



Twins!

Newsletter of Managing God's Money Ministries



Third Edition - June 2002



The Economy

According to Bank of Montreal, growth in the Canadian economy in the second quarter of 2002 is expected to be about $4\frac{1}{4}\%$ compared with the 6.0% surge in the first quarter. In contrast, the US economy is expected to slow to $2\frac{1}{2}\%$ in the second quarter, falling from 5.6% in the first quarter.

Because of the expectation of continuing solid economic performance, the Bank of Canada has embarked on a steady and gradual pace of hiking interest rates. It increased rates twice, each by 25 basis points (0.25%), in April and in June. It is expected to implement similar increases at each of the remaining four announcement dates this year. The Federal Reserve in the US, on the other hand, remains on the sidelines, with its first rate increase not expected before September at the earliest.

In Canada, we anticipate mortgage¹ and other lending rates to rise, and Guaranteed Investment Certificate's (GIC's) rates to remain low. Get advice and ensure you understand your options before taking or renewing a mortgage, or investing funds.



An Excellent Teaching Opportunity

Over the past six months, several young adults have complained to me about the burden of their student loans. Irene (not her real name) was angry because of her large loan. She believes she will be "stuck with it" for several years and will not be able to "get on with her life." Kim (not his real name) was furious that the Government won't "give him a break;" particularly since, as a doctor, the country will "benefit immensely" from his skills!

Unfortunately, I have not been sympathetic! Bottom line is that both Irene and Kim made choices without considering the full implications. In our consumer-oriented society often we forget that we must "count the cost", as Jesus suggests in Luke 14:28, before making all decisions, particularly financial.

The norm in society is to implement unplanned decisions when options usually are limited, thereby incurring major debt! We can't blame Government or others for these debts! Each of us must accept responsibility for his or her situation and work within it! We must delay some decisions until we save enough cash to achieve our goals!

There are several channels available to help us to save for the cost of future spending. I believe parents can use this process of saving for specific future expenses, to model and to teach their children the benefits of avoiding debt. Further, it is ideal to demonstrate the need for patience, and the importance of accepting the consequences of our decisions.

I would like to discuss briefly (1) The Capital Fund and (2) Registered Education Savings Plan (RESP).



The Capital Fund

The Capital Fundⁱⁱ ("Fund") is the process I introduced in *Managing God's Money-The Basics* that allows us to save systematically for specific items without resorting to credit! If you have no debt other than your mortgageⁱⁱⁱ you need a Fund:

It entails four steps:

1. **Identifying** expected major spending decisions beyond the next two years. This assumes that your current budget will accommodate decisions in the next two years.
2. **Estimating** the cost of each of these items in today's dollars - not the likely cost in the future.
3. **Saving** an amount monthly so that when you are ready to spend you will have the funds. Thus, if you need to spend \$ 1500 (today's dollars) in five years, you would save \$ 25 per month (1500/5/12).
4. **Reviewing** the Fund every six months to ensure it is achieving your objectives. If it isn't, making necessary changes.

Use your Fund for some or all of the following: Deposit to purchase a home, buying a car, purchase engagement and wedding rings, education expenses, and so on.

Allocate the monthly amount to a separate account (explained below). If this sum is more than you can "afford", assign the amount you can "afford". The exact amount is not critical - developing the habit to contribute regularly **is the critical success factor**. At your next salary increase, and whenever you get unexpected money, place them in your Fund, **after giving what the Lord has laid on your heart**.

Start a Fund for each of your young children as early as possible. Save regularly at least 50% of all allowances and money received from friends and relatives. Consider saving all or a significant portion of Child Allowances! Discuss all aspects of managing the Fund with the children. Most important, let them save to buy at least one item they will need in the future.

Keep funds where you can access them quickly, like in a money market account.^{iv} Your Fund will grow because of compounding^v. My experience over 20 years of maintaining a Fund is that Doreen & I reduced our monthly allocations in many years. The longer you add to the Fund **consistently**, having included **most of your anticipated major expenses** in monthly contributions to the Fund, the greater the likelihood you will reduce future monthly allocations.

Capital Fund deposits are **additional** to your retirement savings.

As needed, withdraw amounts from the Fund to pay specific major repairs and major purchases that you anticipated and provided for.



Registered Education Savings Plan (RESP)

Allocate a portion of your own and your children's Capital Fund to an RESP: a tax-sheltered investment plan designed to help finance your children's post-secondary education. The contributor to the RESP does not get a tax benefit, but the beneficiary (the child receiving the benefit) will be taxed on any investment income (interest, dividends or capital gains) earned in the RESP. Normally the child will have little income and will, therefore, pay little or no tax. The

maximum contribution to an RESP is \$4,000 per year, per child to a lifetime limit of US\$ 42,000.

Additionally, the Federal Government will contribute annually per child, 20% on the first \$2,000 of annual contributions to the end of the calendar year when the child turns 17 - subject to a lifetime limit of \$ 7,200 in grants per child.

To learn more about RESP's get the information sheet from Canada Customs and Revenue Agency or visit their website - <http://www.ccra-adrc.gc.ca/menu-e.html>.

Try to utilize the Government's contribution as early as possible. The earlier you start the less you will need to contribute: Funds accumulate in the RESP tax-free: \$ 100 deposited monthly at 8% per year will grow to \$ 33,978 at the end of 15 years.

Explain to your child precisely what you do and why! This can be a great teaching moment!



Did You Know

- Personal savings rate in Canada has been falling steadily since 1991 - from over 12% to a record low 3.6% in 2001.
- Five major industries of Canada's financial services sector - banks, life and health insurers, property and casualty insurers, investment dealers and the mutual fund industry have decided to create a National Financial Services OmbudService (NFSO). This new service, which is planned to be in place by July 1, 2002, will provide more than 95 per cent of Canada's financial services consumers with single-window access to recourse if they have concerns or complaints. Check the Canadian Bankers Association website for more information - http://www.cba.ca/eng/Media_Centre/Press/011220.htm



Upcoming Events

Sixteen years ago at age 39 I started planning my retirement from Alcan. By the grace of God, today 28 June, I left my office for the last time after 32 years with Alcan! It was just another busy day at the office! When I left at 5:03 PM on this holiday weekend, I felt pleased to have worked with Alcan in Mandeville, Jamaica, in Tokyo, in Vancouver & in Montreal. With corporate scandals dominating the news these days, I am particularly proud and happy to say that throughout my 32 years at Alcan I have experienced nothing but the highest standards of ethics and integrity!

Now Doreen and I look forward to moving to Milton, Ontario (closer to the grandkids!) on 31 August where Michel will become full-time President of Managing God's Money Ministries that he founded.

Meanwhile we will not offer any seminars before September. Please pray for us as we spend this summer seeking God's direction.



Adie's^{vi} Corner (for the kids)
Earnings



Capital Fund
=
Saving to buy
your goal item

Hi! I'm just finishing my chores. Now I will get money to place in my Capital Fund to buy what I'm saving up for (this is my goal item). When my brothers and I visited Papa and Grandma recently we had a lemonade stand at their garage sale. We earned \$ 8.00! I plan to give some to church, spend a little on a small toy, then I will ask mom to put the balance in my Capital Fund.

Tip: Don't save up for candy or anything that you eat, because you will be wasting money. Save only for things that will last long or for fees for university. My brother Jesse is saving for a Ferrari, and my brother Dylan for a Honda! Me ... I'm saving for a Laptop computer!

To learn more about **Managing God's Money Ministries**, visit
<http://managinggodsmoney.com>

We welcome your comments on this newsletter. If you have a topic you would like addressed in a future newsletter please send us an email with sufficient information.

ⁱ On 26 June Bank of Montreal's Prime Lending rate was 4.25%. Some of their other rates were as follows: 1-year & 5-years GIC - 2% & 4.25%; Mortgage rates ranged from 3.875% (flexible prime option) to 8.45 % for the 10-year closed option.

ⁱⁱ For an in depth discussion of the Capital Fund refer to *Managing God's Money*, pages 80-83

ⁱⁱⁱ If you have other debts, your best option is to eliminate those before starting a Capital Fund - refer to March 2002's Newsletter.

^{iv} A Money market account generally is a safe and accessible account that you can operate with a financial institution. Funds in this account are invested predominantly in Treasury Bills (Loans to the Government). The interest rate that you earn is higher than on regular bank deposits. Generally you need to give 48 hours notice to withdraw the funds.

^v Refer *Managing God's Money - The Basics*, pages 53-55

^{vi} Adrienne is Michel's nine-year-old granddaughter.