Principles of Financial Management

1. <u>Transfer ownership</u>

1st Timothy 6:7:

Psalms 24:1-2 (1st Corinthians 10:26):

Psalms 50:7-12:

Mosiah 2:32-39:

Luke 16:10:

2. <u>Establish a tithe</u>

Malachi 3:8-10:

Deuteronomy 14:22:

Proverbs 3:9-10:

3rd Nephi 11:11-13:

3. <u>Get out and Stay out of debt</u>

Psalms 37:21:

Proverbs 3:27-28:

Proverbs 22:7:

4. <u>Develop and stick to a budget</u>

Proverbs 10:4:

Proverbs 16:9:

Proverbs 21:5:

Proverbs 24:27:

Luke 14:28-30:

5. <u>Share God's blessings</u>

Jacob 2:22-24:

Mosiah 2:32-44:

2nd Corinthians 9:6-11:

Proverbs 11:24-25:

1st Timothy 6:17-19:

Making a Plan

The Goal: Living within our means.

What does this mean?
It means to spend no more than we make on a monthly basis. Ideally that means to live on a cash basis and not use credit or borrowed money to provide normal living expenses. It also means the self-discipline to control spending and keep needs, wants, and desires in their proper relationship.

Needs: These are the purchases necessary to provide your basic requirements such as food, clothing, home, medical coverage, and others. (1st Timothy 5:8, 6:8)

Wants: These involve choices about the quality of goods to be used. Dress clothes vs. work clothes, steak vs. hamburger, a new car vs. a used car, etc. (1st Peter 3:3-4)

Desires: These are the choices according to God's plan that can be made only out of surplus funds after all other obligations have been met. (John 2:15-16)

Obstacles to good planning:

1. Social pressure to own more "things."
2. The attitude that "more is better" regardless of the cost.
3. The use of credit to delay necessary decisions.
4. No surplus available to cope with rising prices and unexpected expenses.
5. Offsetting increases in income by increasing the level of spending.
6. Making purchases to satisfy emotional needs.

How do we start?

Step 1: The budget: What is the present level of spending?

Step 2: Budget goals: Establish the "ideal" budget.

Comparing the present spending level with a guideline for balanced spending will point out where adjustments should be made.

Income: the total amount of your salary, including bonuses, tips and interest earned.

Net Spendable Income: That portion of your total income that is available for spending. Some of your income does not belong to you and therefore cannot be spent.

Net Spendable Income = Total Income minus Tithes and minus Taxes

<u>The Divisions of Income:</u>

Category 1: The Tithe (10%)

Category 2: Taxes: Federal withholding, social security, and state and local taxes.

Category 3: Housing expenses: All monthly expenses necessary to operate the home, including taxes, insurance, maintenance, and utilities. The amount used for utility payments should be an average monthly amount for the past twelve months.
If you cannot establish an accurate maintenance expense, use 5 percent of the monthly mortgage payment.

Category 4: Food expenses: All grocery expenses, including paper goods and non-food products normally purchased at grocery stores. Include milk, bread, and items purchased in addition to regular shopping trips. *Do not include* eating out and daily lunches eaten away from home.

Category 5: Automobile expenses: Includes payments, insurance, gas, oil maintenance, depreciation, etc.
Depreciation is actually the money set aside to repair or replace the automobile. If replacement funds are not available in the budget, the minimum allocation should be maintenance costs.
Annual or semi-annual auto insurance payments should be set aside on a monthly basis, therefore avoiding the crisis of a neglected expense.

Category 6: Insurance: Includes all insurance, such as health, life and disability, not associated with the home or auto.

Category 7: Debts: Includes all monthly payments required to meet debt obligations. Home mortgage and automobile payments are not included here.

Category 8: Entertainment and Recreation: Vacation savings, camping trips, club dues, sporting equipment, hobby expenses, eating out and athletic events.

Category 9: Clothing: The average annual amount divided by 12. The minimum amount should be at least $15 per month per family member.

Category 10: Savings: Every family should allocate something for savings. A savings account can provide funds for emergencies and is a key element in good planning, and financial freedom.

Category 11: Medical expenses: Insurance deductibles, doctors' bills, eyeglasses, prescriptions, etc.

Category 12: Miscellaneous: Specific expenses that do not seem to fit anywhere else; Pocket allowance, miscellaneous gifts, Christmas presents, toiletries, haircuts, etc.

Category 13: Investments: Individuals and families with surplus income in their budgets have the opportunity to invest for retirement or other long-term goals. Take advantage of an employers' 401k.

Category 14: School/Child Care: If you are continuing your education, or paying for dependent child care, your expenses have to be accounted for here.

Category 15: Unallocated Surplus Income: Income from unbudgeted sources (garage sales, gifts, etc.)

Keys to Debt Elimination

- Pray. Ask for the Lord's help and guidance. Even if you can afford to pay only a small extra monthly prepayment to reduce your debt, do it. The Lord can multiply your efforts.

- Allow no more debt (no bank or family loans and, if necessary, cut up the credit cards).

- Develop a good balanced budget that allows every creditor to receive as much as possible, and stick strictly to it without deviating.

- List your assets (everything you own). Evaluate the completed list to determine whether you should sell any assets to apply to your immediate debt reduction.

- Start retiring the debt now. Begin with the highest interest rate first. If the debt balances are approximately equal, pay the one with the lowest balance first. Once it is paid off, put all the money you were putting the first debt on the next, and so on. It's simple, but it requires determination and consistency.

Additional Ideas

- Be accountable to someone for a period of time (at least six months) for everything spent. (Ecclesiastes 4:9-10) If there is accountability, people will be more inclined to be more cautious in their spending habits – a look now, buy later attitude.

- Establish a "want-to-buy" list. Whenever you think you need to buy something, put it on the list. Then wait 7 days and find two additional prices for the item, to be sure you are getting a good buy. If you still want the item after a week has passed and you have the money available, you will have thought about it and got the best price you can. You can only have one item on the top of the list at a time. If a new "want" comes up during the week, you will have to decide between the two.