

Write down below any thoughts you had while reviewing this passage

Luke 16:1-15

1 Jesus told this story to his disciples: There was a certain rich man who had a manager
handling his affairs. One day a report came that the manager was wasting his
employer's money. **2** So the employer called him in and said, 'What's this I hear about
you? Get your report in order, because you are going to be fired.' **3** The manager
thought to himself, 'Now what? My boss has fired me. I don't have the strength to dig
ditches, and I'm too proud to beg. **4** Ah, I know how to ensure that I'll have plenty of
friends who will give me a home when I am fired.'**5** So he invited each person who owed
money to his employer to come and discuss the situation. He asked the first one, 'How
much do you owe him?' **6** The man replied, 'I owe him 800 gallons of olive oil.' So the
manager told him, 'Take the bill and quickly change it to 400 gallons. **7** 'And how much
do you owe my employer?' he asked the next man. 'I owe him 1,000 bushels of wheat,'
was the reply. 'Here,' the manager said, 'take the bill and change it to 800 bushels.'

8 The rich man had to admire the dishonest rascal for being so shrewd. And it is true
that the children of this world are more shrewd in dealing with the world around them
than are the children of the light.

9 Here's the lesson: Use your worldly resources to benefit others and make friends.
Then, when your possessions are gone, they will welcome you to an eternal home. **10** If
you are faithful in little things, you will be faithful in large ones. But if you are dishonest in
little things, you won't be honest with greater responsibilities. **11** And if you are
untrustworthy about worldly wealth, who will trust you with the true riches of heaven? **12**
And if you are not faithful with other people's things, why should you be trusted with
things of your own? **13** No one can serve two masters. For you will hate one and love
the other; you will be devoted to one and despise the other. You cannot serve God and
be enslaved to money.

14 The Pharisees, who dearly loved their money, heard all this and scoffed at him. **15**
Then he said to them, You like to appear righteous in public, but God knows your hearts.
What this world honors is detestable in the sight of God.

Write down below any thoughts you had while reviewing this passage

Matthew 25:14-30

14 Again, the Kingdom of Heaven can be illustrated by the story of a man going on a
long trip. He called together his servants and entrusted his money to them while he was
gone. **15** He gave five bags of silver to one, two bags of silver to another, and one bag
of silver to the last—dividing it in proportion to their abilities. He then left on his trip.

16 The servant who received the five bags of silver began to invest the money and
earned five more. **17** The servant with two bags of silver also went to work and earned
two more. **18** But the servant who received the one bag of silver dug a hole in the
ground and hid the master's money.

19 After a long time their master returned from his trip and called them to give an
account of how they had used his money. **20** The servant to whom he had entrusted the
five bags of silver came forward with five more and said, 'Master, you gave me five bags
of silver to invest, and I have earned five more.' **21** The master was full of praise. 'Well
done, my good and faithful servant. You have been faithful in handling this small
amount, so now I will give you many more responsibilities. Let's celebrate together!'

22 The servant who had received the two bags of silver came forward and said, 'Master,
you gave me two bags of silver to invest, and I have earned two more.' **23** The master
said, 'Well done, my good and faithful servant. You have been faithful in handling this
small amount, so now I will give you many more responsibilities. Let's celebrate
together!'

24 Then the servant with the one bag of silver came and said, 'Master, I knew you were
a harsh man, harvesting crops you didn't plant and gathering crops you didn't cultivate.
25 I was afraid I would lose your money, so I hid it in the earth. Look, here is your money
back.' **26** But the master replied, 'You wicked and lazy servant! If you knew I harvested
crops I didn't plant and gathered crops I didn't cultivate, **27** why didn't you deposit my
money in the bank? At least I could have gotten some interest on it.'

28 Then he ordered, 'Take the money from this servant, and give it to the one with the
ten bags of silver. **29** To those who use well what they are given, even more will be
given, and they will have an abundance. But from those who do nothing, even what little
they have will be taken away. **30** Now throw this useless servant into outer darkness,
where there will be weeping and gnashing of teeth.'

Write down below any thoughts you had while reviewing this passage

Lessons learned

#1: God is the owner and we are the _______________ (33) with responsibilities for what we have been given

Luke 12:42: And the Lord replied, “A faithful, sensible servant[1] is one to whom the master can give the responsibility of managing his other household servants and feeding them.”

Luke 16:10: “If you are faithful in little things, you will be faithful in large ones. But if you are dishonest in little things, you won’t be honest with greater responsibilities.

Matthew 25:21: “The master was full of praise. ‘Well done, my good and faithful servant. You have been faithful in handling this small amount, so now I will give you many more responsibilities.

#2: The resources we have been given are to be _____________ (34) for bigger purposes than ourselves

Luke 12:45-46: “But what if the servant thinks, ‘My master won’t be back for a while,’ and he begins beating the other servants, partying, and getting drunk? The master will return unannounced and unexpected, and he will cut the servant in pieces and banish him with the unfaithful.”

Luke 16:9: “Here’s the lesson: Use your worldly resources to benefit others and make friends. Then, when your possessions are gone, they will welcome you to an eternal home.”

Luke 16:13: “No one can serve two masters. For you will hate one and love the other; you will be devoted to one and despise the other. You cannot serve God and be enslaved to money.”

[1] By the way, we are the servant in these parables. Otherwise, maybe these are lessons on how we should treat our servants. However, that seems a less likely interpretation to me.

Lessons learned

#3: The resources we have been given serve as a ____________ (35) for us

Luke 12:48: “When someone has been given much, much will be required in return; and when someone has been entrusted with much, even more will be required[1].”

Luke 16:11-12: “And if you are untrustworthy about worldly wealth, who will trust you with the true riches of heaven? And if you are not faithful with other people’s things, why should you be trusted with things of your own?”

Matthew 25:19: “After a long time their master returned from his trip and called them to give an account of how they had used his money.”

#4: There are ________________________ (36) to how well we manage the resources we have been given

Luke 12:43-44: “If the master returns and finds that the servant has done a good job, there will be a reward. I tell you the truth, the master will put that servant in charge of all he owns.”

Matthew 25:29-30: “To those who use well what they are given, even more will be given, and they will have an abundance. But from those who do nothing, even what little they have will be taken away. Now throw this useless servant into outer darkness, where there will be weeping and gnashing of teeth."

Luke 16:11-12: “And if you are untrustworthy about worldly wealth, who will trust you with the true riches of heaven? And if you are not faithful with other people’s things, why should you be trusted with things of your own?”

[1] Anyone else reminded of the famous Spider-Man quote “With great power comes great responsibility” - I wonder if the Bible plagiarized Spider-Man, something to think about

Main takeaway

Our spending decisions impact us ________________ (37) - now and later

Now is a good time to remember Romans 8:1 - “there is no condemnation”

Discussion questions

10 min

1. How would having a stewardship perspective affect your spending? How does the concept of opportunity costs relate?

2. Why is it difficult to consistently act with money in a stewardship way? How can we be better at it?

3. Is God displeased if you buy a $5 coffee? What if we buy one every day?

Spending

Spending review

We look at our spending from two perspectives:

1. Historical spending

a. Reviewed by making a list of all our assets (what we own) and our liabilities (what we owe) - referred to as a “net worth” statement.
b. We use this listing to determine how we have been managing our finances in the past
c. We use this listing as a starting point for moving forward toward our financial goals

2. Current spending

a. Start to track our spending and review our last two months of spending
b. We use this information to see if we are currently getting the most out of our spending by how well it aligns with our values
c. We use this information as a starting point to adjust our spending to move forward toward our financial goals

Some words from the Bible…

Proverbs 27:23-27: Be diligent to know the state of your flocks, and attend to your herds, for riches are not forever, nor does a crown endure to all generations. When the hay is removed, and the tender grass shows itself, and the herbs of the mountains are gathered in, the lambs will provide your clothing, and the goats the price of a field; you shall have enough goats’ milk for your food, for the food of your household, and the nourishment of your maidservants.

Luke 14:28-30 - For which of you, intending to build a tower, does not sit down first and count the cost, whether he has enough to finish it—lest, after he has laid the foundation, and is not able to finish, all who see it begin to mock him, saying, ‘This man began to build and was not able to finish.’

“Your flocks and herds” = our net worth and finances - we need to know where we are currently at[1]

“Not able to finish” = we can’t reach our goals without knowing where we are currently at

[1] Although if you are a shepherd or rancher, then your “flocks and herds” are actually your flocks and herds

Historical Spending (Net Worth Statement)

- We start with making a list of all of our assets
- Assets are anything that could be converted into cash

Example

Asset	Amount	Source / Notes
Checking account	$1,000	Bank Statement / Website
Savings account	2,000	Bank Statement / Website
401(k) account	25,000	Investment Statement / Website
House	400,000	Best estimate (use Redfin / Zillow websites)
1 dog (brown)[1]	50	Craigslist
Vehicles	5,000	Kelley Blue Book / Craigslist / Auto websites
Total assets	$433,050	

- We next make a list of all of our liabilities
- Liabilities are anything that may require cash in the future
- For each liability: list the minimum monthly payment and interest rate

Liability	Amount	Min. Monthly Payment	Interest Rate
Credit Card #1	$1,000	$50	18%
Credit Card #2	5,000	200	20%
Home mortgage	350,000	2,200	4%
Car loan	2,000	300	6%
Student loan	5,000	200	7%
Favor owed to stranger	50	0	0%
Total liabilities	$363,000		
Net worth	$70,050	Assets - Liabilities	

[1] This is an example, please don't take it literally that you should sell your dog, you could sell your cat instead

Historical Spending (Net Worth Statement)

Why this matters

- We can use to monitor progress with our finances over time by updating on a monthly basis
  - Suggest updating on the same day each month (i.e. the 1st of each month)
- We can use as part of our financial goal setting
  - Example: If our goal is to have 3 months of essential expenses saved to have flexibility for unexpected events, then we need to know our current savings amount to combine with our monthly savings to set a time period for our goal to be achieved.
- We can use as the basis for our debt payoff plan
  - The total debt amount, interest rate and minimum monthly payment amount are inputs into the debt payoff plan

Net worth FAQ's

1. What do I do if my net worth is negative?

You take a deep breath, remember the past is the past, and we move forward with a plan to improve it

2. Is my net worth the same as my self-worth?

No. Regardless of net worth, our identity and self-worth are defined by what Jesus did for us.

3. Should I really include my dog as an asset and think about selling him?

I can't tell you what to do with your dog, I don't know him. The point is we get creative in thinking what our assets are and how we can bring in cash if needed

Current Spending (how to track)

Recent spending

- We start with the list of accounts included on our net worth statement to identify which accounts we spend money out of - this is most likely bank accounts and credit card accounts
- For each of these accounts, gather the most recent statements available for the past two months
- Using the spending review worksheet, place each spending item into a category
- Then rate each spending item as how important it is to your values (1 = low, 10 = high)
- Finally, make a note of whether an expense is essential (i.e. unavoidable) or non-essential (i.e. avoidable) in the short-term

Example of worksheet

Category	Frequency	Month 1	Month 2	% Total Spending	Importance to Values (1 to 10)	Essential vs. Non-essential
Cell phones	Monthly	$100	$100	2%	7	Essential
Groceries	Monthly	600	650	11%	9	Essential
Cable TV	Monthly	80	80	1%	4	Non-essential
Travel	Semi-annual	1,000	0	9%	7	Non-essential
Donuts	Monthly	75	75	1%	10	Non-essential[1]
Other lines						
Total		$6,000	$5,000			

[1] There was a lot of internal debate about donuts being essential vs. non-essential but ultimately went with the narrow definition of essential - which is I could technically avoid donuts if absolutely necessary for some unfathomable reason like shipwrecked on an island

Current Spending (how to track)

Current spending

- We need to track current spending more frequently than a monthly review until we have a very good understanding of our spending habits (i.e. it's not forever[1])
- We start by picking a method to track:
  - Spreadsheet (Google sheets / Microsoft Excel) - see example worksheet
  - Pen and paper
  - Automated tracking software apps - requires sharing bank/credit card information:
    - Mint.com
    - Personal Capital
    - You Need a Budget (YNAB)
- Whichever method we select to use, we customize the categories for our lives
- We save receipts and update / review our spending tracker on a weekly basis during our scheduled finances review time

Example of worksheet

Day	Housing	Groceries	Dining Out	Transportation	Daily Total	Importance to Values (1 to 10)
1	$0	$50	$20	$0	$70	4
2	0	0	0	50	50	7
3	0	0	50	0	50	2
4	1,500	0	0	0	1,500	8
5	0	100	0	0	100	8
	$1,500	$150	$70	$50	$1,770	

[1] I can't emphasize this enough. If I had to track my spending daily for a really long time, there is no way that would happen. It is just until we have good knowledge of our spending habits and become more intentional with our spending.

Current Spending Tracking

Why this matters

- Tracking our spending is necessary to practice good stewardship over our resources since we can't manage our resources if we don't know where they go
- Tracking our spending helps us become intentional spenders over time as we thoughtfully align our spending with our values
- Knowing in detail what we spend money on is the starting point to building a spending plan that will allow us to achieve our financial goals

Spending Tracking FAQ's

1. Tracking my spending on a daily basis is too much work and boring and I'd rather have a colonoscopy.

I don't think that was a question. But, yes, that is a fair point. However, please remember it is not forever. We do it long enough to open our eyes to our spending so we become more intentional with our spending and stop spending money on stuff we don't really value.

2. Is there a way I can move forward without tracking my spending?

Yes, and your finances will likely be a mess. Fun story: I joined an organization once that hadn't been tracking their spending well, it turned out they had way more debt than they realized and was imminently running out of cash. It was not a good time.

Discussion questions

7 min

1. What do you think tracking your spending will reveal about yourself and your spending habits?

2. How will you incorporate tracking spending in your life?

Action Items: Week 2

1. <u>Complete net worth statement (Worksheet 2)</u>

Use the worksheet at the end of this section (or the electronic version)

2. <u>Start tracking your spending (Worksheet 3)</u>

Identify the accounts you spend money from and pick one of the methods discussed for how to track spending going forward. Review your spending on a weekly basis during your scheduled finances review time.

3. <u>Gather your spending details for the past 2 months (Worksheet 4)</u>

Using the worksheet at the end of this section (or the electronic version), review your bank statements, credit cards, Venmo / PayPal or however you spend money for the past two months. You can likely download transactions from their websites to make this easier. Try to categorize the spending into major categories and note (1) how important the spending is to you based on your values and (2) whether the spending is essential or non-essential in the short-term (i.e. non-avoidable vs. avoidable)

What are your main takeaways from this week's discussion?

Additional reading

How our spending is influenced

Do you sometimes wonder where it all goes with your spending? Like I look back on how much I have earned through working and how much I have in savings and it doesn't seem like enough so it must have gone somewhere in spending. It turns out there are some very common ways we get tripped up with our spending behavior that being aware of can be helpful in becoming more intentional with our spending. Let's see if any of these sound familiar to you:

1. We spend money differently depending on where it comes from or what we are spending it on. Logically a dollar is a dollar regardless of where it comes from or how it is being spent. But then how do we explain why we spend our tax refund or one-time bonus money differently than our regular paychecks? Or that we spend money differently when we are on vacation vs. when we are at home? It's helpful to remember that our finances will improve if all of our spending is aligned with our values and goals and not take a pass when wearing sandals or receive the annual "surprise" of a tax refund.

2. We get overly excited to spend money when there is a "deal." Do you ever wonder how some stores always have everything 40-50% off on clearance? Or why some businesses give away free stuff? Some of us can get caught up with all the "saving" we are doing with discounts or free items to forget to ask if we really need the item we're getting the deal on. It's a good question.

3. We tend to lose sight of small spending when big spending is involved. When does a $5 soda sound like a reasonable price? Or how about $200 for car mats? Or $30 for a basic t-shirt? Well, it seems to be when we have already spent a lot of money on amusement park tickets, a new car or going to a concert. It's often easier to overlook relatively lower cost items when we are distracted by the related big cost items. So let's keep asking ourselves if these "lower" cost items are really needed or provide value to us separately.

4. We aren't the best at predicting the spending that will make us happy. Research has shown there is little long-term impact to our happiness from upgrading our cars and homes but we keep buying more expensive ones. We also keep buying more and more of stuff when we actually experience less enjoyment of an item when we have it all the time. Think of the amazing product called the McRib, it's great on a limited time basis when offered but would we care or appreciate it as much if we had it all the time?[1] I enjoy eating out at nice restaurants for special occasions but those same meals a few times a week while on business travel got kind of old after a while.

5. We spend using ways that make it not feel like "real" money. Research has shown that we spend less money when we use cash rather than credit cards or other payment methods. You may have noticed it doesn't feel as "real" when we click a button on a phone to pay. This is why using cash as much as possible, such as in the envelope method, helps people reduce their spending and could be a good option to try out on a trial basis and see how it works for you.

As we look back at our spending details, let's try to think of how that spending may have been influenced and whether that was a good influence for our overall financial goals.

Two books I really enjoyed on this topic of our behavior with spending which I referenced in writing the above are "Dollars and Sense" by Dan Ariely and Jeff Kreisler and "Happy Money: The Science of Smarter Spending" by Elizabeth Dunn and Michael Norton if you're interested in learning more.

[1] I realize some people may not appreciate the marvel that is a McRib, so please substitute another limited time only product like pumpkin spice lattes, chocolate eggs or most things with peppermint in them

Week

Three

Goals & Spending Plans

Introduction to Week 3

In weeks 1 and 2, we reviewed:

- The roadmap to enable our finances to create more freedom in our lives
- Identified our motivations
- Looked at the Bible's view of money
- Started the foundation for creating our financial plan by reviewing our past and current spending

This week we focus on:

(1) Identifying the financial goals we need to achieve to enable us to reach our most important life goals. To do this, we get very specific on what needs to happen to reach these goals.

(2) Intentionally and thoughtfully creating a detailed spending plan to generate the monthly savings needed to achieve our financial goals.

This is definitely not a budget, don't call it a budget, it is a spending plan because we are creating a plan for our spending. You can call it a budget if you want.

So take a minute now to think about those motivations you identified previously that are important enough to you to create detailed financial goals and a spending plan

Goals

But first we ask: do we really need detailed, written goals?

Reasons against goals:

- May take up a lot of _______________ (38)
- May cause _____________________ (39) with our current lives
- May not be what we really want anyways

Reasons for goals:

- Forces us to think about our lives and what is _________________ (40)
- Increases likelihood of achievements
- Provides _______________ (41) in our lives

Takeaway:

"Plans are worthless, but planning is everything"

(Eisenhower)

Question to ponder: Will our lives be better off if we only achieve a small percentage of our goals?

The goal setting process[1]:

Step 1: Identify our life goals

- Our life goals are the "why's" we discussed in week 1 and Worksheet #1
- They are the main purposes for our lives driven by our ______________ (42)
- We keep these limited to 3 to 5 goals to stay focused

Step 2: Identify financial goals needed to support our life goals

- It is important that our financial goals are put in the proper ___________ (43) - they are the means to the end but not the end itself
- Example: We save money not for the sake of becoming "rich" but to achieve a life goal, such as having more time instead of working all the time

Step 3: Identify specific steps needed to achieve financial goals

Using the well-established S.M.A.R.T goals method, we get very specific on what we need to do to achieve our goals

S & M - Specific and Measurable - goals need to be _____________ (44) on what exactly you want to achieve and can be tracked

A - Attainable - goals need to be realistic and achievable given your skills, time and resources available

R - Relevant - goals need to be personally important and ___________ (45) to you

T - Time - goals need to have a specific time period for when you want to achieve them by, including breaking long-term goals into activities to complete in shorter time periods

[1] Apologies in advance that this process does not involve sending your goals out into the world with them coming back achieved without a lot of effort

The goal setting process:

Step 4: Prioritize achievement of financials goals

- The source for the achievement of our financial goals is the monthly savings we generate from our spending plan
- We create a plan that generates monthly savings that can be allocated to achieving our goals
- We decide how to allocate that monthly savings to our various goals based on our priorities
- We start with 4 core financial goals and then we personalize based on our why's and values

Step 5: Monitor progress with goals monthly and reassess periodically

- We use our monthly updating of our net worth worksheet to monitor our progress toward meeting goals
- On a semi-annual or annual basis, we reassess our goals to confirm they are still relevant and applicable (hint: goals can change[1])

[1] We shouldn't hesitate to change our goals if they no longer reflect our values and purposes in life. Sometimes we tend to stick to goals that no longer reflect what we really want because we don't want to "quit" but quitting bad goals is a good thing, or that is what I tell myself as I thought about giving up on my 9 year-old self's goal of playing professional baseball recently.

The Core Financial Goals

We start with four financial goals as our priorities as they provide support to almost any life goal and are relevant to nearly everyone[1]

Financial Goal	Why it matters
1. Save 1 month of essential expenses (amount defined in spending plan exercise)	-Stops the living paycheck to paycheck cycle -Eliminates fees from late payments / overdrafts -Provides cushion for a job loss / unexpected expense
2. Pay off high interest debt (defined as interest rate greater than 5%)	-Debt limits our flexibility and opportunities -Can't consistently find a higher, guaranteed rate of return
3. Save 3 months of essential expenses as your "flexibility" fund	-Enables changes in our lives for new opportunities -Protects against longer job loss / bigger emergencies -Lower stress > rate of return
4. Save for retirement in a Roth IRA / 401k amount	-Almost certain all of us will stop working at some point and need income from savings to support us -Roth's provide greater flexibility in use of funds

[1] I have to use the term "nearly everyone" to take into account people with trust funds or other sources that provide guaranteed income for life well in excess of spending needs. Feel free to move on to goal #5 if you're in this category.

The 5th Financial Goal

After the core goals, finances become personal and you decide what is your next financial goal based on your life goals. Some common financial goals are:

Example	Why it matters[1]
1. Buying a house and/or car	-It is up to you
2. Pay off remaining debt	-It is up to you
3. Save for college	-It is up to you
4. Start a business or change careers	-It is up to you
5. Give more generously	-It is up to you (although the Bible encourages it)
6. Retire early to have more time for what you find important	-It is up to you
7. Hire a personal trainer to get you in shape so that you can make your sworn enemy from high school so jealous	-It is up to you
8. Have a better mid-life crisis experience	-It is up to you
9. Home improvements	-It is up to you
10. Travel experiences	-It is up to you

Write down below any goals that immediately came to mind

[1] I hope you appreciate the level of analysis that went into the responses in this column as much as I did

Goal setting example
(from goal setting worksheet)

Step 1: Identify Life Goal	Create more time and flexibility by having one person in the family only working a part-time job
-Why does this matter to me?	Consistent with our values of relationships and time
Step 2: Identify financial goals needed to support this life goal	-Total income using part-time amount higher than our spending and savings needed for other goals -Savings cushion of three months of essential expenses in case of job loss / emergencies -Timing is within two years
Step 3: Identify specific steps needed to reach financial goals using S.M.A.R.T criteria[1]	-Track spending to know current spending amounts by reviewing spending from last two months and going forward (complete within 1 month of today) -Calculate income from current jobs from last two months to know how much is available for spending (complete within 1 month of today) -Set a spending plan based on current spending and other savings goals (complete within 2 months of today) -Compare the lower total income with a part-time job with your spending plan (complete immediately after creating the spending plan) -Live on plan for two months and look for ways to reduce spending (complete within 4 months) -Determine if living on lower income is realistic based on your income and spending (complete within 4 months) -If yes, maintain spending plan and save additional income until 3 months of savings is reached (complete from month 4 and on) -If no, determine what more significant actions would be needed to reduce costs and/or if there are ways to increase total income (complete immediately after 4 months)

[1] I understand if this section seems like a lot of work but research has shown goals that are S.M.A.R.T are more likely to be achieved so maybe have two donuts while completing this section as a reward

Goal setting example

(from goal setting worksheet)

Step 4: Prioritize achievement of financial goals	-Start with this question: how does the achievement of this financial goal affect my ability to achieve other life and financial goals? -Example response: Reducing our income means it could take an additional 3 years to buy a house, will have to drive our current cars for another 4 years, and will delay retirement dates by 6 years -Second question: am I willing to accept the trade-offs in delaying reaching my other life and financial goals to achieve this life goal? -Example response: Yes, this life goal is more highly valued than my other life and financial goals and I'm willing to accept the trade-offs
Step 5: Monitor progress of goals monthly and reassess periodically	-During scheduled time to review finances, confirm the status of steps outlined in Step 3 and reconfirm the response in Step 4 remains accurate

Discussion questions

10 min

1. Why are having financial goals tied to your why's and values important?

2. Why is it important that financial goals are not viewed as the end goal?

3. What are some strategies you have used in the past when you have accomplished a goal and how can you apply these strategies to your financial goals?

Spending plans

Spending plans overview

No one likes them[1] but we remember there are higher purposes with spending plans:

- It is about planning your spending so that you can make ________________________ (46) out of life
    - Unintentional spending can lead to an inability to reach life goals by spending in ways that are not the most important to you and often causes higher debt balances that further restrict your freedom

- It allows you to spend ________________________ (47) as you have already thoughtfully planned it
    - You actually create freedom by giving yourself approval to spend in advance

- It is necessary for being a good manager of money
    - All successful businesses and organizations heavily emphasize spending plans as they know that a lack of one will lead to surprises and failure to reach goals

Some words from the Bible

Proverbs 6:6-8 - Go to the ant, you sluggard! Consider her ways and be wise, which, having no captain, overseer or rule, provides her supplies for the summer, and gathers her food in the harvest.
We plan now so we have enough later

Luke 14:28-30 - For which of you, intending to build a tower, does not sit down first and count the cost, whether he has enough to finish it—lest, after he has laid the foundation, and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish.'
We plan first so we are not mocked later when we can't reach our goals

Proverbs 24:27 - Do your planning and prepare your fields before building your house.
We plan because the order of how we do things in our finances matters

And for when a spending plan seems overwhelming / too much work
Galatians 6:9 - Let us not become weary in doing good, for at the proper time we will reap a harvest if we do not give up

[1] To be fair, someone probably likes them, it is just not me or anyone I have ever met or heard of existing

Spending plan steps

Before selecting a tool, we start with the following steps (see spending plan worksheet):

1. Enter all income sources on a monthly, after-tax basis

a. If get paid every two weeks, then convert to a monthly basis (1 paycheck multiplied by 26 divided by 12)

b. If pay varies, then estimate an average of prior months and may need a larger savings cushion to account for the fluctuations in pay

2. Enter all essential expenses on a monthly basis

a. “Essential” is limited to those necessary for survival in the short-term: (1) home (rent / mortgage / taxes), (2) utilities (water, gas, electric, trash), (3) groceries (basic), (4) transportation (car related / bus / subway pass), (5) basic communications (inexpensive cell phone / internet service), (6) insurance (health, car, house)[1]

b. This is not the spending plan you want to live on, but is designed to reflect the minimum amount of money you need to get through a month in the short-term. In the long-term, you have more flexibility to reduce these expenses.

c. Consider both monthly and periodic expenses (quarterly, semi-annually and annually) with converting the periodic expenses to a monthly amount

d. What may be “essential” may differ according to your circumstances

3. Choose giving and saving percentages to start with - suggest 10% as a target for each

a. These percentages can be adjusted when reviewing the total spending plan at the end with your financial goals

b. We enter these amounts now as these are priority items

4. Enter your minimum monthly debt payments

a. Captured on net worth statement from week 2

[1] The word “basic” is used a fair amount in this section as it is possible to have unnecessary expenses in these categories, such as if you bought every grocery item at upscale grocery stores at full price or bought the most expensive cell phone every year. It’s about what is necessary for survival if you absolutely had to cut back on everything for a short time period.

Spending plan steps

5. Enter non-essential expenses on a monthly basis

a. These are all the other expenses in your spending tracking that are not "essential"

b. Includes spending such as dining out, vacations, subscriptions, gifts, entertainment[1]

c. Consider both monthly and periodic expenses (quarterly, semi-annually and annually) with converting the periodic expenses to a monthly amount

6. Compare the totals in the income and spending columns

a. If income > spending, that's great, let's see how that amount of savings affects achieving your goals

b. If spending > income, we can start with looking for ways to reduce spending and raise income

7. Compare your planned spending to your values

a. Now rate each spending category on a scale from 1 (low) to 10 (high) in importance to your values

b. In looking for ways to reduce spending, we start with looking at the spending categories that are least important to our values

[1] Also includes diamond rings for toddlers, wall mounted singing fishes, and scented candles bought at farmer markets, just to be clear

Spending plan example[1]

Monthly income, after taxes and deductions

Source	Plan	Actual	Above / (Below)
Income #1:	4,000	4,000	0
Income #2:	2,000	1,900	(100)
Income #3:	0	0	0
Total	6,000	5,900	(100)

Essential expenses

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Housing-related					
Mortgage / Rent / HOA	1,400	1,400	0	24.8%	8
Property tax / Insurance	600	600	0	10.6%	8
Utilities					
Water / Trash	120	130	10	2.3%	8
Gas / Electric	100	110	10	1.9%	8
Transportation					
Fuel / Bus / Subway pass	150	110	(40)	1.9%	5
Insurance	100	100	0	1.8%	8
Communications					
Cell phone / Internet	150	150	0	2.7%	7
Healthcare					
Insurance / Prescriptions	400	400	0	7.1%	8
Other					
Groceries	500	550	50	9.7%	8
Childcare	0	0	0	0.0%	N/A
Household items	100	50	(50)	0.9%	6
Other	0	0	0	0.0%	N/A
Total	3,620	3,600	(20)	63.7%	

[1] This is an example to show how to fill out the worksheet, not recommendations. You can find recommended spending targets at the end of the example. There are several things I'd change about this spending plan, such as allocating more to donuts.

Spending plan example

Savings & Giving (excluding amounts deducted from paycheck)[1]

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Savings #1: Next car	100	80	-20	1.4%	5
Savings #2: Retirement	100	100	0	1.8%	8
Savings #3: College	50	50	0	0.9%	7
Giving #1: Church	300	300	0	5.3%	9
Giving #2: Child sponsorship	50	50	0	0.9%	9
Giving #3: Women's shelter	50	50	0	0.9%	9
Total Savings	250	230	-20	4.1%	
Total Giving	400	400	0	7.1%	

Minimum Debt Payments (excluding mortgage)

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Debt #1: Credit card	200	200	0	3.5%	2
Debt #2: Student loan	100	100	0	1.8%	2
Debt #3: Car lease	250	250	0	4.4%	2
Debt #4:	0	0	0	0.0%	N/A
Debt #5:	0	0	0	0.0%	N/A
Total	550	550	0	9.7%	

[1] We exclude the amounts deducted from our paycheck, such as 401k contributions, since we use the amounts from our paychecks on a net basis after-tax and deductions

Spending plan example

Non-Essential expenses

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Entertainment					
TV / Movie services	160	160	0	2.8%	4
Concerts / Theater / Sports	50	0	-50	0.0%	6
Other subscriptions	20	20	0	0.4%	4
Personal					
Gym	40	40	0	0.7%	7
Haircuts	40	80	40	1.4%	7
Clothing / Dry cleaning	40	20	-20	0.4%	5
Pets related	20	20	0	0.4%	3
Kids related	150	100	-50	1.8%	7
Gifts	40	20	-20	0.4%	5
Classes / Memberships	50	50	0	0.9%	6
Food					
Dining out	200	300	100	5.3%	5
Coffee	50	40	-10	0.7%	3
Donuts	20	20	0	0.4%	9
Vacations					
Airfare / Fuel	100	0	-100	0.0%	7
Lodging	100	0	-100	0.0%	7
Events	100	0	-100	0.0%	7
Other					
Other #1:	0	0	0	0.0%	
Other #2:	0	0	0	0.0%	
Other #3:	0	0	0	0.0%	
Other #4:	0	0	0	0.0%	
Total	1180	870	-310	15.4%	

Spending plan example

Spending Summary

	Plan	Actual	Above / (Below)	% of Spending
Essential	3,620	3,600	(20)	64%
Non-Essential	1,180	870	(310)	15%
Giving	400	400	0	7%
Savings	250	230	(20)	4%
Debt Payments	550	550	0	10%
Total	6,000	5,650	(350)	100%
Monthly income	6,000	5,900	(100)	
Monthly savings	0	250	Additional amount to apply to goals	

Spending plan guidelines

For comparison purposes for your own plan, below are benchmarks:

Category	U.S. Average Actual Spending (2018)*	Recommended Targets**	Monthly $ based on $60K annual spend
Housing	37%	30-35%	$1,500 - $1,750
Transportation	18%	10-15%	$500 - $750
Food	15%	10-15%	$500 - $750
Healthcare	9%	5-10%	$250 - $500
Entertainment	6%	5%	$250
Giving	4%	10%	$500
All other	11%	0-20%	$0 - $1,000
Savings	N/A	10%	$500

*Based on Bureau of Labor Statistics reporting; **Common targets in personal finance books

Spending plan tools

There are many tools that can be used. Some of the more popular ones are:

Name	Description	Cost	Pros	Cons
Spreadsheet (Google / Excel)	Manually input plan and spending based on bank / credit card statements	Free	Easy to use and customize; automatic calculations; free; available anywhere (computer / phone)	Requires manual input of data
Pen and paper	Write down plan and spending using a printed template	Free	Easy to use; no computer or phone required; free	Requires manual input of data
Mint	Website / phone app that syncs with bank and credit card accounts to automatically categorize spending	Free (ads)	Automatically pulls in spending data into categories; free; relatively easy to use; can customize categories	Exposed to ads; have to provide login information for your accounts; requires manual adjustments as spending not always placed into correct category; occasional syncing issues
Envelope system	Use cash (where possible) stored in separate envelopes by category	Free	Using cash shown to reduce spending; simple to use; practically free	Can't use cash for all spending; risk of carrying around cash; manual input of data
YNAB	Website / phone app that syncs with bank and credit card accounts to automatically categorize spending	Low	Automatically pulls in spending data into categories; relatively easy to use; can customize categories; no ads	Paid version only; have to provide login information for your accounts; requires manual adjustments similar to Mint
EveryDollar	Has free (manual input) and paid version (automatic input)	Free and low	Easy to use; has free version	Free version requires manual input; paid version for automatic syncing

Tips to make spending plans easier

1. Use an automated system as it saves significant time in bringing all your spending together in one place into designated categories that can be viewed at any time
   a. With an automated system, our main efforts are correcting the categories the spending was assigned to and fixing any syncing issues with accounts

2. Don't get too detailed with the spending categories - focus on the key categories
   a. Think "dining out" as a category and not "fast food" vs. "coffee shop" vs. "restaurants" vs. "sushi-donut fusion"
   b. We need a clear distinction between essential vs. non-essential expenses as non-essential expenses can be viewed as interchangeable and in aggregate

3. For places where you buy items that fall into multiple categories (such as Costco and Target), try to keep those receipts and enter the items immediately or else you'll forgot or lose the receipts. If it's too much effort to separate, then create a category just for Costco and Target and try to separate out only significant irregular purchases and not the regular ongoing purchases

4. See the additional reading at the end of this section for more ideas on how to make spending plans easier

Main takeaway

The spending plan tool to use is ultimately up to you and your views on cost, privacy, security and technology accessibility. The most important thing is that you use the tool as consistently writing numbers on a piece of paper is more powerful to your financial success than not using an automated technology tool.

Discussion questions

7 min

1. What do you think your financial rewards will be for creating (and living) on a spending plan?

2. What do you think your emotional rewards will be?

3. How can you motivate yourself to stick with using a spending plan when the temptation comes to skip it?

Action Items: Week 3

1. <u>Complete the goals worksheet for up to 5 goals using the process discussed this week (Worksheet 5)</u>

Start with the four core goals in order and then your personalized goals

2. <u>Start working on a spending plan</u>

Follow the steps discussed today to prepare your draft spending plan based on the spending tracking and review you started last week. Use the sample worksheet (Worksheet 6) or another tool to start the plan. For example, if you started using a website to track your spending in week 2, such as Mint or YNAB, you can use these websites to create a plan as well. As you review the amounts in each category in your plan, start to think of ways you could potentially save money. We'll discuss money saving tips next week.

3. <u>Compare your goals with your spending plan and determine if your plan meets your goals</u>

Refer to the last section of the goals worksheet

What are your main takeaways from this week's discussion?

More Spending Plan Tips

I believe that most of us know that creating a spending plan and following it consistently is a challenging task due to a lack of time, distractions, and the uncomfortable feelings it can create by truly seeing how we are doing financially. Also, the parts that make it challenging may be different for each of us based on our personal attributes so finding just one approach to spending plans that universally works for everyone is not realistic.

So I wanted to provide additional ideas for spending plans with the hope that if one method doesn't work, then you can keep trying different ones until you find one that works for you because following some version of a spending plan that you can consistently use is better than not using one at all.

Idea #1: Only track 5 main categories of spending. Instead of planning for and tracking each transaction with a lot of different categories, each transaction is only assigned to one of 5 categories: essential, giving, investing and savings with all other spending included in a "non-essential" category. A benefit is once you've taken care of your essential spending and your goals for giving, investing and savings, then you can feel free to spend whatever is left over because you have already taken care of your needs and goals. You still would plan how much to spend in each the 5 categories based on the essential spending you have identified and your goals but would not look deeper at your spending unless you weren't meeting your goals in a month.

Idea #2: Make it harder to spend money. One of the main benefits of using the envelope system and spending only cash is it makes it harder to spend money because if you don't have the cash, you don't spend the money which helps control your online spending habits and adds the burden of having to go the bank to increase your spending. There are other ways to make spending harder, such as by using debit cards that don't allow for more spending than what is available in your bank account or by setting low limits on credit cards that will reject transactions when over the limit. Another option is to use a prepaid debit card and only load the allocated funds each month to the prepaid card and when the funds are used up, you are unable to spend more.

Idea #3: Remind yourself of how much each spending plan category really costs you in terms of your time. Most of us have to earn money through using our time in a business or job to support our spending. We essentially trade our time for money to spend. So if we are struggling to put our spending in perspective to its impact on our lives, we can calculate how much each spending category costs us in terms of the time we have to spend working to support that spending. For example, if I make $25 per hour in my job and my dining out spending is $400 per month, then I am using 16 hours of my life each month to support dining out. I then ask myself if that trade-off is worth it to me: is the benefit I am receiving from dining out worth 16 hours of my life each month? We can do this for each category to see if they are worth it to us.[1]

We can use a combination of these strategies, such as tracking our essential spending closely by detailed categories because we can't afford to run out of funds with this spending and then using a prepaid debit card for any non-essential spending so that we can't spend more than our planned amount and not track separate categories within this spending.

The main point is to not give up if one spending plan tool or method doesn't work well for you but to keep trying until you find one that helps make your spending more intentional.

[1] I first read about using this perspective in the book "Your Money or Your Life" by Vicki Robin and Joe Dominguez, which is a great book for helping you think differently about money

Week

Four

Debt & Savings

Introduction to Week 4

We are now at the halfway point of the course and we have already done quite a bit with the five key behaviors that will improve our finances to increase our freedom:

1. Reinforce our identity
2. Set goals and track our progress with accountability
3. Become an intentional spender
4. Automate our financial life as much as possible
5. Time set aside to review finances on an ongoing basis

We now understand God's views on money, how to set financial goals to support our bigger life goals and how to create a spending plan that is consistent with what we find important and enables the achievement of our goals.

This week we focus on:

(1) Understanding the implications of our financial debt and then creating a plan to pay off the debt

(2) Ways to save money to help with our spending plans and debt payoffs

Debt can be another difficult topic to discuss as it can feel overwhelming with no clear end in sight to getting rid of it. But just like the saying about eating an elephant one bite at a time[1], we tackle our debt one payment and month at a time.

So take a minute now to think about those motivations you identified and we will start taking on our debt.

[1] I have so many questions about the logistics and desire of eating elephants that I will spare you from

Debt

A few questions about debt:

- **What is it really?**
  - It is buying something now that we don't currently have the money for based on the expectation that we can pay for it later at some future date

- **What are the implications?**
  - It creates an obligation to have a certain amount of money available in the ________________ (48)
  - We have to pay for the right to use the money now - this is called interest

- **So what does that mean financially?**
  - We have now raised our monthly income and spending plan requirements - this restricts our ability to change jobs if it lowers our income and spend or save in other ways
  - We are paying more for something than if we had saved and paid for it later as the interest over time is working against us
  - Reaching our goals becomes much more ______________ (49) with debt hanging over us

The Bible and debt:

The Bible does not prohibit debt but has strong warnings to be careful with it

- **We are warned against debt because of the ways it ____________ (50) our lives**
  - Proverbs 22:7 - The rich rules over the poor, and the borrower is servant to the lender
  - Romans 13:8 - Owe no one anything, except to love each other…
  - 1 Corinthians 7:23 - You were bought at a price; do not become slaves of human beings

- **We are warned against feeling too _______________ (51) about the future**
  - James 4:13-15: Come now, you who say, "Today or tomorrow we will go to such and such a city, spend a year there, buy and sell, and make a profit"; whereas you do not know what will happen tomorrow. For what is your life: It is even a vapor that appears for a little time and then vanishes away. Instead you ought to say, "If the Lord wills, we shall live and do this or that."

- **We are warned against not repaying debt**
  - Psalm 37:21a - The wicked borrows and does not repay

- **We are warned against being involved with debt and other people**
  - Proverbs 11:15 - There's danger in putting up security for a stranger's debt; it's safer not to guarantee another person's debt.
  - Proverbs 6:1-5 - My child, if you have put up security for a friend's debt or agreed to guarantee the debt of a stranger - if you have trapped yourself by your agreement and are caught by what you said - follow my advice and save yourself, for you have placed yourself at your friend's mercy. Now swallow your price; go and beg to have your name erased. Don't put it off; do it now! Don't rest until you do. Save yourself like a gazelle escaping from a hunter, like a bird feeling from a net.

A few more questions about debt

Are there any types of debt that would avoid the warnings in the Bible?

To avoid the warnings, any debt should **not**:

a. Significantly restrict our lives
b. Require money in the future that has ________________ (52) availability or is difficult to repay
c. Put us at risk because of the actions of others

Let's look at how different types of debt meet these warnings

1. **Home mortgages**
   a. *Can I avoid the warnings?* Yes. It depends. If you make a substantial down payment (such as 10% or greater) and the monthly payment is not an excessive percentage of your spending, then you are less restricted as you can sell the house if needed and your other spending is not as impacted. We should also not co-sign loans for others that we are ultimately responsible for because that puts us at risk because of the actions of others.
2. **Credit cards**
   a. *Can I avoid the warnings?* Probably not. Credit card debt significantly restricts our lives as the high interest rates grow the balances faster than other debt which makes it difficult to repay. Also, we may not have assets that we purchased with the credit card debt that could be sold to repay the debt.
3. **Student loans**
   a. *Can I avoid the warnings?* Yes. It depends. We can reduce the risks by keeping the amounts borrowed as small as possible and obtaining education that leads to higher income potential that enables us to repay the amounts borrowed more easily.
4. **Car loans**
   a. *Can I avoid the warnings?* Maybe, but it's harder to. The good news is you are buying an asset with this type of debt that can be resold if needed but the bad news is this asset depreciates quickly if bought new making it hard to sell to cover your loan. We can reduce the risks by keeping the amounts borrowed as small as possible, making a substantial downpayment and buying used cars that don't lose value as quickly.

A few more questions about debt

So what's the point about debt?

- __________ (53) debt restricts our lives to some degree as it requires higher incomes and spending plans to cover debt payments. As a result, we get stuck in jobs because we need the income and we can't spend or save in other areas important to us.

- Debt should be ______________ (54) as much as possible by saving in advance and then only related to purchases of assets that can increase in value or are highly likely to increase your income

- We do not co-sign loans with other people where their actions can make us liable for debt payments unless we are ready to accept that it is our debt

- We strive to pay off higher interest rate debt balances (>5%) as quickly as possible to reduce the restrictions on our lives plus we cannot get higher guaranteed returns elsewhere

Discussion questions

10 min

1. Why do you think we struggle with debt? What are some of the costs of this struggle to us?

2. How has debt restricted your life?

3. How would our lives be different if we followed the warnings from the Bible about debt?

The easy 57 step guide to get out of debt

1. Stop going into more debt by having a spending plan that generates savings

2. Make a listing of all your outstanding debts (see net worth statement)

3. For each debt, determine your minimum monthly payment required and interest rate (also see net worth statement)

4. Determine your total amount available for extra debt payments (see spending plan)

5. Apply this extra amount to the lowest high interest debt balance (for debt snowball method) or the debt balance with the highest interest rate (for debt avalanche method)

6. - 12. Keep doing this each month until the balance is paid off

13. Have a donut to celebrate paying off an entire debt balance[1]

14. ______________ (55) yourself of your "why's" and values to keep doing this

15. Take the amount you were paying on the paid off debt and apply it to the next debt balance selected

16. - 25. Keep doing this each month until the balance is paid off

26. Have two donuts to celebrate paying off two debt balances

27. Dream a little bit of what your life would look like without debt

28. - 55. Take the amount you were paying on the paid off debt and apply it to the next debt balance selected and keep doing this each month until all of the high interest rate debt balances are paid off

56. Appreciate and ____________ (56) your amazing accomplishment for a little bit

57. Adjust your spending plan to reflect the absence of these debt payments and start on financial goal #4

[1] The point is to celebrate our financial wins (inexpensively). It doesn't have to be a donut but it probably should be a donut.

Debt payoff example

Two main debt payoff methods:

1. Debt snowball - pay off the lowest balances first
2. Debt avalanche - pay off highest interest rate balances first

The debt snowball method helps simplify our financial lives by paying off individual balances faster. An example:

Debt	Balance	Interest Rate	Minimum Payment	Additional Payment	Total Payment	Months to Payoff
Student loan	500	6%	100	100	200	3
Credit card #1	1,000	15%	50	0	50	23
Home equity line	2,000	9%	100	0	100	22
Credit card #2	3,000	12%	150	0	150	22
Total	6,500		400	100	500	

After 3 months….

Debt	Balance	Interest Rate	Minimum Payment	Additional Payment	Total Payment	Months to Payoff
Credit card #1	785	15%	50	200	250	4
Home equity line	1,741	9%	100	0	100	22
Credit card #2	2,632	12%	150	0	150	22
Total	5,158		300	200	500	

With the debt avalanche method, we apply the additional payment first to the "Credit Card #1" balance above as it has the highest interest rate of 15%, then the "Credit Card #2" balance and so on. This method will save on interest costs over the debt snowball method but doesn't simplify your finances as quickly or result in quick financial wins.

Regardless of method, the key is to make additional payments above the minimum payments which all starts with creating a spending plan that generates savings

A few more questions about debt

So why do we focus only on higher interest rate debt to start with vs. all debt?

- By paying off only high interest rate debt (i.e. above 5%) in our core financial goals, we may be left with longer-term debt with relatively lower interest rates, such as student loans, car loans and mortgages, that are not paid off until the 5th financial goal option

- We do this to avoid delays in increasing our flexibility fund (which expands our opportunities) and investing for retirement (which benefits from time).

- Let's use an example to illustrate:

Suzy is generating savings of $500/month and can choose between paying extra on a $20K loan due in 5 years at 5% interest (Option A) or increase her flexibility fund to 3 months of essential expenses at 1% return and invest for retirement in a Roth IRA (Option B) at 8% return. She currently has $2K in the bank (1 month of essential expenses). After 2 years, her options provide the following results:

	Today	Option A	Option B
Cash	$2,000	$2,040	$6,106
Roth IRA	$0	$0	$8,413
Debt	$20,000	$0	$12,593
Net Worth	($18,000)	$2,040	$1,925
Available funds	$2,000	$2,040	$14,106

After 2 years, who do you think has more flexibility for an opportunity or emergency?

Option B has $14,106 available if needed ($6,106 in cash and $8,000 from the Roth IRA contributions) vs. $2,040 available under Option A although with no debt outstanding.

Note that Option B has a slightly lower net worth due to cash only earning 1% vs. paying off debt earning 5% but remember the point of a flexibility fund is not the return but the peace of mind that you can handle opportunities and emergencies.

A few more questions about debt

So what is the deal with using credit cards?

- Credit cards can be a __________ *(57) or* ____________ *(58)* for your finances
- Some ways they can be a tool are by providing:
    - Interest-free loan for about a month if paid off completely each month
    - Earn travel / cash back rewards that can be worth 1%-2% of purchases
    - Limited liability and ability to contest charges with businesses
    - Extended warranty features on certain purchases
    - Build credit score that can help reduce interest rates on larger loans (e.g., mortgages)
- Some ways they can be a disaster:
    - Very high interest rates that make getting out of debt very difficult
    - Can encourage additional spending due to convenience
    - Can incur fees if have annual fees or if late on payments plus exposes you to debt collectors

Avoid using credit cards if your current finances meet any of the following:
a) Outstanding credit card debt
b) Do not have 1 month of essential expenses saved up
c) Have a tight spending plan (less than 5% monthly savings)

The risk of not being able to pay off your credit card balances each month is too high in these financial situations[1] - use a debit card or cash instead

[1] But seriously, credit cards are not to be messed around with unless you have shown you have your finances under control. If you have any doubt, it is best to stick with debit cards and cash until then.

A few more questions about debt

What about our credit score - does it matter if we limit debt?

- Our credit score still matters even if we limit debt as much as possible because the vast majority of us will still need a mortgage to buy a home

- The interest rates we pay on mortgages can be significantly impacted by our credit scores. For example, the financial impact of a credit score above 760 ("very good") and one at 620 ("fair") for a $200K loan are[1]:
    - Interest rate: 1.6% higher for the "fair" credit score
    - Payment: $180/month higher for the "fair" credit score
    - Total interest over life of loan: $64,000 higher for the "fair" credit score

- Fortunately, the steps we're working on in this class will improve our credit scores:
    - A consistent, timely payment history improves your credit score (35% of credit score)
    - Lower debt balances relative to available credit improves your credit score (30% of credit score)
    - Avoiding opening new credit accounts improves your credit score (10% of credit score)

- One additional strategy is to cut up or freeze your credit card, but don't actually close the account as long as there are no fees associated with having it open as closing accounts can lower credit scores in certain cases

[1] Based on bankrate.com August 2020 analysis

Saving Money

Money saving tips

- Creating a spending plan that generates monthly savings is the ____________ (59) for achieving our financial goals, including paying off debt
- The quickest way to do this is by reducing our spending
  - Increasing income is another option but can take longer (see the additional reading at the end of this section for some ideas)
- Reducing spending can be hard but we remember our larger goals and values
  - Ask yourself: is this spending worth delaying my goals that give my life meaning and purpose?
- We start with looking closely at spending that is least important to our values
- Remember that you can __________ (60) different ways to reduce spending and always go back to that spending if it doesn't work for you - the companies will take you back as a customer
- Let's now review some possible ways to reduce our spending to see if some of the ideas may work for us

Reminder: **Reducing spending in one area today means you have more to spend in another area now or more to spend later. Your future self will thank you.**

Money saving tips

#	Category	Ideas	Details
1	Various	Know the best time of year to buy specific items	Most items change in price throughout the year. Examples of this concept are: 1. Clothing: buy clothes during off season clearance for the next year (e.g., winter clothing in late winter/early spring) 2. Toys: find out when clearance is offered and buy in advance for birthdays/Christmas (e.g., toy clearance in January and July) 3. Electronics: Black Friday, Back to School and Super Bowl (for TVs) generally have lower prices for cell phones, computers, TVs, etc. 4. Seasonal items: Christmas decorations, patio furniture, etc. - buy after the peak of the season when on clearance Use a price history/tracking website (such as www.camelcamelcamel.com) to see the historical prices for a specific item to see when it traditionally goes on sale and can set up an alert to be notified.
2	Various	Know the best places to buy specific items	Prices can vary significantly for specific items depending on where you buy it. Examples of this concept are: 1. Clothing: generally cheaper at outlet stores 2. Food: generally cheaper at non-traditional grocery stores (think Grocery Outlet, Walmart, Target, Aldi) 3. Dollar stores: try them out, surprised at what you find 4. Second hand stores / Craigslist: try them for furniture, exercise equipment and anything else other than underwear 5. Cell phone service: consider trying a non-traditional provider such as Google FI, Consumer Cellular, Cricket or Republic Wireless. The monthly service fees are often much cheaper and they use the same networks as the traditional providers.

Money saving tips

#	Category	Ideas	Details
3	Entertainment	Library is free	Get to know the library. Can check out movies, music, audiobooks, museum passes in addition to books. Can check out electronic books on the Libby app with many libraries.
4	Various	New customer discounts	Some companies offer discounts to obtain new customers from another company. Examples include: 1. Internet / TV service: pricing can be much cheaper for new customers at traditional internet and TV providers, such as Cox and AT&T, as the pricing is generally only good for the first year. After the price goes up, call the companies and ask for the price to be reduced back or you'll leave. Sometimes it works. Another alternative is to switch back and forth between two providers every year and obtain the new customer pricing. 2. Cell phone providers: the larger providers often offer free or discounted phones for switching to their service with the discounts paid out over 2 years. If you transfer companies every time you need a new phone every 3-4 years, you can receive significant discounts on the phones.
5	Groceries	Food prices at grocery stores can vary significantly depending on their weekly specials	Most store ads are pretty consistent and will offer the same items on sale about once a month. Stocking up when something is on sale and freezing it is a great way to save. For example, chicken tenders will go on sale by 50% about every 4 weeks or so. Meal planning for the week around what is on sale is also helpful.

Money saving tips

#	Category	Ideas	Details
6	Dining out	Dining out costs more	Don't dine out as much, the actual food costs at a restaurant are generally less than half of the total cost, which shows how much more you are paying for other costs. If you do have favorite dining out places, many of them have "clubs" or apps you can join where they'll send you coupons or free stuff. Go to their website and look for the option to enter your email for "special offers and discounts." If a lack of time and/or convenience is an issue for why you dine out, there are higher quality frozen items available at grocery stores that can be brought to work for lunch or made for dinner that are still cheaper than dining out or fast food.
7	Entertainment	Find free or low cost things to do	Wherever you live, there are many free or low cost options for entertainment, such as: 1. Go to the beach, parks, lakes, desert, mountains or a dirt lot 2. There are likely free museum days, concerts, festivals, etc. somewhere 3. Search for "free things to do in (your area)" in Google for other options
8	Cable TV	Trying streaming services or go without	In addition to trying to get new customer discounts, streaming TV services can be cheaper than cable TV. Some popular services are: 1. Sling TV 2. Hulu Live TV 3. Youtube TV 4. Try the free trial first to see if you like it Also, try a low cost antenna to get free broadcast channels

Money saving tips

#	Category	Ideas	Details
9	Subscriptions	Review your subscriptions and determine if you really need them all	Create a list of all your recurring subscriptions by looking at your bank statements and credit card bills for the past two months. For each subscription, make a note how frequently you use the subscription. You may find subscriptions that you rarely use and have forgotten about. Try cancelling a few subscriptions to see how it impacts your life. You can always add them back. Examples of subscriptions include: 1. Movies/TV: Netflix, Amazon Prime, Hulu, HBO, Starz, etc 2. Gym or fitness classes 3. Newspapers or magazines 4. Music services: Sirius, Spotify, Pandora 5. Landline telephones 6. Software subscriptions: apps, antivirus 7. Household: pest services, gardeners, security
10	Internet	Try lowering your internet speed to a lower cost plan and/or buying your own modem to avoid equipment fees	Home internet plans generally increase in price based on the speed of the service. If you have a higher speed plan, try using a lower speed plan that will likely save you money. Most streaming services work fine at less than the max speeds available. If it doesn't work for you, can always increase the speed back at any time. To save on the monthly modem equipment rental fee, you can buy your own modem that is compatible with the service. These modems can work fine for years, which will easily recoup the cost of purchasing the modem.

Money saving tips

#	Category	Ideas	Details
11	Bank / credit card fees	Call the bank / credit card company and ask for late fees or annual fees to be waived	If you've been a long time customer of a bank or credit card company with a good payment history, you can often get one or two fees (such as a late payment fee or overdraft fee) waived by calling the company and asking them to waive the fees based on your mistake. Also, review your credit cards for any annual fees. If caught within a month, the credit card company will often refund the fee if you cancel the credit card. If you have annual fees for your credits cards (which are often waived in the first year), switch to a no-fee card with the same company, cancel the card or confirm the benefits you receive are worth more than the annual fee.
12	Insurance	Get comparison quotes on insurance services and consider raising deductibles	Shop around if it has been awhile since you've received competitive quotes for car, home and life insurance. It is easy to get online insurance quotes from multiple sources at websites like www.bankrate.com and www.policygenius.com. Also, look for insurance discounts through associations you are part of, such as alumni associations, AAA, Costco, AARP, unions, etc. Review your home and car insurance deductibles to see if you can increase them to save on the premiums. One of the benefits of having savings in a flexibility fund is to be able to have higher deductibles that will lower your annual costs.
13	Various	Buy generic over brand name products	Generic or store brand products are usually much cheaper (since they don't require advertising) and manufactured exactly the same as the name brand product. Try the generic or store brand products for household supplies, food, or anything else to see if you notice the difference.

Money saving tips

#	Category	Ideas	Details
14	Various	Sell excess stuff	Go through your house, closets, garages, storage units, etc. and find stuff you don't use anymore or never used and sell or donate it. Check out minimalism resources for inspiration and ideas on how to get rid of stuff, such as www.becomingminimalist.com
15	Various	Online shopping - use cash back sites and search for coupon codes	When shopping online, there are many websites that provide varying percentages of cash back on your purchases. Can Google "cash back sites" for a list. There are also coupon websites that offer promo codes for certain websites and/or products. One example is www.retailmenot.com but all you have to do is Google "coupon codes for X product" to see if anything comes up.

Action Items: Week 4

1. Try some money saving tips

Review the list of money saving tips discussed. Identify the ones that could apply to your situation and then start trying some of them out. If they don't work for you, then try others until you find some that work for you.

Then set up automated transfers from your checking account to a savings account. If don't have a savings account, set up one at the same bank as your checking account for simplicity. Most banks will have an option to schedule an automatic transfer between accounts on a monthly basis. Start small, try just $15/month or $0.50 a day. It's about setting up the process at this point and then can increase the amount later when we better understand our spending.

2. Debt payoff worksheet (Worksheet 7)

Complete the debt payoff worksheet by listing all your balances, the minimum monthly payments, interest rates and your total monthly amount available to pay off your debts. Confirm your total monthly payment for all debt is consistent with your spending plan.

3. Review your credit report

Federal law provides you with a free copy of your credit report every 12 months at www.annualcreditreport.com - review the credit report to confirm you're aware of all your outstanding accounts and that there are no inaccuracies in your credit history. The credit report is used to create your credit scores, which can be accessed separately for a cost at www.myfico.com or are often available for free through your bank's website, Mint.com, or through a site such as www.creditkarma.com

What are your main takeaways from this week's discussion?

How to increase income

So far we have focused on ways to reduce our spending to increase our savings since reducing our spending is the fastest way to increase savings. However, we may reach the point where it gets very difficult to reduce our spending further and finding ways to increase our income becomes increasingly important. There are a few ways to increase income in the short-term but the greater potential benefit is taking steps to increase income in the long-term. Let's look at some possible ideas:

Increasing income in the short-term

In the short-term we are limited to primarily increasing our income through our current jobs, finding part-time jobs on the side or selling assets we own. In our current jobs, we can seek to increase income by working additional hours / overtime (if available) and by seeking a raise with either our current company or at another company for a similar job. To find out if seeking a raise is a good opportunity, we can talk to people we know doing similar jobs to compare pay, use job comparison websites (e.g., glassdoor.com) or by reviewing job listing websites (e.g., indeed.com). If it appears we are underpaid, it is a reasonable conversation to have with our employers which needs to be accompanied with evidence of the value we provide to the company. It generally doesn't hurt to ask if done in a thoughtful way with supporting evidence but we should first have reasonable belief that we are viewed as a good performer at our workplace.

Another short-term way to increase income is working a part-time job in addition to your regular job. Remember this isn't a long-term solution to work two jobs at the same time but can be effective in the short-term to make quick progress with your finances. There are many part-time jobs that can be done at flexible hours that can be related to skills you currently have or do not require much training / experience. For example, can you use your current skills developed through your regular job to perform similar work outside working hours? Or can you join the so-called "gig" economy through ride-sharing or delivery services?

One additional short-term way to increase income would be to sell assets you own, such as on eBay, Craigslist, or garage sales. Many of us have too much stuff already so this would be a way to simplify your household as well as bringing in some immediate income. I'm always surprised by what sells quickly and the prices when I've done it and it is a low or no cost method to list items through the various free marketplace websites to see if they will sell.

Increasing income in the long-term

In the long-term we have a lot of options available to us to increase our income with the primary focus on obtaining higher salaries through our careers or businesses. In the long-term we can work on the attributes that are needed to obtain higher salaries or have successful businesses. If you are interested in increasing income over the long-term, I suggest considering the following factors that I have noticed throughout my careers in multiple organizations:

1. Are you a revenue-producer in your company? People who bring in revenues to a company are viewed as more valuable than supporting-type roles. This could be salespeople, engineers designing products, professional athletes or consultants. It is easier to demonstrate your value to a company and be compensated for it if you are bringing in revenues as compared to an employee who supports the business and is viewed as a "cost center." If you're a cost center, companies are always trying to reduce costs which works against a goal of reaching higher incomes.

How to increase income cont.

Increasing income in the long-term

2. Can you become less replaceable in your job or business? We can become less replaceable by developing expertise in our job, obtaining additional education / training and building relationships within and outside our company. We seek to be able to clearly demonstrate how we are able to solve problems for our company and customers. Now some jobs are naturally harder to replace than others due to higher minimum qualifications needed (think about the years of training required for doctors vs. entry-level retail positions) but we can work to become more important to our company and customers in any position which helps increase our value to the company or customer.

3. Can you find a job that intersects with your passion and abilities that is in demand in the marketplace? We often hear advice to "follow your passion" and then somehow it all magically works out for you with financial success. But what if you have a passion for something but you don't have the ability or training to do it well? Just because I enjoy something doesn't mean I'm also good at it, we call these things hobbies. Or what if I have the passion and the ability to do something well, but no one is willing to pay for it? We call these people "aspiring writers" but kidding aside, there needs to be a problem being solved that people are willing to pay for with whatever we do if we want to produce income from it. Now if we can find something we have a passion for and are really good at it and it solves a problem for people that they will pay for, we have a lot of opportunity for income as we will be willing to work harder than other people who don't have the same passion even if they have similar abilities.

4. How much competition is there for income in my job or business? It turns out that some jobs attract more interest from people than other jobs. There are some activities that people just want to do more than other activities. Think about how many people aspire to do something creative, such as acting, writing, painting, and photography. Or have an interest in working with animals or children. Now think about how many people aspire to prepare tax returns, understand patent law, complete actuarial analyses or complex mathematical equations. Why does this matter? Because it is more difficult to earn higher incomes or charge more if there is more competition with you in your job or business as higher competition increases your replaceability and can lower the price people are willing to pay you. Think about how many people are willing to act, write or paint for practically free vs. how many people are willing to prepare tax returns for free. So if you are in a job or business where there are many similarly qualified people trying to do similar activities, it is not impossible to have a high income, it just might be harder.

5. Do you work for a company that has resources to pay higher incomes? I hope it is clear by now that there are more reasons to select a job than just earning higher incomes.[1] But I think it should be pointed out that where you select to work can influence how much you can potentially earn as some organizations have more resources than others. So organizations, such as not-for-profits, government-related, or private companies that are struggling or smaller in size, simply may not have the resources to pay higher incomes as compared to larger organizations that are performing well. I point this out to not say you should try to work for larger organizations but to recognize your income can be impacted by where you work even if you are doing the same job activities.

[1] After all this is a course about how becoming wealthy is not the end goal but a means to support our life goals, which could include working in a job that is meaningful to us but not necessarily high paying.

Week

Five

Investing for Retirement & College

Introduction to Week 5

So far in this course we have covered a lot about saving money through being intentional in our spending and reviewing ways to reduce spending and payoff our debts.

This week we turn to how to grow our savings for long-term goals, such as retirement and college, through investing.

Investing is a topic that has generated countless books, articles, blogs, movies and conversations because so many people are interested in finding investments that will make them wealthy. And it would be kind of cool to say you invested in Google before the internet existed to show how smart you are.

All of this interest in investing has generated so much information and competing ideas that it can be overwhelming on how to get started and how complicated your investing really needs to be.

Since investing is such a big topic that can't be fully explored in one week, we will will focus on the concepts we need to understand if we are going to start investing and review resources that can help us make our decisions to personalize[1] our investing for our unique needs.

Retirement and college can also be topics that feel overwhelming because of the large dollar amounts that are often needed to support these goals. We can be left staring at such large numbers that leave us feeling hopeless of ever achieving them. But the best time to start is always now and one month at a time.

Quick self-survey - mark your current level of comfort with these topics

Topics	Very comfortable	Some comfort	It's ok	Uneasy	Stomach hurts	Don't want to think about it
Retirement savings						
College savings						
Investing						

[1] The "personal" aspect of investing is important to understand. Investing decisions must really meet each person's individual circumstances and because of many abuses by people in promoting investments in the past, there is a lot of government regulation around investing advice. So we can talk about concepts of investing but then must individually make our own choices and be skeptical of investment advice.

The case for saving for retirement and college

Part A - Is saving for retirement really necessary?

Let's discuss the consequences of saving or not saving for retirement

Save for retirement		Don't save for retirement	
Pros	Cons	Pros	Cons
1. Reduce stress and worry about our financial futures	1. Can't spend money now or save for other things we value	1. More money to spend today	1. Likely reliant on others for assistance when no longer can work
2. Enables time in the future on activities we value	2. The future is uncertain	2. May be giving up time today to work to save	2. Worry and stress over what the future holds
3. Allows us to provide for our future needs when work is not possible			3. Limits ability on how you use your time in the future
4. Increases ability to be generous in the future			4. Will have to save more if start later

Part B - Is saving for college really necessary?

Let's discuss the consequences of saving or not saving for college

Save for college		Don't save for college	
Pros	Cons	Pros	Cons
1. Reduce stress and worry about how to pay for college	1. Can't spend money now or save for other things we value	1. More money to spend today	1. May discourage completing college
2. Limits debt that may need to be taken out	2. The future is uncertain (may choose a career that doesn't require college, may get a scholarship or free aid)	2. May be giving up time today to work to save	2. May have higher stress and worry
3. Increases chances of successfully completing college (which increases future income)			3. May lead to significant student loans which decreases flexibility later in life
4. Increases time to spend on college activities			4. Lose time for the savings to grow

How to save for retirement and college

- Saving for retirement and college have a number of issues in common:
  - Both require a significant amount of money at some future dates
  - There is uncertainty in how much money we need at those future dates
  - There is uncertainty in when those future dates will actually take place
  - The government has created various incentives to encourage saving for retirement and college

- To solve these issues, we need to focus on two questions:
  - What is considered the best method for saving over a longer time period?
  - How do we take advantage of the incentives offered by the government in these areas?

- We'll start by looking at ____________________ (61) and how that could meet our needs for saving over a longer time period

What is investing?

It's ________________ (62) than savings

- Savings is focused on short-term goals while investing is focused on longer-term goals (more than 5 years away)

- Savings are generally kept in bank accounts, CD's, and money market funds where it is easy to access the cash and there is very low risk of loss but also lower rates of return

- Investing is generally done in the stock market and bonds and, to a lesser extent, rental real estate, collectibles, precious metals (i.e. gold), among others, and there is a substantial risk of loss in the short-term and even over longer periods but have the potential for higher rates of return

- Investments with higher returns are also viewed as having higher risk[1]

[1] There is a lot of research that has been done to quantity returns and risk for various investment but I hope this intuitively makes sense to you. If you are willing to take on more risk, then you should require a higher return. If two investments have the same expected return but different risks, it is common sense that we should take the investment with the lower risk.

Bible verses relevant to investing

Parable of the Talents (Matthew 25:14-30)

Excerpt: The man with two bags of gold also came. ‘Master,’ he said, ‘you entrusted me with two bags of gold; see, I have gained two more.’ His master replied, ‘Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master’s happiness!’

Then the man who had received one bag of gold came. ‘Master,’ he said, ‘I knew that you are a hard man, harvesting where you have not sown and gathering where you have not scattered seed. So I was afraid and went out and hid your gold in the ground. See, here is what belongs to you.

His master replied, ‘You wicked, lazy servant! So you knew that I harvest where I have not sown and gather where I have not scattered seed? Well then, you should have put my money on deposit with the bankers, so that when I returned I would have received it back with interest.’

Some other applicable verses

- Proverbs 21:5: “The plans of the diligent lead to profit as surely as haste leads to poverty.”
- Proverbs 27:12: “The prudent see danger and take refuge, but the simple keep going and pay the penalty.”
- Proverbs 20:18: “Plans are established by seeking advice; so if you wage war, obtain guidance.”
- Ecclesiastes 11:2: “Invest in seven ventures, yes, in eight; you do not know what disaster may come upon the land.”

Takeways

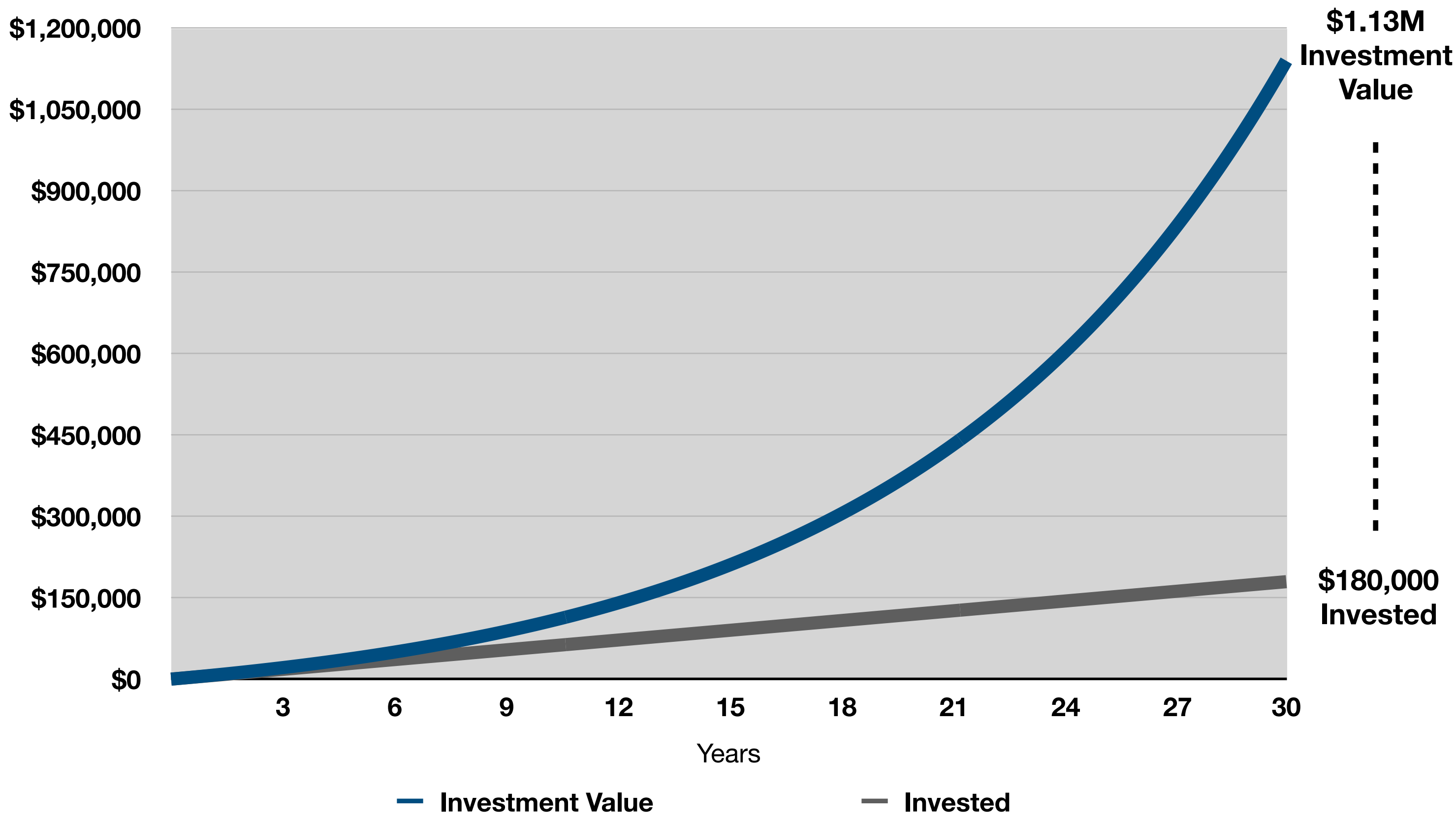
1. Doing nothing out of ___________ (63) is not a good strategy
2. Planning is important to success and short-term thinking works against us
3. Be aware of risks when planning
4. Seek out ___________ (64) counsel
5. Diversification

Why do we invest?

To try to get higher rates of return

- Historical long-term annual rates of return by various popular investments[1]:
  - Stocks: 10%
  - Bonds: 6%
  - Gold: 4.6%
  - Real estate: 4%
  - Cash: 3%
- Such differences in annual return rates cause a significant difference in the total balance in the future due to ________________________________**(65)**
  - Albert Einstein: “Compound interest is the 8th wonder of the world. He who understands it, earns it; he who doesn’t, pays it.”

An example…$500 invested monthly for 30 years with a 10% annual return



The difference between the $180,000 invested and $1.13M value is compound interest

[1] The returns for stocks and bonds uses the S&P 500 / 90 index from 1926 to 2019 for stocks and high grade bond indexes from 1926 to 2019 via Vanguard. The return for cash uses 3-month Treasury bills from 1928 to 2019. The return for real estate is from Robert Shiller’s data via mindfullyinvesting.com for 1928 to 2019. Gold is for 1979 to 2019 via mindfullyinvesting.com.

Why rates of return and time matter

The total value of an investment over the long term varies significantly depending on small differences in annual rates of return and time periods

Assume $500/month investing, the total $ values by # of years invested and annual returns are:

	2%	4%	6%	8%	10%
5 years	$31,524	$33,149	$34,885	$36,738	$38,719
10 years	$66,360	$73,625	$81,940	$91,473	$102,422
20 years	$147,398	$183,387	$231,020	$294,510	$379,684
30 years	$246,363	$347,025	$502,258	$745,180	$1,130,244
40 years	$367,218	$590,981	$995,745	$1,745,504	$3,162,040

Takeaway: there is a ___________ (66) from delaying or not investing at all

But then there is risk with investing…

As we've discussed, there are almost always trade-offs with money and trying to get higher returns is no different:

Higher returns comes with higher risk of loss

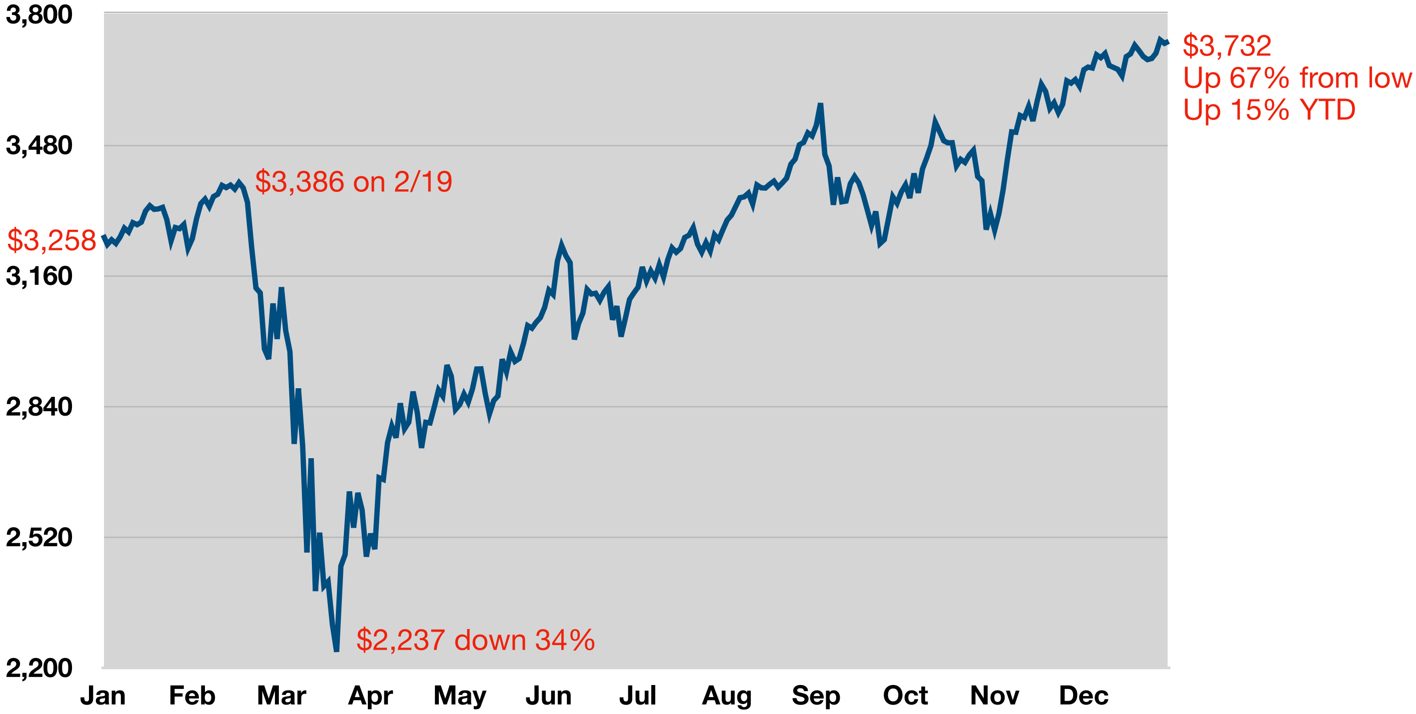
There is risk that our investments could decline in value, sometimes significantly and without warning

So we need to recognize there is risk and come up with a plan to manage it

A lesson in risk

The year of 2020

The S&P 500 index tracks 500 of the largest companies in the U.S. and it had quite the ride…



How would you feel if you lost 34% of your portfolio in ~1 month?[1]

How would you feel if you had sold everything in late March?

We can't overlook the risk and emotional aspect of investing

[1] Updating the monthly net worth worksheet at the end of March 2020 was not an enjoyable exercise

Discussion questions

7 min

1. How comfortable are you with the idea of investing?

2. What specifically concerns you or holds you back from investing?

Putting together an Investment Plan

Step 1: Identify the accounts to use (retirement)

For **retirement,** there are two main types of accounts that have tax benefits:

1. IRA / 401k (and equivalents 403b, 457)
2. Roth IRA / Roth 401k

The main difference is whether you receive the tax benefit today (IRA/401k) or later in retirement (Roth types)

Since these accounts encourage retirement savings, there is a trade-off as there can be penalties for taking the money out early (before age 59 ½). For the Roth accounts, you can withdraw your contributions without penalty prior to retirement age.

There are also limits on how much you can save in these accounts:

- 401k/Roth 401k accounts have higher limits than IRA/Roth accounts
- The tax benefits of these accounts also go away if income is too high

A few potential points in favor of Roth-type accounts[1]

- Can save more within the account vs. IRA/401K
  - The limits are the same for Roth and IRA accounts but a dollar is worth more in the Roth account since goes in after taxes and grows tax free
- Can have more flexibility if money is needed in an emergency
  - We do everything we can to leave the money in the account to grow for retirement, but if there is an emergency there are less potential penalties in withdrawing funds contributed to a Roth
- Can protect against higher taxes in the future
  - Since we pay the taxes upfront vs. a IRA/401k, if taxes go up in the future, it doesn't affect the amount we have available in retirement

Whatever account you use, the first priority is taking advantage of any employer matching programs. So if your employer only offers a regular 401k with a match, that is the first account you should consider investing through.

[1] The primary time a Roth-type account makes less sense vs. a traditional 401k/IRA is if you are currently earning much higher income than you expect to need in retirement from your withdrawals, which makes the tax deduction today more valuable

Step 1: Identify the accounts to use (college)

For **college**, there are two main types of accounts that have tax benefits:

1. 529 savings plans offered by individual states
2. Coverdell Education Savings Account (ESA)

- Both accounts allow for investments to grow over time and used tax-free for education expenses (similar concept as Roth accounts for retirement)
- If the money is not used for qualified education costs, taxes and a penalty are owed on earnings when using the funds for other purposes[1]
- Although the 529 plans are offered by states, you often don't have to live in the state to use the plan, some states have better investment choices and fees so look around

Let's look at some of the key criteria for the two types of accounts

Criteria	529 Savings Plans	ESA
Annual contribution amount	$15,000 (before gift taxes may apply); depends on state plan	$2,000
Investment choices	Options defined by state plan, generally mutual / index funds	Effectively unlimited
Flexibility in using funds	College tuition, fees and expenses; K-12 tuition; apprenticeship and student loans; no age limit; can be transferred to family member	College and K-12 tuition, fees and expenses; use by age 30; can be transferred to family member
Eligibility restrictions	Very few; depends on state plan	Can't contribute once beneficiary is 18; income limitations
Tax benefits	Tax-free earnings if used for eligible costs; some states may give tax deduction	Tax-free earnings if used for eligible costs

[1] This provision makes some people hesitate to contribute too much to education saving accounts since amounts cannot be used for other purposes without some taxes/penalties, but it would be nice to have the problem of saving too much for college and the amounts can generally be transferred to other family members

Where to actually open these accounts

Retirement

- If participate in your workplace 401(K) or equivalent, then have no choice but to use the investment company that your workplace has selected
- If you work with a financial advisor, they will likely have an established investment company they work with
- If you do not use a workplace option or a financial advisor, then can select the investment company that you wish to open up an account with
- Some popular large companies with long histories are Vanguard, Fidelity and Charles Schwab

College

- For 529 savings plans, each state has a specified provider. Many partner with large investment companies such as Fidelity and Vanguard.
- ESAs can be opened at the same investment companies as retirement plans

Step 2 - Select investments

#1 - What are our options for selecting investments?

a) Do-it-yourself (DIY) - you decide everything

i) Pros: lowest costs involved which could increase returns; many resources available to help you for free or low cost

ii) Cons: may be uncomfortable in making these decisions on your own; less accountability than using an advisor

b) DIY with help, such as subscribing to a newsletter for investment advice

i) Pros: lower cost than using an advisor, more confidence in leaving investment selection to “professionals”

ii) Cons: more expensive than DIY and how do you assess which advice is “good”

c) Using a financial advisor - hire someone to manage your investing

i) Pros: direct access to someone with personal finance knowledge and experience; advisors can provide more than just investment advice as well as accountability

ii) Cons: most expensive option, one popular fee model is charging an annual fee of 1.0% to 1.5% of your total assets being managed; may be difficult to get access to an advisor unless balances are a certain size; how do you assess whether the advisor is “good”

So how do you decide on an option?
Some things to consider:
1. How much time do I want to spend?
2. How comfortable am I with learning a bit of knowledge?
3. How much accountability do I need?

If you want to spend the least amount of time managing your investments and need external accountability, then a financial advisor may be worth checking out but you have to decide if it’s worth the cost to you.

Step 2 - Select investments

#2 - How do we decide the actual investments? A few principles

1) Determine how long you have to reach your investment goals

2) Determine how comfortable you are with risk and potentially losing money

3) Your timelines and risk tolerance defines your investing "asset allocation"

    a) Asset allocation simply refers to how much money you put in different investments, such as stocks vs. bonds or U.S. vs. International

    b) There are questionnaires that can help you with identifying your asset allocation based on your risk tolerance and investing timeline. For example, Vanguard has one at: https://personal.vanguard.com/us/FundsInvQuestionnaire

4) We then select specific investments within our investment categories. A few concepts to remember from the Bible verses we reviewed:

    a) Diversification - spread your investments among many assets

    b) Long-term perspective - avoid "get rich quick" thinking

    c) Seek wise counsel - become educated / consider a financial planner

5) Avoid making investing too ____________________ (67). Look for ways to invest that cover the key concepts in a simple manner.

Let's look at one potential example for retirement:

With "Target Date Funds" we select the target date closest to our estimated retirement date and the fund will automatically adjust the asset allocation between stocks and bonds over time using low cost index funds that hold many investments.[1]

I've included an example of my own investment selections and thought process at the end of this section in additional reading.

[1] Target date funds have become popular within company 401k plans due to this simplicity, all you have to do is select one fund with the date closest to your expected retirement and it does the rest at a relatively low cost

Step 3 - Determine how much to invest (Retirement)

1) Use an online retirement calculator, there are many of them. One example is:
    i) https://retirementplans.vanguard.com/VGApp/pe/pubeducation/calculators/RetirementIncomeCalc.jsf

2) The key factors include how much time to retirement, how much saved already, expected spending and estimated annual return

3) Tips for retirement estimate:
    a) Reduce the total monthly amount needed by sources of other retirement income, such as social security, pensions, rental real estate, etc.
        i) Obtain your social security estimate at https://www.ssa.gov/benefits/retirement/estimator.html
        ii) It is possible that you may not need to save as much for retirement if you are covered by a pension or rental real estate income
    b) Look at your spending plan by category to see how it might change in retirement, such as travel and healthcare may go up while childcare and commuting go down
    c) Equity in homes is not generally viewed as available for retirement savings unless you are highly certain you will have access to the funds by selling a more expensive home to buy a cheaper home or rent in retirement years
    d) A commonly used guideline is that you can withdraw 4% of your investments annually in retirement, which means you need to save 25x the annual income needed from investments in stocks and bonds.

Step 3 - Determine how much to invest (Retirement)

Example using the Vanguard calculator

Let's assume the following starting assumptions:

- Current age: 40
- Retirement age: 65
- Current income: $70,000
- Annual retirement savings: $7,000 (10% of income)
- Amount saved to date: $50,000
- Spending in retirement: $4,667/month (80% of current income)
- Expected annual return: 8.0%
- Social security benefit: $1,500/month
- Pension benefit: $0

When "what you may have" in retirement is less than "what you'll need" in retirement, we have three main options:

1. Work longer
   - Increase retirement age
2. Save more towards retirement on a monthly basis
   - Increase income or reduce spending
3. Reduce your expected spending in retirement
   - Saving on housing costs is one option

We adjust these factors in the calculator until our "what you may have" is equal to "what you'll need"

Step 3 - Determine how much to invest (Retirement)

Example using the Vanguard calculator

Let's update our assumptions:

- Current age: 40
- Retirement age: 69 (up 4 years)
- Current income: $70,000
- Annual retirement savings: $10,500 (15% of income) (up $3,500/year)
- Amount saved to date: $50,000
- Spending in retirement: $4,375/month (75% of current income) (down $300)
- Expected annual return: 8.0%
- Social security benefit: $1,500/month
- Pension benefit: $0

It is ultimately up to each of us to determine the balance of spending now vs. saving to spend later in retirement and how long we are willing to work but it is important that we intentionally make those choices

Step 3 - Determine how much to invest (College)

1) Use an online college savings calculator, there are many of them. Examples are:
   i) https://vanguard.wealthmsi.com/csp.php
   ii) https://www.savingforcollege.com/calculators/college-savings-calculator

2) The key factors include how much time until college, how much saved already, expected college cost and estimated annual return

3) Tips for college savings estimate:
   a) Identify what type of college you are saving for and how much you want to cover of the cost
      i) For example, a goal could be to cover 50% of an in-state public college tuition for 4 years, which is a very different goal than to cover 100% of a private college tuition and room and board[1]
      ii) Research a couple of schools that fall in these categories for an idea of the total costs
   b) Remember to distinguish between paying for a college education (i.e. what is needed for certain careers) vs. a college experience when evaluating your college options and goals
   c) Remember that college costs can be partially covered by the student working part-time, applying for scholarships and financial aid
   d) Remember to prioritize retirement savings over college - no one will loan you money for retirement like they will for student loans

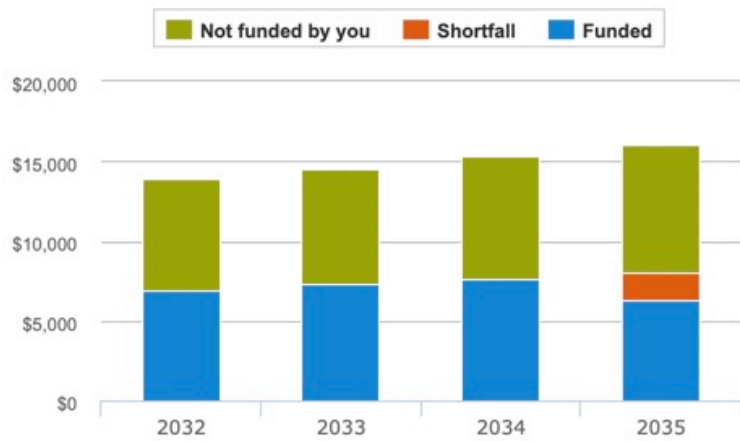
[1] Like hundreds of thousands of dollars difference which clearly impacts how much we need to save monthly

Step 3 - Determine how much to invest (College)

Example using the Vanguard calculator

Let's assume the following assumptions:

- Child's current age: 6
- Age starting college: 18
- Years in college: 4
- Monthly college savings: $100
- Amount saved to date: $0
- Current annual college cost: $7,720 (Ex. in-state CA school, tuition only)
- Expected annual return: 6%
- % of cost you plan to cover: 50%
- Expected annual cost increase: 5%



Cost of college

Estimated total cost	$59,755
Amount you plan to cover	$29,878 (50%)

Amount needed to meet your savings goal

Based on current savings, you'll cover ...	$28,125 (94% of "Amount you plan to cover" above).
To reach the full amount you plan to cover ...	save an additional $6 a month.

Intentionality and communication with your child about college savings and costs are especially important since there is such a wide range of options and costs and your expectations and your child's expectations may be very different

Action Items: Week 5

1. Complete the "Investment Plan" worksheet provided in the workbook and update your spending plan (Worksheet 8)

2. Find out if your work has a retirement plan that offers a company match and find out how to contribute enough to get the match

3. Open an investment account, link it to your checking account, and start contributing something automatically on a monthly basis no matter how small

Seriously, just contribute $10/month if that is all that is currently available. It's more about starting the investing habit.

What are your main takeaways from this week's discussion?

An investment example (my own)

My goal in providing an investing example with specific investments is not to recommend a particular investment approach but to just show how I went about this process for my own investment goals. As discussed previously, each person has to make investment selections based on their own goals, beliefs and risk tolerances, including whether to have professional help from a financial advisor.

Investment philosophy. I believe one of the fundamental decisions a person investing has to make is whether they are going to try to earn returns higher than the market average or accept earning the market returns. There is a lot of debate and analysis related to this decision - try searching “can you beat the stock market” in Google and you get over 250 million results. Without rehashing all these results, I personally have been convinced that it is very difficult for anyone, including professional investors, to consistently earn returns above the market average and it is also difficult to identify in advance the small percentage of professionals that can consistently do so. If anything, I believe in competition and I know there are millions of investors spending billions of dollars working around the clock trying to earn higher returns than average and I don’t think it is likely I’m going to have some advantage over them doing this in my spare time. So I have accepted earning market returns which then points me to investing using index funds that track the market and minimize fees.

Risk tolerance. I currently have a relatively high investing risk tolerance based on having invested for a number of years in up and down markets and I don’t need to reach my investment goals in the short-term. So I’m comfortable with a higher proportion of stocks in my portfolio and understand the risk of potential significant declines in their values. As a result, I have selected a portfolio allocation of 90% stocks and 10% bonds, which is consistent with the allocations for the longer-term retirement date funds operated by Vanguard as shown on the next page.

Selection of investments. Now that I have decided upon my split between stocks and bonds, I need to select investments within these categories. My goal is to have a broadly diversified portfolio with low expenses that reflect the overall market returns. To achieve this, I have focused on using Fidelity and Vanguard index funds. My specific investments are as follows as of February 2021:

1. Total stock market / S&P 500 index stock funds: ~70% of portfolio
   - Total stock market index funds invest in over 3,000 U.S. companies (mostly large companies) through Fidelity (ticker symbol FSKAX) and Vanguard (ticker symbol: VTI)
   - S&P 500 index funds invest in ~500 large companies through Fidelity (ticker symbol: FXAIX) and Vanguard (ticker symbol: VOO)
2. Medium / smaller companies index stock funds: ~10% of portfolio
   - Index funds invest in over 3,000 U.S. mostly medium and smaller sized companies through Fidelity (ticker symbol: FSMAX) and Vanguard (ticker symbol: VXF)

An investment example (my own)

Selection of investments continued.

3. International stock index fund: ~10% of portfolio
    - Index fund through Fidelity (ticker symbol: FSPSX) that invests in over 800 large companies across Europe, Japan and Asia-Pacific regions
4. U.S. bond index fund: ~10% of portfolio
    - Index fund through Fidelity (ticker symbol: FXNAX) that invests in over 2,000 government-related and companies bond holdings mostly in the U.S

Is this an ideal portfolio allocation? Probably not, but it is one I am comfortable with as it is well diversified across thousands of companies, involves a few funds, and has low investing fees (each fund's expense ratio is less than 0.05% meaning the fund's annual expenses are less than 50 cents for each $1,000 invested).

But it could be even simpler if I just used a retirement date fund.[1] With the retirement date fund, it would be just one investment selection that was then diversified across stocks and bonds in the U.S. and international markets at relatively low costs (expense ratio less than 0.20%). In addition, the retirement date fund automatically updates the allocation between stocks and bonds as you get closer to retirement. As an example, below is the allocation of some Vanguard retirement date funds (as of January 31, 2021) so that you can see how these types of funds work.

Target Retirement Date	U.S. stock investments (%)	Non-U.S. stock investments (%)	U.S. bond investments (%)	Non-U.S. bond investments (%)
2025	35.4	23.8	28	12
2030	40	26.9	23.1	10
2035	44.6	30	17.7	7.7
2040	49	33	12.6	5.4
2045	53.5	36	7.4	3.1
2050	54	36.3	6.8	2.9

[1] This is an example of my laziness as I already have automatic contributions going to the other funds I'm already reasonably satisfied with so I'd have to move my existing funds and set up new automatic contributions while I'd rather watch sports

Week

Six

Big spending items
(Home, Car, Insurance)

Introduction to Week 6

This week was initially titled “how to not wreck your finances” but that seemed overly negative. So instead we’re going with “big spending items” but really we are focusing on three topics this week that commonly get us in trouble with our finances and we will instead look at ways to benefit in our finances or least mess them up less.

This week we focus on:

(1) Homes - often our largest item in spending plans

(2) Cars - often our second largest item in spending plans

(3) Insurance - often our most disliked item in spending plans

Another interesting aspect of our homes and cars is we can be emotionally attached to them or the ideas of what we want in them. And can be heavily influenced by what our friends, family and co-workers own.[1] But we have to intentionally recognize the impact our choices of homes and cars may have on achieving what is most important to us.

So let us take a minute now to think about our motivations for living we have previously identified that we are building our finances to support.

[1] I still just remembered some shame from driving a used Dodge Neon early in my career as my co-workers had BMWs

Week 6 Overview

- We start by focusing on how to make the most of our spending in two of our highest spending areas - **homes and cars** - that can be kind of fun to spend in
    - Homes and cars are often also included in our financial savings goals

- We then focus on another significant spending area - **insurance** - which is something no one really wants to spend any money on

- Homes, cars and insurance are all "essential" spending at some level that significantly impact our lives
    - Plenty of opportunity to __________ (68) our finances in these areas via large, complicated financial ____________________ (69) that are difficult to get rid of and could limit our ability to spend in other meaningful ways

- The plan this week is to look at how to become an intentional spender with our homes, cars and insurance to allow for more flexibility in our financial lives

But first a few words from the Bible

- Homes and cars are two frequent spending areas that reflect ____________ (70) than just the utility of having a place to live and transportation
    - We often feel pressure to have them serve as status symbols, be influenced by what others' own and act as an expression of our identities and what really matters to us

- Reminding ourselves of what really matters (i.e. our values) and the importance of contentment helps us withstand these ______________________ (71)

1 Timothy 6:6-10

But godliness with contentment is great gain. For we brought nothing into the world, and we can take nothing out of it. But if we have food and clothing, we will be content with that.[1] Those who want to get rich fall into temptation and a trap and into many foolish and harmful desires that plunge people into ruin and destruction. For the love of money is a root of all kinds of evil. Some people, eager for money, have wandered from the faith and pierced themselves with many griefs.

[1] Paul didn't even have a used Dodge Neon so I feel a little bad now about complaining about my driving one

Homes

Core principles on buying a home

1. You don't have to buy a home (repeat 3x)
   a. Renting is ok and preferable in many circumstances

2. Only buy a home if planning to live there long-term (at least 5 years)
   a. Buying and selling a home is rather expensive so try not to do it too often

3. Be in a solid financial position before doing so
   a. Complete the core financial steps first (flexibility fund, high interest debt paid off, retirement savings started)

4. Understand the trade-offs with your other financial goals
   a. You can have housing be 50% of your spending plan but recognize how that is impacting your other financial goals[1]

5. Know your deeper "why" behind the desire to buy a home
   a. Understand what you really value in owning a home and your motivations in buying
   b. Understand the impact of ______________________________ (72)[2]

The potential financial impacts from buying a home

The good

1. Value goes up over the long-term ~3% annually (historically)
2. Creates automated savings plan through mortgage payments over time
3. Helps protect against inflation with fixed mortgage payments
4. Difficult to access funds

The bad

1. Significant financial commitment that is difficult to get out of without losing money
2. Prices don't always go up and may go up less than other investments
3. May be more expensive than renting
4. Difficult to access funds

[1] There is a reason that being "house poor" is a thing we have a name for
[2] See the additional reading at the end of this section for more discussion on one of my favorite finance-related topics

Steps to buying a home

1. Determine how much you can afford in your spending plan
   a. We need to balance the amount we're willing to spend with the impact to other parts of our spending plans and financial goals

2. Identify the specific characteristics you are looking for in a place
   a. Location, schools, # of bedrooms / bathrooms, backyard, garage, walking distance to donuts, etc.
   b. It's important to be clear on your minimum "must haves" upfront because it's so easy to talk yourself into more expensive factors later in the process (e.g., end up with a secret passageway)

3. Find out how much it costs to buy and rent a place meeting your needs
   a. For home values, can look at Redfin, Zillow, and Realtor websites
   b. For current rents, can search on Craigslist and Trulia websites, newspapers

4. Determine whether homes are at a good value relative to the rents
   a. Use a rent vs. buy calculator, such as the one in the electronic worksheets or search online
   b. If not a good value, can still buy but confirm the non-financial reasons are worth it

5. Find out your mortgage options with banks or mortgage brokers
   a. Focus on simple 30-year fixed-rate mortgages with no prepayment penalties and low closing costs
   b. The 15 year vs. 30 year debate
   c. Down payment % debate
   d. Get multiple quotes on mortgage options, use resources such as bankrate.com to compare rates
   e. Remember your approved mortgage amount does not determine how much you will spend on housing, your spending plan does[1]

[1] I can't emphasize this point enough. It is so easy to accept the mortgage amount you are approved for as the amount you can spend but the lender has no understanding of what your other goals are in life and how this mortgage may impact those goals. It is perfectly fine and actually preferable to have a mortgage much lower than what you are approved for.

Steps to buying a home

6. Select a real estate agent to assist in finding homes that meet your needs
    a. Get references from family and friends and find someone you're comfortable with
    b. Remember you are responsible for this process, not the agent, this is your home and finances so be clear on your requirements on price and home features[1]

7. Remind yourself at this point that you don't have to buy something

8. Be patient, remember your values and financials goals and find the "perfect" home that meets your requirements

If already own a home…consider the following

1. Is the total monthly cost consistent with my values and my desire to achieve other financial goals?
    a. If my other goals are being delayed, is that trade-off worth it to me?
    b. If not, how does the financial and emotional costs of selling the home compare vs. keeping the home and maintaining my current situation?

2. Have I done everything I can to lower my costs of home ownership?
    a. Check if mortgage refinancing makes sense if rates have declined
    b. Check if PMI fees can be removed if purchased with less than 20% down payment
    c. Shop around for home insurance rates to get multiple quotes for various deductibles
    d. Consider renting a room to someone for monthly income
    e. Look for ways to reduce utilities usage (adjust thermostat, energy efficient changes)

[1] You will be responsible for the mortgage payment at the end of this process, not your real estate agent

Discussion questions

5 min

1. How can owning a home contribute to the achievement of our goals or hold us back?

2. What are some ways you have saved money in either buying a home or while owning a home?

Cars

Core principles on buying a car

1. Identify what you actually ____________ (73) in a car vs. what would be nice to have
    a. Needs: wheels, brakes, seat belts, number of seats, utility of space, low cost to operate
    b. Nices: brand, leather, acceleration, technology, cupholders, ability to withstand apocalyptic scenarios[1]
    c. Understand the impact of hedonic adaptation

2. Understand the _________________ (74) with your other financial goals
    a. You can buy something more expensive but recognize how that is impacting your other financial goals

3. Focus on total purchase price and keeping your annual costs low
    a. Used car: $12K price over 5 years driven = $2,400/year
    b. New car: $27K price over 10 years driven = $2,700/year
    c. Leased car: $299/month over 3 years driven = $3,588/year

4. Save in advance and plan to drive the car ______________________ (75)
    a. The cheapest car to drive is the one you already own (most of the time)

[1] I'm definitely not referring to the people in my Southern California area with vehicles that can handle blizzards and floods where it never rains or snows

Steps to buying a car

1. Determine how much you can afford in your spending plan
    a. We need to balance the amount we're willing to spend with the impact to other parts of our spending plans and financial goals

2. Identify the specific characteristics you are looking for in a car
    a. It's important to be clear on your minimum "needs" upfront because it's so easy to talk yourself into more expensive factors later in the process (e.g., end up with a convertible or seat warmer where it never gets cold)

3. Research specific types of cars you are interested in and general pricing
    a. Can use websites such as Costco Auto, Edmunds, Kelley Blue Book, TrueCar, Manufacturer's
    b. The point is to be clear on what you want and expected price before visiting a car dealer

4. Know your financing options in advance (check with your bank / credit unions)

5. Visit the dealer / private seller to test drive the car and stick to your predetermined car choices and pricing and be willing to walk away[1]

[1] It is so important to be clear on what you want and are willing to pay before visiting a dealer or otherwise it is very easy to get talked into something more expensive or different than what you want because they have much more experience in selling cars than you do in buying cars

Another way to buy a car

1. Establish a monthly savings amount in your spending plan - let's say $300 - and set aside this amount in a separate account
2. When you next need to buy a car, you use whatever money is in this account to buy the car
3. Then you drive this car as long as possible, keep saving monthly, and then use this money to buy the next car. And so on. Let's look at an example.

Keep current car for 3 years	Car #1	Car #2	Car #3	Car #4
Savings @ $300/month	$10,800	$18,000	$28,800	$36,000
Years driven	5	8	10	And so on

Benefits: reduce debt, save on interest costs and increase savings that could be used for other purposes

Insurance

Introduction to insurance

- Definition of insurance: the least fun way to spend money that nobody wants to do but unfortunately is mostly _____________ (76) to avoid really unpleasant surprises

- A shorter definition: insurance is __________________ (77)

- It protects against financial risks that are significant (i.e. life altering) and are difficult to plan for in advance or overcome after the fact

- It can be sold in ways that make it overly complex and expensive and

Core concepts of buying insurance

- **Keep it ____________ (78) - it should be clear to you how much it pays and when**
  - Remember it is protection, not an investment

- **Shop around for quotes initially and on an annual basis[1]**
  - Can easily do through websites, such as policygenius.com and bankrate.com
  - Check your options through your employer or other organizations you are part of as rates can be lower through group coverage pricing

- **________________ (79) your insurance to your financial situation**
  - A benefit of having savings is you can raise your deductibles to lower your overall cost and self-insure for less costly risks, such as short-term disability and vision/dental costs
  - Avoid having too much or too little insurance, should fit your situation with what you're trying to protect and/or replace

[1] Paying less for the same insurance coverage by switching companies is personally one of my most satisfying ways to reduce spending as it is something I don't enjoy spending on as compared to reducing spending on something I actually enjoy

Types of insurance to consider

- **Home insurance**
  - What you're protecting: damage to your house
  - This is likely required if have a mortgage on the property but also makes sense if not required due to the high potential loss of value
  - Can increase deductibles to lower cost of premiums if have sufficient savings
  - Confirm the coverage maximum is sufficient to replace the entire house

- **Car insurance**
  - What you're protecting: damage to your and other people's cars and related costs
  - At least liability insurance is generally required by the state
  - Can increase deductibles to lower cost of premiums if have sufficient savings
  - Coverage amounts and options should be consistent with value of your car (e.g., might not need comprehensive coverage on your 1998 Dodge Neon)

- **Health insurance**
  - What you're protecting: your health (and ability to earn income) and expensive medical bills
  - Consider high deductible plans with Health Savings Accounts (HSA's)[1], if an option, as a potential way to save
  - Customize based on individual health needs (coverage, co-pays, providers)

[1] HSAs are only available with certain health insurance plans and provide the ability to make pre-tax deductions that can be invested (similar to a 401k plan) with no taxes on the earnings if used for qualified medical expenses. If not used for medical expenses, they essentially become an IRA after a certain age. Definitely worth considering for these tax benefits if available.

Types of insurance to consider

- **Life insurance**
  - What you're protecting: potential loss of future earnings in the family
  - Lots of complexity in this area with options but keep it simple with term insurance
  - Term insurance specifies an amount and number of years of coverage
  - The amount and number of years needed is based on the level of dependence on the lost income, with factors such as other sources of income, spending plan requirements and ability to gain income by those depending on the income

- **Long-term disability insurance**
  - What you're protecting: potential loss of future earnings in the family
  - Similar to life insurance, the amount needed and number of years of coverage depends on how much the potential lost earnings is needed and is influenced by factors such as other sources of income, spending plan requirements and ability to gain income by those depending on the income

- **Long-term care insurance**
  - What you're protecting: potentially significant expenses from needing assisted living in the future
  - Depends on your planned retirement income and living situation
  - Key factors in cost are age/health, daily / max benefit amount, benefit period and waiting period
  - Can be expensive

Types of insurance to consider

- **Renter's insurance**
  - What you're protecting: potential loss of contents inside the home you're renting
  - Coverage amount depends on the value of your possessions
  - Typically inexpensive

- **Dental and vision insurance**
  - What you're protecting: expenses associated with dental and vision care
  - Decide whether it's worth it to you by comparing annual premiums vs. maximum annual benefits and expected care needs
  - If have sufficient savings, then may not be worth the premiums as could pay out of pocket

- **Other insurance**
  - Umbrella insurance
  - Flood / earthquake insurance
  - Pet insurance
  - Travel insurance
  - Identity theft insurance

Discussion questions

5 min

1. What are some money saving tips you have used in buying and owning a car?

2. What are some obstacles to appropriately using insurance as part of our financial plans? Can we have “too much” insurance?

Action Items: Week 6

<u>1. Assess your current housing status and plan for the future by reviewing the housing worksheet (Worksheet 9)</u>

<u>2. Assess your current transportation status and plan for the future by reviewing the transportation worksheet (Worksheet 10)</u>

<u>3. Assess your current insurance coverages and potential insurance considerations using the insurance worksheet (Worksheet 11)</u>

What are your main takeaways from this week's discussion?

Lifestyle inflation and hedonic adaptation

We live in a culture that doesn't fully appreciate the impact that little changes have over time. We saw this in our compound interest example - little differences add up to a lot over longer periods of time. We all seem to seek the big, flashy change that will immediately solve our problems so we keep chasing after the new thing, whatever it is. So we often don't notice the impact of small spending changes over time to our bigger financial picture.

Lifestyle inflation is the result of us gradually increasing our spending over time as our income increases in ways that individually may seem minor but add up to significantly more spending in total.

(a) Think about when you were just out of school and starting your career - what did your spending look like then?

(b) Now think about your spending today - do you remember in detail how it increased than it was when you were just starting out in your career?

I'm not saying we never increase our spending from our most basic levels[1] but I am saying that we don't automatically increase our spending just because we are making more money or can afford it. As with all spending, we are intentional in our reasons for spending and recognize the trade-offs with meeting our financial goals.

Now think again about our spending levels today vs. an earlier time when they were lower and try to remember your differences in happiness and contentment between those times. Did you notice any differences in happiness due to the stuff you owned?

Hedonic adaptation is the tendency for us to maintain a relatively stable level of happiness regardless of large changes (good or bad) in our lives. This means that the immediate rush you get from a new house or new car will likely not last and have a long-term impact on your happiness. But that new house or car will increase your debt levels and financial commitments, which may then reduce your ability to pursue experiences that actually affect your long-term happiness, such as relationships with family and friends and performing meaningful work.

So this is why studies have shown lottery winners end up reverting back to their happiness levels within a few months. And this is why our closets, garages, basements, cars, sheds or anywhere we can throw stuff is full of examples of our past spending that didn't meaningfully impact our happiness.

Which is actually great news for us - if we needed to own more expensive items to be increasingly happier that would be depressing because then a lot of us would be left out of potential happiness. But understanding that buying more expensive stuff won't make us happier and could actually reduce our happiness is incredibly freeing.

So let's remember when we feel disappointed about not owning something that the disappointment is only temporary and refocus on the activities that actually matter to our happiness, such as those why's we identified in week 1.

[1] Although if you were able to eat ramen for a longer time, you would reach your financial goals much sooner

Week

Seven

Giving and wrap-up

Introduction to Week 7

We made it to the last week. Congrats! We have had some laughs and tears and lots of references to donuts.[1] As we finish up the course, we have one last important topic to discuss that can be very rewarding and then turn to how we have actually created a financial plan in this course with some tips on how to practically make it work.

This week we focus on:

(1) Giving - it's not just for people with monocles

(2) Automation - the best chance to create lasting change in our finances

We discuss giving because (1) the Bible says to give and (2) it has been been shown to make people happier. Giving away money helps remind us that this life is not all about us and there are more important uses for money than just buying more stuff.

Automation is what keeps us going on our financial path when we find our motivations wane. It is impossible to be motivated and make good decisions all the time which has been clear whenever we have tried to make changes in the past with anything. So we use the time when we are motivated to make positive financial changes via automation so that we benefit when we lapse in motivation.

So let us take a minute now to think about our motivations for why we are willing to make the changes needed in our finances.

[1] Sorry not sorry

Giving (now)

- The topic that has generated many sermons in many churches over many years because of its importance to our spiritual lives and the practical survival of ministries

- A sample of verses about giving as a reminder:
  - 1 Corinthians 16:1-4 (“set aside” and “proportional”)
  - Acts 20:35 (“help the weak”)
  - Matthew 10:42 (“cup of cold water reward”)
  - Luke 10:33-34 (“good samaritan”)
  - 2 Corinthians 9:7 (“cheerful giver”)
  - Matthew 6:1-4 (“in secret”)
  - Luke 12:34 (“treasure = heart”)

- Let’s look at some other practical reasons for giving

Practical reasons to give

- It helps with our perspective on spending and ___________ (80) against materialism
  - Money can be used to buy a custom ping pong paddle[1], or to sponsor a child in an impoverished country. Giving helps us remember the good that money can do vs. one more material item for us.

- It helps us _____________ (81) more about what we value
  - You tend to care about organizations where your money goes (think tax dollars and how irritated we get at some types of government spending)

- It helps our spending actually make us _______________ (82)
  - Research has shown people feel happier when spending money on others and seeing money make a positive difference

- It allows organizations we find important to exist
  - It doesn’t make sense for some organizations to be revenue-producing (i.e. self-supporting). Imagine a church having an admissions fee to attend, a food bank charging for food to the needy, and a women’s shelter charging hotel

[1] There was a phase in my life where this didn’t sound crazy

So how much to give?

- It needs to be an _______________ (83) part of our spending plan (i.e. not what's left over)

- It needs to be ___________________ (84) with the right attitude (i.e. not manipulated or begrudgingly)

- Check your church's guidance as there are different perspectives on tithing vs. giving in churches

- Consistent with our financial circumstances (i.e. proportional to income and spending)

- Pray about it and do not feel guilty if you are not currently at where you think you should be but make a plan to increase your giving over time

A note on the "prosperity gospel"

(i.e. you give money, you are guaranteed financial success)

An excerpt by Paul that helps me resist this line of thinking:

"Five times I received from the Jews the forty lashes minus one. Three times I was beaten with rods, once I was pelted with stones, three times I was shipwrecked, I spent a night and a day in the open sea, I have been constantly on the move. I have been in danger from rivers, in danger from bandits, in danger from my fellow Jews, in danger from Gentiles; in danger in the city, in danger in the country, in danger at sea; and in danger from false believers. I have labored and toiled and have often gone without sleep; I have known hunger and thirst and have often gone without food; I have been cold and naked." (2 Corinthians 11:24-28)

Takeaway: We give for all the reasons we talked about but not for an expectation of financial success or a comfortable life[1]

[1] Does God bless some people financially? Sure, there are many stories of such examples over history. But I believe the lives of the Christians in the Bible as well as Christians today in many nations around the world show that financial success or comfort is not the point of being a Christian so please be skeptical of anyone promising financial rewards on Earth if you give today.

Giving (later)

- Another aspect of your giving plan is what you do with your resources later in life[1]

- This means having a plan of how you want to give your assets away and is a part of good stewardship

- If don't have a plan, then you invite the government to get involved (i.e. probate)
    - Probate can be expensive and take a lot of time to resolve
    - May avoid probate if assets are relatively low; varies by state you live in

- Two common forms of a plan are (1) wills and (2) estate plans (aka trusts)
    - An estate plan is viewed as more comprehensive. See https://www.fpm.org/estate-planning-101 for additional information.

- Wills and estate plans can be created via software programs, online services and/or meeting with attorneys who create it for you
    - Prices can vary significantly with attorneys, ask for recommendations from people you know who have been through the process and get quotes from a few attorneys (prices can range from $1,000 to $4,000 in my experience from a few estimates for basic plans and may go higher depending on your complexity and assets)

[1] By "later" I mean like really later, like the end. Sorry.

Discussion questions

10 min

1. What has been your experience with giving in the past?

2. What are some ways you can work on your giving in the future?

Putting it all together

The importance of automation

- The best way to make consistently good decisions with money is to not have to consistently make good decisions with money
  - We get tired, forgetful, influenced, rushed and distracted which all works against us

- We can do this by automating as much as possible of our __________ (85) financial habits
  - Conversely, we want to make our bad financial habits as difficult as possible to do[1]

- Automation allows us to make a few good financial decisions one time and then benefit repeatedly in the future

- Automation saves us _______________ (86) with our finances so that we can spend time in areas we enjoy more

Potential downsides

Automation can be a very powerful _____________ (87) in enabling good, consistent financial practices and in saving time

But there could be some downsides depending on your circumstances:

- We don't want to automate spending that is not consistent with our values, goals and spending plan
- Can create issues if don't have any cushion in our bank accounts or monthly spending plan
- May not adapt to changing circumstances if finances are on autopilot

Automation doesn't remove the need to be ________________ (88) in our spending by reviewing our spending and financial goals on a periodic basis

[1] Some examples of this would be cutting up or hiding credit cards, using only cash as much as possible, avoiding window shopping in-person or online, and reducing exposure to advertising

An automation example (my own)

1. **Starting with paychecks**
    a. Taxes automatically paid
    b. Contributions to 401k plan and health savings account automatically made based on designated saving percentages and invested into index funds
    c. Health insurance payments automatically made

2. **Bill payments and savings**
    a. Recurring bills are automatically paid via debit / credit cards or from bank account
    b. Credit cards are automatically paid from the bank account on the due date
    c. Automatically transfer extra amounts in checking account above a specified amount to a savings account targeted for specific goals

3. **Tracking spending plan and net worth**
    a. Debit / credit cards, bank accounts, and investment accounts are linked to Mint
    b. Spending is automatically categorized into specified categories (spend a few minutes a month reclassifying as needed)
    c. At any time can view remaining spending plan amount and total value of accounts
    d. Review spending plan and net worth once a month on the 1st for ~30 minutes to confirm on track with saving goals

Course wrap-up

Our starting point and framework

The big picture goal with our finances:

To become responsible managers of our finances to enable us to live and focus on what God's design is for our lives

We are willing to do the hard work with our finances so that we can live out our values and God's purposes for our lives

Living a life of meaning and purpose is the ultimate motivation for our finances

5 habits

- Reinforce our identity
- Set goals and track our progress with accountability
- Become an intentional spender
- Automate our finances as much as possible
- Review our finances on a regular basis

We focus on what we can control (habits) to help improve our chances to achieve our financial goals (which may not be completely within our control)

5 goals

1. Save 1 month of essential expenses
2. Pay off higher interest debt
3. Save 3 months of living expenses in a flexibility fund
4. Save for retirement in a Roth IRA / 401k
5. Save for other personal financial goals, such as:
   a. Buying a house / car
   b. Paying off remaining debt
   c. Saving for college
   d. Starting a business or change careers
   e. Giving more away
   f. Retiring early

Course wrap-up

The path we took…

1. **We began by reinforcing our identity**

   A. Identifying our values and "why's - what we want our lives to be about (WS1)

   B. Reviewing God's design for using money - "stewardship"

2. **We determined where we are at with our finances to know how to move forward**

   A. Our net worth (WS2)

   B. Our recent spending and tracking our current spending (WS3, WS4)

3. **We then set financial goals based on our "why's"**

   A. Recognized that certain financial goals are applicable for nearly everyone and then we personalize our financials goals based on our "why's" (WS5)

   B. Designed a spending plan to enable the achievement of our financial goals (WS6)

4. **Lastly, we reviewed in detail how to achieve specific financial goals while understanding the related risks**

   A. How to payoff debt (WS7)

   B. How to invest for retirement and college (WS8)

   C. How to spend in significant areas: Homes, Cars & Insurance (WS9, WS10, WS11)

   D. Giving

Course wrap-up

A few last thoughts on status symbols and going without…

- So much of making positive changes in our finances feels like we are giving up or going without something as we reduce our spending in some areas today for a better future

- But we often overlook what we are gaining from these changes

- It is easy to see the status symbols we may be giving up for a time, such as bigger homes with more stuff inside, nicer cars, travel to places we actually want to post to social media, and food prepared by people that are not teenagers

- The "status symbols" we are gaining from our positive changes are not as easily observed but they still exist and are more meaningful because they are ones we chose rather than ones that society chose for us

- So let's focus on our new status symbols that we've chosen:
    - More time with family and friends
    - A business or career we are excited about
    - Supporting organizations we care about
    - Handling an unexpected expense without worry
    - Retiring with confidence
    - Providing education for our children

Course wrap-up

So what now?

Some questions to consider:

1. How will I stay motivated to achieve my financial goals?

2. How will I resist influences to spend more and get sidetracked?

3. How will I keep an accurate perspective of money and what it can and cannot buy?

4. How will I get started with taking steps I need to with money?

5. Who will I talk to about money when I need help or motivation?

Thank you

Any questions or comments?

Contact at:

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Key terms (filling in the blanks)

1. Behaviors
2. Habits
3. Tool
4. Limit
5. Remove
6. Purpose
7. Freedom
8. Role
9. Serve
10. Affect
11. Love
12. Movement
13. Meaning
14. Peace
15. Spiritual
16. Yes
17. Owns
18. Higher purpose
19. Attention
20. Hidden
21. Success
22. Missing out
23. Remind
24. Own goals
25. Align
26. Automatic
27. Updates
28. Avoid
29. Opportunities
30. Need
31. Customize
32. Move forward
33. Managers
34. Used
35. Test
36. Consequences
37. Spiritually
38. Time
39. Dissatisfaction
40. Important
41. Focus
42. Values
43. Context
44. Clear
45. Meaningful
46. The most
47. Guilt-free
48. Future
49. Difficult
50. Restricts
51. Certain
52. Uncertain
53. All
54. Limited
55. Remind
56. Celebrate
57. Tool
58. Disaster
59. Foundation
60. Try
61. Investing
62. Different
63. Fear
64. Wise
65. Compound interest
66. Risk
67. Complicated
68. Wreck
69. Commitments
70. More
71. Pressures
72. Hedonic adaptation
73. Need
74. Trade-offs
75. Long-term
76. Necessary
77. Protection
78. Simple
79. Customize
80. Protects
81. Care
82. Happier
83. Intentional
84. Voluntary
85. Good
86. Time
87. Tool
88. Intentional

Worksheets

Motivations and values - defining your why's

In the week 1 discussion, you may have immediately had several "why's" pop into your head, such as dreams you've had for a long time. That's great. Write them down below and how they are related to your values. This will be easy for some people. But for others it may be more challenging. So we can start by thoughtfully considering our values and what we really want out of life. We pray about it. We talk to our spouse or friends about it. We don't limit ourselves. Your "why's" may sound like goals but they don't have to be realistic or measurable at this point. So we will start with writing down our top values that we want to live our lives by and then write down our top "why's" relating to these values.

What are your top values?

Our values are the foundation of our lives and how we make decisions. Our finances need to reflect our values just like anything else in our lives. We start by writing down our top 7 values. We likely have many more values than these but focus is very important to achieving anything, including in our finances. To get started, listed below are examples of values but you can list any other values that you deeply hold. It may help to think back on your life and identify what you have been passionate about and has inspired you to action. Ask yourself: Who do you want to be as a person and what do you feel like God wants for you? See examples of values below to help get started.

Acceptance	Adventure	Authenticity	Beauty	Caring	Challenge	Compassion	Connection
Contribution	Conformity	Cooperation	Courage	Creativity	Curiousity	Encouragement	Excitement
Fairness	Faithfulness	Fitness	Flexibility	Freedom	Friendliness	Forgiveness	Fun
Generousity	Gratitude	Hard work	Honesty	Hopeful	Humor	Humility	Independence
Joyful	Kindness	Love	Open minded	Patience	Peaceful	Persistence	Power
Respect	Responsibility	Safety	Self-awareness	Self-development	Self-control	Spirituality	Skillfulness

Write down your top 7 values below	
Value #1	
Value #2	
Value #3	
Value #4	
Value #5	
Value #6	
Value #7	

Worksheet #1

What are your top "Why's"?

Our "why's" are the reminders to ourselves when we are struggling or facing temptations with our finances. We are willing to sacrifice in other financial areas to obtain these specific "why's." These motivations can come from many sources. Consider the following to help identify your biggest "why's"

a. What do I want to accomplish the most in the following areas: spiritual, career, family, physical and emotional health, material items, relationships.

b. What would I be doing right now with my time if money wasn't an issue?

c. What topics / issues seem to affect me more than others? What am I passionate about?

d. Where would I like to be in 5 years from now? In 10 years?

e. What have I felt like God has placed on my heart now and in the past?

See the additional reading on the next page for additional resources to clarify your "why's" if needed

Write down your top 3 to 5 "why's" and how they reflect your values

	Your "Why"	Related Values
#1		
#2		
#3		
#4		
#5		

Worksheet #2

Net worth statement

Following the example in class, below is a template for completing the net worth statement. I highly recommend completing the electronic version available for automatic calculations.

Assets	Amount		Liabilities	Amount	Interest Rate	Min. Payment
Cash			***Credit Cards***			
Checking accounts			CC #1:			
Savings Accounts			CC #2:			
Other Cash			CC #3:			
Investments			Personal loans			
401k / 403/b / IRA			***Vehicle Loans / Leases***			
Roth 401k / IRA			Loan #1:			
Other Retirement			Loan #2:			
College funds			Loan #3:			
Mutual funds			***Student Loans***			
Other investments			Loan #1:			
Real Estate			Loan #2:			
Home			***Mortgages***			
Rental Properties			Home & Equity LOC			
Other real estate			Rental Properties			
Other Assets			Other:			
Cars			***Other Loans***			
Boats / Motorhomes			Home improvements			
Other 1:			Other 1:			
Other 2:			Other 2:			
Other 3:			Other 3:			
Other 4:			Other 4:			
Other 5:			Other 5:			
Total Assets			***Total Liabilities***			
Net Worth			***Assets - Liabilities***			

Worksheet #3

Tracking your spending (electronic version recommended)

	Housing	Groceries	Transportation	Utilities	Insurance	Giving	Travel
Day 1							
Day 2							
Day 3							
Day 4							
Day 5							
Day 6							
Day 7							
Day 8							
Day 9							
Day 10							
Day 11							
Day 12							
Day 13							
Day 14							
Day 15							
Day 16							
Day 17							
Day 18							
Day 19							
Day 20							
Day 21							
Day 22							
Day 23							
Day 24							
Day 25							
Day 26							
Day 27							
Day 28							
Day 29							
Day 30							
Day 31							
Total							

Worksheet #3

Tracking your spending (additional categories)

	Dining Out	Children	Entertainment	Household	Debt-related	Internet/Cell	Other
Day 1							
Day 2							
Day 3							
Day 4							
Day 5							
Day 6							
Day 7							
Day 8							
Day 9							
Day 10							
Day 11							
Day 12							
Day 13							
Day 14							
Day 15							
Day 16							
Day 17							
Day 18							
Day 19							
Day 20							
Day 21							
Day 22							
Day 23							
Day 24							
Day 25							
Day 26							
Day 27							
Day 28							
Day 29							
Day 30							
Day 31							
Total							

Worksheet #4

Recent Spending Review

Following the example in class, below is a template for completing the review of your recent spending. I highly recommend completing the electronic version available.

Category	Frequency	Month 1	Month 2	Average	% of Total	Importance to Values	Essential vs Non-essential
Bank / Credit Card fees							
Cable TV							
Cell phone plan							
Child care							
Classes / memberships							
Debt payments							
Dining out							
Entertainment							
Gifts							
Giving							
Groceries							
Gym / personal trainers							
Healthcare							
Home maintenance / repairs							
Household items							
Housing payments							
Internet plan							
Other services							
Personal care							
Subscriptions							
Transportation							
Utilities							
Vacations / Travel							
Work related							
Other							
Total spending							

Worksheet #5

Goals

Step 1: Write down your why's (i.e. motivations / life goals) that will guide your financial goals (see why's worksheet discussed in Week 1)

Why #1: ______________________________

Why #2: ______________________________

Why #3: ______________________________

Why #4: ______________________________

Why #5: ______________________________

Step 2: Write down your top 5 financial goals following the SMART method discussed this week needed to support achieving your life goals / why's

Financial Goal #1

How does this relate to your life goals

List the activities that need to be achieved annually, monthly and daily to reach the goal

Annually: ______________________________

Monthly: ______________________________

Daily: ______________________________

Goals

Financial Goal #2

How does this relate to your life goals

List the activities that need to be achieved annually, monthly and daily to reach the goal

Annually: ____

Monthly: ____

Daily: ____

Financial Goal #3

How does this relate to your life goals

List the activities that need to be achieved annually, monthly and daily to reach the goal

Annually: ____

Monthly: ____

Daily: ____

Goals

Financial Goal #4

How does this relate to your life goals

List the activities that need to be achieved annually, monthly and daily to reach the goal

Annually: ____

Monthly: ____

Daily: ____

Financial Goal #5

How does this relate to your life goals

List the activities that need to be achieved annually, monthly and daily to reach the goal

Annually: ____

Monthly: ____

Daily: ____

Goals

Step 3: Assess whether your spending plan is consistent with your financial goals and prioritize your savings for each goal

Are you generating enough savings in your spending plan to achieve your goals?

Monthly savings = ___________________ (from spending plan)

Financial Goal	Amount Needed* (Total - Saved)	Monthly savings** allocated to each goal	Time to achieve (in years)***

*Amount needed is the total $ amount to meet the goal less what has already been saved
**Monthly savings is the $ amount allocated to each goal from the total $ monthly savings
***Time to achieve is the Amount Needed divided by Monthly Savings multiplied by 12

Are you satisfied with the time needed to achieve each goal? If not, what trade-offs are possible with other goals or spending?

Worksheet #6

Spending plan

Monthly income, after taxes

Source	Plan	Actual	Above / (Below)
Income #1:			
Income #2:			
Income #3:			
Total			

Essential expenses

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Housing-related					
Mortgage / Rent / HOA					
Property tax / Insurance					
Utilities					
Water / Trash					
Gas / Electric					
Transportation					
Fuel / Bus / Subway pass					
Insurance					
Communications					
Cell phone / Internet					
Healthcare					
Insurance / Prescriptions					
Other					
Groceries					
Childcare					
Household items					
Other					
Total					

Spending plan

Savings & Giving

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Savings #1:					
Savings #2:					
Savings #3:					
Giving #1:					
Giving #2:					
Giving #3:					
Total					

Minimum Debt Payments

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Debt #1:					
Debt #2:					
Debt #3:					
Debt #4:					
Debt #5:					
Total					

Spending plan

Non-Essential expenses

Description	Plan	Actual	Above / (Below)	% of Spending	Importance to Values
Entertainment					
TV / Movie services					
Concerts / Theater / Sports					
Other subscriptions					
Personal					
Gym					
Haircuts					
Clothing / Dry cleaning					
Pets related					
Kids related					
Gifts					
Classes / Memberships					
Food					
Dining out					
Coffee					
Subscriptions					
Vacations					
Airfare / Fuel					
Lodging					
Events					
Other					
Other #1:					
Other #2:					
Other #3:					
Other #4:					
Total					

Spending plan

Spending Summary

	Plan	Actual	Above / (Below)	% of Spending
Essential				
Non-Essential				
Giving				
Savings				
Debt Payments				
Total				
Monthly income				
Monthly savings				

Worksheet #7

Debt payoff

Note: I highly recommend you complete the debt payoff worksheet using the electronic version as there are calculations that can't be done on this paper version

Step 1: Write down your total monthly payment available to pay off your debt balances based on your spending plan

Step 2: Input below each of your outstanding debt balances, interest rates, and minimum payments from smallest to largest balances (if using debt snowball) or highest to lowest interest rates (if using debt avalanche)

Step 3: Calculate the additional payment available by subtracting the total minimum monthly payments from the total monthly payment available

Step 4: Apply the additional payment towards paying off the selected balance each month until this balance is completely paid off

Step 5: As each debt balance is paid off, apply the payment that had been going towards that debt to the next selected debt balance and so on until all debt is paid off

Total Monthly Payment (A)	Total Minimum Payment (B)	Additional Payment = (A) - (B)

#	Debt	Balance	Interest Rate	Minimum Payment	Additional Payment	Total Payment
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
	Total					

Investment Plan

Step 1: What are your financial goals where investing could be applicable? Remember, investing is for long-term financial goals (i.e. > 5 years)

Step 2: What is your current status with investing? List the accounts you have, current balances, and investments held in these accounts

Account #	Account Name	Total Balance	Investments held
1			
2			
3			
4			
5			

Investment Plan

Step 3: Identify the investing accounts needed to achieve your goals

For retirement savings

Start with what accounts are available through your workplace (if applicable)

A. What types of accounts (e.g., 401k, 403b, Roth 401k, etc) are available through your employer?

B. Does your company have a matching program where they contribute a percentage of your contributions to the account? If so, write it below:

C. If you do not have a matching program through an employer, what retirement accounts do you need to open?

Review the course discussion on IRA vs. Roth IRA account benefits and identify which type of account is best for you. List the type of account and why:

Review the course discussion on where to open retirement accounts and identify the investment company. List the company and the steps to open an account:

Investment Plan

Step 3: Identify the investing accounts needed to achieve your goals cont.

For college savings

Review the course discussion on 529 plans vs. ESA plans and identify which type of account is best for you. List the type of account and why:

Review the course discussion on where to open college accounts and identify the investment company. List the company and the steps to open an account:

Step 4: Determine your investing options and select an approach

How comfortable are you with each of the three investing approaches discussed in the course? Note the pros and cons for you personally of each approach:

1. Do if yourself

2. Do if yourself with help

3. Using a financial advisor

Investment Plan

Step 4: Determine your investing options and select an approach cont.

Based on your evaluation of the three investing approaches on the prior page, which approach are you most comfortable with to reach your financial goals?

If you selected “do it yourself with help” - what steps are you going to take to identify resources used with this approach?

If you selected “using a financial advisor” - what steps are you going to take to identify a financial advisor?

Step 5: Determine your actual investments to reach your financial goals

Note: if you are using the “do it yourself with help” or “using a financial advisor” approaches, then you will have help in selecting investments, but you need to still understand the investments as ultimately this is your finances

a. How long do you have to reach your financials goals?

Retirement date:: ______________________

College date:: ______________________

Investment Plan

Step 5: Determine your actual investments to reach your financial goals cont.

b. How comfortable are you with risk and potentially losing money?

Refer to the questionnaire by Vanguard to help you think about it:
https://personal.vanguard.com/us/FundsInv/Questionnaire

c. Based on the Vanguard questionnaire (or another risk tolerance / asset allocation questionnaire), what is your asset allocation for stocks and bonds?

Retirement:: ________________________ College:: ________________________

d. Based on your stocks and bonds allocation, identify the specific investments to be used to reach your financial goals. We discussed in the course the importance of having a long-term perspective and diversification in selecting investments.

How well do you think each of the following investments reflect a long-term perspective and diversification? Rate as High / Moderate / Low for consistency with these attributes.

	LT Perspective	Diversification
1. Stock of an individual company		
2. Stock mutual fund with many companies invested in that aims to perform better than the market but with higher fees		
3. Stock mutual fund with many companies invested in that aims to perform the same as the market with lower fees		
4. Bond of an individual company		
5. Bond mutual fund with many companies invested in that aims to perform better than the market but with higher fees		
6. Bond mutual fund with many companies invested in that aims to perform the same as the market but with lower fees		
7. Gold / silver / precious metals		
8. A rental property		
9. A real estate investment trust that invests in multiple properties		
10. Crypocurrency		

Investment Plan

Step 5: Determine your actual investments to reach your financial goals cont.

Based on your assessment on the prior page, identify which investments are consistent with your financial goals and why:

What are your next steps in identifying specific investments? Examples include researching low cost stock or bond index funds, or high performing mutual funds

Step 6: Determine how much to invest (Retirement)

Use an online retirement calculator to estimate how much you need to be saving to reach your retirement age goal. Write down your key inputs below.

Criteria	Inputs	Tips
Current Age		
Desired retirement age		Initial goal age
Current planned savings amount		Initial amount available in spending plan
Current annual income		
Amount currently saved		
Monthly amount needed		Current spending, adjusted for changes in retirement
Expected annual return		Suggest 8% to 10% based on historical results
Estimated social security benefit		Estimate can be obtained from Social Security website
Estimated pension benefit		If applicable, based on specific workplace plan

After adjusting your inputs so that what you'll have equals what you need, write down below your monthly savings amount required for retirement

Monthly savings amount required (update spending plan): ______________________

Investment Plan

Step 7: Determine how much to invest (College)

Use an online college calculator to estimate how much you need to be saving to reach your goal (complete for each child). Write down your key inputs below.

Criteria	Inputs	Tips
Child's current Age		
Age starting college		
Years attending college		Assume 4 to 5 years
Current annual college cost		Based on public vs. private; tuition vs. room and board
Planned monthly savings amount		Initial amount available in spending plan
Current savings balance		
Expected annual return		Can use 6% as general estimate
Expected annual cost increase		Recent historical rate has been approximately 5%
% of total cost saving for		Goal amount of cost you want to cover via savings

After adjusting your inputs so that what you'll reach the % of total costs you want to cover, write down below your monthly savings amount required for college

Monthly savings amount required (update spending plan): ____________________

Step 8: Stay calm

As discussed, investing comes with the risk of losing money and stock and bond markets have fluctuated significantly over time. Historical results have shown that selling in a panic during a market downturn has not provided the best results. How are you going to handle market downturns when you are losing money in the future at times? What can you do to stay calm during these periods?

Worksheet #9

Housing worksheet

Section A: If you own a house, ask yourself the following questions. If you don't currently own, skip to section B below

1. What is your total monthly cost for owning the home? Refer to your spending plan. (Remember to convert quarterly, semi-annual, or annual payments to monthly)

Category	Monthly $ Amount
a. Mortgage	
b. Property tax	
c. Insurance	
d. HOA	
e. PMI	
f. Maintenance	
Total	

Total monthly spending: ________________

Housing % of spending: ________________

Does your housing costs as part of your total spending reflect your values and financial goals? Is your housing costs delaying your financial goals? Write down your thoughts below

Are your housing costs delaying your financial goals? Is the trade-off worth it to you?

Housing worksheet

Section A continued

2. Have you done everything possible to lower housing costs?

Refinancing

a. Your mortgage interest rate		Enter from debt payoff worksheet
b. Current market interest rate		Research online, such as bankrate.com, or talking to a mortgage broker

c. Does the current market interest rate appear to be 0.5% or lower than your mortgage interest rate? If so, consider getting exact quotes from a bank, broker or online.

Current mortgage payment (A)		Enter from spending plan
Refinanced mortgage payment (B)		Enter estimate from lender or mortgage broker
Monthly savings (A-B)		
Refinancing costs		Enter estimated costs provided by the lender or mortgage broker (excluding prepayments for interest and taxes)
Payback period (# of months)		Refinancing costs divided by monthly savings

Is your payback period short enough to justify the costs? Payback period should be less than the time you expect to live in the house and ideally less than 2 years.

d. Does refinancing make sense for you at this time? Note why or why not below and reassess periodically

Housing worksheet

Section A continued

<u>Private Mortgage Insurance (PMI) - skip if do not have PMI payments</u>

PMI is generally required if you do not have a down payment of at least 20% at the time of purchase. It can often be removed by (a) your mortgage payments reducing the mortgage balance to 80% of the purchase price or (b) by the house appreciating in value so that the mortgage balance is 80% or less than a recent appraised value. You can call your mortgage processor to confirm the conditions for removing PMI on your mortgage.

a. Do you currently have payments for PMI? If so, please list here: ________________________

b. Purchase price of home		Enter from original records of purchase
c. Current mortgage balance		Enter from debt payoff worksheet
Equity in the home		Purchase price less mortgage balance
% of equity in the home		Equity in home divided by purchase price

Is your equity in the home greater than 20%? If so, call your mortgage servicer and ask for the PMI to be removed.

d. Have you been in your home for a few years where the price may have appreciated? If so, you can check to see if PMI could be removed this way.

e. Current estimated value of home		High level estimate can be found on Redfin and Zillow
f. Current mortgage balance		Enter from debt payoff worksheet
Equity in the home		Estimated value less mortgage balance
% of equity in the home		Equity in home divided by purchase price

Is your equity in the home greater than 20%? If so, call your mortgage servicer and ask for the PMI to be removed.

Housing worksheet

Section A continued

Home insurance

a. Current home insurance cost: ________________________
b. What are your current coverages and deductibles? List below

c. Research home insurance costs using online services, such as bankrate.com or policygenius.com, and/or talking directly to insurance companies. How did the costs compare?

d. Decide whether you are able to raise deductibles to lower costs based on your amounts saved in your flexibility fund at this time

Other potential ways to save on housing costs

Write down below whether any of the other ways to save discussed in the course could potentially apply to you and could be researched further. Examples include renting out space in your home, making energy efficient improvements, adjusting utilities usage, or performing work that has been outsourced (e.g., gardening, pest control).

Housing worksheet

Section B: Currently renting a home with the goal to buy in the future
(Skip if currently own a home)

Steps to buy a home
1. Determine how much you can afford on a monthly basis in your spending plan. This is ultimately up to you, but try to consider the following factors:

a. How does this amount affect achieving your other goals?

b. How does making a long-term financial commitment affect your other goals?

c. The amount relative to your current rent payments. How are you doing financially with this rent amount?

Your monthly housing cost goal = ________________________

2. Write down below your specific minimum characteristics you are looking for in a house, such as size, location, bedrooms, yard, etc. Be specific.

3. Find out how much it costs to buy and rent a place meeting your requirements. Research websites with real estate listings (Redfin, Realtor, Zillow) and/or talk to a real estate agent for how much places cost. Research Craigslist, Trulia and/or newspapers for what rents may be for similar places

Write down the estimated purchase price for such a home: ______________________

Write down the estimated monthly rent for such a home: ________________________

4. Using a rent vs. buy calculator (see tab 9a. in electronic worksheets), determine whether buying the home you are looking for makes sense financially

Total cost to buy the home: ________________________

Total cost to rent the home: ________________________

Housing worksheet

Section B continued

(From prior page) If the cost to buy the home is greater than the cost to rent the home, write down below whether the non-financial reasons for owning a home are worth it to you

Move on to step 5 below if you still believe buying a home is consistent with your values and goals

5. Find out your mortgage options with banks or mortgage brokers

Write down the mortgage amount you are approved for consistent with the monthly payment you previously determined

Mortgage amount	
Interest rate	
Estimated closing costs	
Monthly payment	

Write down the savings you have available for a down payment and closing costs for the home

Total savings available	
Less: closing costs	
Total down payment	

Total purchase price of home: ____________________ (add mortgage amount + down payment)

Housing worksheet

Section B continued

Is the total purchase price of the home consistent with your research in #3 on the prior page about the cost of a home meeting your requirements? If not, what requirements can you adjust for the home to lower the purchase price?

6. Select a real estate agent to assist in finding homes meeting your requirements and purchase price. Write down below what qualities you are looking for in an agent.

7. Remind yourself every once in a while that you don't have to buy something that doesn't meet your requirement and purchase price

Transportation worksheet

1. What is your total monthly cost for transportation? Refer to your spending plan. (Remember to convert quarterly, semi-annual, or annual payments to monthly)

Category	Monthly $ Amount
a. Car payments	
b. Registration / license fees	
c. Insurance	
d. Fuel	
e. Repairs and maintenance	
f. Parking fees	
g. Bus / subway / trolley passes	
h. Other	
Total	

Total monthly spending: ________________

Transportation % of spending: ________________

Does your transportation costs as part of your total spending reflect your values and financial goals? Is your transportation costs delaying your financial goals? Write down your thoughts below

Are your transportation costs delaying your financial goals? Is the trade-off worth it to you?

Transportation worksheet

2. Have you done everything possible to lower transportation costs?

Refinancing

You may be able to lower the interest rate on your car loans if interest rates have declined or if your credit scores have improved since the original loan. Research current car loans available to you via local credit unions and banks or online services (e.g., www.bankrate.com and others). Try to get a loan term as close to your current term as possible or shorter so that you are not just extending your car loan terms to generate a lower payment. Compare the interest rates, payments and costs below.

Current car loan interest rate		Enter from debt payoff worksheet
New car loan interest rate available		
Current car loan payment (A)		
New car loan payment (B)		
Savings (A) - (B)		
New car loan fees		
Number of months payback period		Loan fees divided by savings

Is your payback period short enough to justify the costs? Payback period should be less than the time you expect to drive the car and should be less than 12 months.

Does refinancing your car loans make sense for you at this time? Note why or why not below and reassess periodically.

Transportation worksheet

Car insurance

a. Current car insurance cost: ________________________

b. What are your current coverages and deductibles? List below

c. Research car insurance costs using online services, such as bankrate.com or policygenius.com, and/or talking directly to insurance companies. How did the costs compare?

d. Decide whether you are able to raise deductibles to lower costs based on your amounts saved in your flexibility fund at this time

Other potential ways to save on transportation costs

Write down below your assessment of other ways to save money on transportation costs, including whether the ideas listed below may work for you:

a. Can you carpool with someone to work so you don't need to drive every day?

b. If you have 2 cars, could you potentially go down to 1 car?

c. Could you plan and combine trips around town to save on fuel?

d. Could you take public transportation instead of driving or biking to work?

e. Could you learn to do car maintenance on your own instead of paying for it?

Transportation worksheet

3. What is your longer term plan for owning cars?

As discussed in the course, it is possible to purchase cars without using debt. By consistently saving in advance and driving cars as long as possible, we can save significant money over time. Write down below your future plans for purchasing cars.

a. How much longer can you drive you current cars (in years)? ________________________

b. How much can you save per month towards cars? ________________________

Estimated amount available at your next purchase date ________________________
(# of years able to drive current car X monthly savings X 12)

Based on the amount available at the next purchase date, can you practically buy a car for this amount? Why or why not? If this amount results in a “worse” car than what you currently drive, can you accept this? Think about how your other goals may benefit from this approach.

Insurance worksheet

A. Home Insurance

Risk covered: Significant damage to a home owned by you

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and types of damage covered

Are the current items covered and amounts appropriate for your situation?

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

What is your current deductible? ________________________

Is the amount of your current deductible consistent with your savings available in case of an emergency? For example, a higher balance in savings may mean you can raise your deductible to lower your insurance costs. Consider raising your deductible if you are able to.

Insurance worksheet

B. Car Insurance

Risk covered: Significant damage to a car owned by you or to other's cars and related expenses

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and types of damage covered

Are the current items covered and amounts appropriate for your situation?

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

What is your current deductible? ________________________

Is the amount of your current deductible consistent with your savings available in case of an emergency? For example, a higher balance in savings may mean you can raise your deductible to lower your insurance costs. Consider raising your deductible if you are able to.

Insurance worksheet

C. Health Insurance

Risk covered: Costs to maintain your health and related ability to earn income

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and types of expenses covered

Are the current items covered and amounts appropriate for your situation?

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

What are your current deductibles?[1] ________________________

Is the amount of your current deductible consistent with your savings available in case of an emergency? For example, a higher balance in savings may mean you can raise your deductible to lower your insurance costs. Consider raising your deductible if you are able to.

[1]This would be co-pays for some plans or out-of-pocket deductibles before insurance pays anything

Insurance worksheet

D. Life Insurance

Risk covered: Loss of future income that others are dependent on

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and term covered

Is the current term covered and amounts appropriate for your situation?[1]

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

[1]Consider how much income needs to be replaced and for how long

Insurance worksheet

E. Long-term Disability Insurance

Risk covered: Loss of future income that others are dependent on

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and types of expenses covered

Are the current items covered and amounts appropriate for your situation?[1]

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

[1]Consider % of income replaced and for how long of time period

Insurance worksheet

F. Renter's Insurance

Risk covered: Significant damage to your property within a home you rent

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and types of damage covered

Are the current items covered and amounts appropriate for your situation?

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

What is your current deductible?[1] ________________________

Is the amount of your current deductible consistent with your savings available in case of an emergency? For example, a higher balance in savings may mean you can raise your deductible to lower your insurance costs. Consider raising your deductible if you are able to.

Insurance worksheet

G. Dental and Vision Insurance

Risk covered: Expenses related to dental and vision care

Is this risk applicable to you? ________________________

What is your current insurance coverage? List total dollar coverage and types of expenses covered

Are the current items covered and amounts appropriate for your situation?

What is your current cost? ________________________

Last time costs were compared ________________________

If it's been more than 1 year since you've compared your insurance costs vs. current market rates, consider obtaining quotes from insurance companies or online services (e.g., policygenius.com and bankrate.com) and note below how they compare with your current rates. Is the difference worth the effort of changing insurance providers?

What is your current deductible? ________________________

Is the amount of your current deductible consistent with your savings available in case of an emergency? For example, a higher balance in savings may mean you can raise your deductible to lower your insurance costs. Consider raising your deductible if you are able to.

Insurance worksheet

H. Other Insurances

Consider whether other insurances may be applicable to you, such as:

1. Umbrella insurance
2. Flood / earthquake insurance
3. Pet insurance
4. Travel insurance
5. Identity theft insurance

If any of these may be relevant to you, go through a similar evaluation as the insurances reviewed above. Assess your cost, coverages, deductibles and shop around to determine the best options for your situation. Note your results below