Quarterly Letter

Managing GOD's Money

A FINANCIAL PLAN

WHAT IS IT?
It shows the financial results you expect in the future from present goals and plans.

WHY DO IT?
To show you what might happen if you follow contemplated choices. In developing it, you might see alternatives which you would not see without going through the process.

HOW TO DO IT?
Guided by the Lord, in the *Family Council,* with inputs from family members, and using available information on goals and plans.

WHEN TO DO IT?
After getting God's goals and plans and before the start of the specific future period, but with enough time to look seriously at different options.

HOW TO STAY ON TRACK?
By the grace of God, accepting your manager's role, and setting up an accountability procedure that you follow.

DO I *NEED* A FINANCIAL PLANNER?
Not necessarily! You *need* to listen to God!

Managing God's Money
PO Box 296, Campbellville
Ontario, L0P 1B0
www.managinggodsmoney.com
michelbell@managinggodsmoney.com

Where Do I Start?

Normally folks don't see the link between a *financial plan* and daily *lifestyle choices.* They don't realize that with the right *attitude*, a financial plan could help them lower debt, save regularly for children's education, and save to pay cash for a car and other stuff!

A financial plan shows in different forms, your financial picture from doing *goals* and *plans* during a specific period. It captures financial results from goal setting.

With the Holy Spirit's help, I am confident you can put together or you can guide your financial plan make up. If you choose to use an *advisor* to compile a financial plan, this letter will give you information to *ask right questions*.

Most folks don't write financial plans; they need help to develop one. If you sense the Lord telling you to write a financial plan, ask Him to guide you through the process.

Deciding who should prepare it—you or an advisor— is your first key decision. Choose an advisor, not a salesperson—don't work with someone whose *aim* is to *sell* you products.

But whomever you select, separate putting the plan together from doing it. So, if you work with a financial advisor, don't buy products from him or her as part of the financial planning procedure. Finish the plan, understand it, look at alternatives, *count the cost,* and then decide how to start doing it—buying financial products if needed.

Invest time with Jesus to hear what He prepared for you. Otherwise, you and your advisor will develop goals and plans based on financial feasibility only.

I will use information from a fictitious one-parent family, Maude, and Ruth her nine year old daughter, to discuss these essential questions you need to answer to write your financial plan:

1. Where am I *spiritually?*
2. Where am I *materially*?
3. What *goals* should I work on and over what period?
4. What are key *inputs* and *outputs*?
5. How do I *stay* on track?

Where Am I Spiritually?

This will set the *principles* to apply. If you are starting this journey and don't have a personal relationship with Christ, I encourage you to read the *Invitation from the Shepherd* at www.managinggodsmoney.com. Without Christ, this procedure will be stressful, mechanical and highlight money!

But money is just a *bridge* between your *wants* and *needs* and *products* and *services*. In your financial plan it measures results of your goals. If money becomes the focus, you will work on *wrong inputs* and monitor *wrong outputs*.

Keep in mind University of Missouri's Kennon Sheldon's findings: *People who say money is most important to them are the unhappiest."*

Maude is a follower of Christ, accepts His ownership and her stewardship of possessions, and wants to honour Him with her finances. She is working with an advisor, Jim, who doesn't know the Lord, still she is comfortable. She has turned over the procedure to God, accepts her role to lead it, and will not buy products until she finishes the plan and knows it fits God's plan.

As well, Jim accepts his role: To give inputs to help *her decide* under God's guidance. Maude has agreed to pay a flat fee for the advice.

Where Am I Materially?

At 30 September what does Maude "own" as manger, and how much does she *owe*? A *Material Worth Statement*[1] shows this information. It's a "still" picture of financial affairs at a fixed date.

Material Worth $000 30 September	
House	110
Car	15
Ruth's Education Savings	0
Other Stuff	2
Total Assets	127
Financed by:	
Mortgage	105
Car Loan	10
Family Loan	2
Equity	10
Loans & Equity	127

Maude's yearly income and expenses that's shown on the centre table completes the base to build on. She knows she cannot assume today's income and expenses will continue. So she and Jim will look at each income and expense element and decide its estimated yearly value.

What Goals Should I Work On?

Answering this question is personal and often difficult because you might not like *where you are* and *what you have*. So, you become preoccupied with your condition, blaming others for it. Don't! Move on! You are where you are. Understand, accept, learn from, and work with what you have.

For over one year, Maude has been seeking God's direction for her finances. She accepts her condition, and is excited about developing this plan. But before she can think or pray about goals to work on, she has questions on these topics:

- Loan repayments
- Post secondary education
- Car replacement
- Insurance needs
- Pension and investments

Present Yearly Income	$0
Gross Salary	50
Less: "Giving"	(7)
Less: Taxes	(17)
Less: Capital Fund	0
Net	26
Net Allocated to:	
Food	5
Shelter (incl. mortgage)	11
Clothing	1
Transport (incl. loan)	6
Family loan payment	0
Ruth's Education	0
Entertainment	1
Other	2
Total Spending	26

Maude and Jim will use this as the base to project Maude's income and expenses for the nine-year plan period. They will review existing categories and decide if they should add new categories based on Maude's goals and plans.

Loan repayment

"How should I go about repaying my debts? Should I repay the family loan before the car loan? Should I pay more than needed against my mortgage?"

At first, the answer, "it depends," confused Maude, but later she understood and developed a debt repayment schedule — see March 2002 Quarterly Letter at www.managinggodsmoney.com.

They agreed she *must* repay each loan based on her agreement with the lender. If she has extra funds, she should apply them first to *the highest interest cost loan.* So, she should repay the car loan, 8.5% interest **after tax,** then the family loan. Though interest free, Maude felt a moral obligation to repay the family loan after the car loan, and before putting extra funds against mortgage principal that costs 5.5% interest **after tax.**

Here is an example of how Maude's *Material Worth Statement* for the first second, fifth and ninth year of her financial plan ***might*** look. Notice the car "depreciates" rapidly and the mortgage falls slowly! Most early mortgage payments go to interest. Maude will need patience to work off her debts and get to the goals she set.

MATERIAL WORTH $ 000

	Yr 1	Yr 2	Yr 5	Yr 9
House	110	110	110	110
Car	15	10	1	0
Ruth's Education	0	0	4	23
Capital Fund	0	0	4	15
Other	2	3	2	2
Assets	127	123	121	150
Financed by:				
Mortgage	105	103	94	82
Car Loan	10	5	0	0
Family Loan	2	2	0	0
Equity	10	13	27	68
Loans & Equity	127	123	121	150

Information for this statement comes from goals, income, expenses and cash flows. Maude would do several analyses to see how she might have to change goals or behaviour to get to the plan.

Post secondary education

"But how do I repay debt and save for Ruth's post secondary education?" Maude asked Jim.

[1] Financial people call this a *Balance Sheet* or *Net Worth Statement*. Show items at "market value"— the price someone would pay for each item, and amounts to repay lenders — except your home, which you show at cost so the increased values won't tempt you to borrow.

Jim told her the best savings was debt repayment. After repaying the car and family loans, Maude needed to start saving for Ruth's education. She and Jim worked out the amount she needed to save monthly for Ruth's university education: estimated cost minus Government benefits available over the seven year[2] saving period. Maude agreed to save at least this amount yearly.[3] As well, Maude decided she and Ruth would be alert to *scholarship availability*, especially three to five years before Ruth was ready for university.

Replacing the car

The issue here was getting out of the debt cycle. How could Maude buy the next car for cash? She and Jim agreed Maude would review her transport needs. Did she need a car? Long term, is it feasible to get to work using public transport and renting a car when needed? In the next year Maude would look at this.

Maude would start a Capital Fund[4] after repaying car and family loans, and saving to get the yearly maximum Government benefits for Ruth's education. Meanwhile, she decided she would not buy another car unless she paid cash, which could be a challenge. But with God's help she knew she could do it.

Insurance

This was Maude's greatest concern: Do I need insurance? What type? How much? Maude learned that insurance was about identifying, quantifying, and covering risks. She and Jim identified and quantified life and disability insurance needs.

She would look at taking out a *term life policy* to provide "income" for Ruth if she died. Her *estate* would receive funds to pay Ruth's guardian whom Maude identified in her recent *will*.

Maude agreed to arrange disability insurance through her employer. As well, to lower premiums on the car and her house she agreed to increase insurance deductibles. But she would do this only after saving the increased amounts in her Capital Fund.

Still Maude and Jim decided she would not buy or change her insurance until she finished the plan and prayed about it.

Pension and investments

Maude wants to start putting funds in a pension plan, and investing funds like

Cash Flow Statement $000				
	Yr 1	Yr 2	Yr 5	Yr 9
Cash In (salary less taxes and giving)	26	26	28	30
Cash Out (before savings and capital fund)	26	26	22	24
Cumulative Balance	0	0	10	34

This is Maude's most practical monthly tool. In each plan year it would show the timing of major receipt and payment categories such as groceries and transport. Prepared after the budget, it would show, for example, $1000 for insurance in June—the budget might spread this amount over the year. Maude will do this statement more than once, trying different alternatives to see how she might get to her savings goal!

"other folks." She learned that her best investment is debt repayment; it is *guaranteed and risk free.*

Her employer did not have a matching pension or savings plan so by not saving in a pension plan she was not loosing this potential benefit. Now 31 years old, two of Maude's desires were to be debt free except for her mortgage, and to save for Ruth's education.
Maude decided she would not borrow to invest because borrowing to invest guaranteed more debt without a guaranteed investment return. Besides, that was putting God's money at unneeded risks.

Maude was ready to look at goals, understanding some goals would differ at different life stages.
She wanted this financial plan to cover the period to Ruth starting University, *nine years* ahead.
After prayer she came up with these goals:

Attitude, Behaviour, Choices (ABCs)

- **Attitude:** Her relationship with Christ will shine through her handling of her finances.
- **Behavior**: Her spending would not dishonour Jesus.
- **Choices:** Jesus would direct all spending. She would develop a formal procedure to follow before committing $ 50 or over.

Financial

- **Ruth's Education:** Her savings, Government incentives, and interest income would cover the estimated cost. She would review estimates six-monthly.
- **Debt Free Lifestyle:** She will live a lifestyle to be debt free except for the mortgage, in five years. Under God's guidance, she will follow the spending schedule worked out, reviewing it six monthly. She will listen and respond to the Lord.
- **Pay Cash:** She will pay cash for stuff she buys, using the Capital Fund as the savings vehicle. She knows she will need Jesus' help to ignore seductive advertising.
- **Budget:** She will work with a *budget* and *money map* under God's guidance, ensuring she **does not lower giving to God to get her goals.**
- **Saving & Investments:** Her only savings will be for Ruth's education and in a Capital Fund to raise insurance deductible, and pay cash for items such as a car and major equipment and appliances repairs and maintenance.

What Are Key Inputs and Outputs?

Before answering this question, Jim described briefly two key terms to help her understand better the amount to set aside for Ruth's education: *inflation* and *time value of money.*

Inflation

Inflation is *a general increase in price levels.* We need to estimate inflation for each of the nine plan years. It's a key *assumption* that could affect the plan significantly. If the plan estimates were much different from the actual, it would affect saving and spending decisions, such as amount to save for Ruth's education.

Jim told Maude she needed to get a "real" return on savings— the savings return should be greater than inflation. He suggested inflation would average 2% each year and her savings would earn 5%, so she would get a yearly 3% real return. If the reverse happened, she would lose savings each year.

Inflation and interest rates estimates can affect plan results significantly, so Maude must review them at least six-

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[2] Maude will not start saving until she repays her loans, that's why the period is seven years; two years into the nine year plan.

[3] Page four, *Time Value of Money,* shows how interest income might reduce amounts Maude needs to save.

[4] The Capital Fund is an account you set up to save to buy specific items for cash rather than on credit. Start an account after repaying all loans except your mortgage. For more information visit, www.managinggods.com/capitalfund.shmtl

monthly. To stay on course, she might need to change her behaviour.

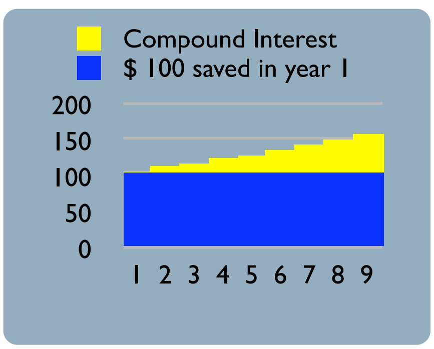
Time value of money

This term includes:

- Multiplication Principle and compound interest
- Present value
- Future value

I coined the term *multiplication principle* meaning interest on debt grows faster than interest on savings. So your best savings is to repay debt.

The following table shows what happens over nine years when you put aside $ 100 in year one and leave it and the yearly 5% interest it earns. The interest compounds, so that at year nine you have saved $ 155.



The flip side of compound interest is *present value*. The present value or today's value of $155 to be received in nine years at 5% is $100. One fifty five dollars is the *future value.*

This knowledge helped Maude understand and calculate amounts she needed to set aside for Ruth's education.

Maude was ready to go over the needed inputs and outputs you see in the right column. She had great difficult working with so many unknowns but realized only God knows the future so every plan will be somebody's estimates and likely to change.

Maude and Jim did their best working with information they knew, such as present salary and spending pattern. For each input, they applied a realistic inflation factor: they applied a higher inflation to gas prices than to salaries.

When the information was fuzzy, they asked three questions: *What's the worse it could be? The best? Most likely?* They chose the most likely and noted it for regular reviews.

Maude believed the two most *crucial inputs were her time with the Lord and her discussions with Ruth*. She told Ruth what she did, why, and how they could work together. They agreed they would need patience. As well they would listen to God and depend on Him.

After Maude and Jim agreed inputs for each of the nine plan years, they produced the output statements listed below. But Maude decided to reflect on and pray about each before acting.

How do I stay on track?

One month later, Maude was ready to do the plan. By God's grace and staying focussed on Him, Maude hoped to stay on track. She realized she would need patience and discipline. But she knew she would get them from the Lord because that was her heart's desire.

She asked her best friend and prayer partner Elizabeth to hold her accountable to stay close to God.

With Ruth, Maude planned to hold twice monthly *Family Council* meetings to review progress against plan and budget. Six monthly she would update her *Cash Flow, Material Worth* and *Debt Repayment* schedules.

She agreed to review the plan yearly with Jim. Most of all, she knew to stay on course she would need to change her behaviour when assumptions turned out different from plan.

Her final acts were signing the *Stewardship Covenant* and committing to work with a budget, and a *money map* for regular spending trips.

INPUTS

- Maude's beliefs & values
- "State" of the economy
- Interest and inflation rates
- Timing of Maude's income and expenses
- Timing of major **buys**: she will save in the Capital Fund to pay cash for these items, such as a car

OUTPUTS

- Material Worth Statement
- Cash Flow Statement & Budget
- Capital Fund Worksheet
- Debt Repayment Schedule
- Stewardship Covenant
- Will and Powers of Attorney
- Detailed explanation to Ruth about main goals and the education savings plan

GLOSSARY

Material Worth: "Still" picture of financial affairs at a date.
Cash Flow Statement: "Video" at a fixed date showing movement in financial affairs over a period.
Debt Repayment Schedule: Table with loan and projected loan repayments over a period.
Stewardship Covenant: Agreement with Jesus He is owner, you are His manager committed to manage all belongings according to His principles.

This letter is for personal information only. Before implementing financial decisions get professional financial advice from an independent advisor.
Visit www.managinggodsmoney.com for explanations of Capital Fund, Family Council, Budget, Money Map, and Stewardship Covenant.