November 19, 1976

FINANCIAL PLANNING FOR THE FAMILY

I. Home Finances

A. Banking

Both husband and wife should be thoroughly familiar with banking arrangements.

Both husband and wife should know the current position of the bank accounts.

The wife should have her own bank account for savings, even though small, for emergencies, etc.

Bank accounts should be reconciled every month to ensure deposits have been entered and that no wrong charges are made. Banks make mistakes.

B. Payment of Bills

Bills should be paid promptly, otherwise a false idea of cash availability is created. Furthermore, slow payment can affect credit rating adversely and does result in interest charges.

Both husband and wife should be familiar with the payment system (issuing checks, direct payment through bank, cash payments, etc.).

C. Borrowing

Borrowing should be kept to an absolute minimum. Additional income should be found or expenditures curtailed in order to match income and expenses.

Ideally, the only borrowing should relate to the purchase of a home.

People will shop and search for weeks in order to make a $400 purchase and then borrow $400 to pay for the purchase. At 12% annually, with capital payments of $33.33 per month, interest amounts to $32.21, or a total cost of $432.21!

If, instead, $33.33 were saved each month for the purchase, at 6% interested compounded monthly, at the end of the year there would be $424.22 in the bank.

Therefore, the borrower pays $432.21, whereas the saver pays $400, less $24.22, or $375.78, or a difference of $56.43.

Inflation is a factor in delaying purchases and should be considered.

In the event of borrowing for a mortgage, monthly payments should not exceed 25% of net income.

D. Purchasing

For the majority of significant purchases (most things over $25), telephone or on site comparison of prices is well worthwhile.

It is assumed that most people compare prices for food purchases and try to save 1¢ or 2¢ per can, but very often they are unaware of tremendous savings available on the purchase of clothing, furniture, appliances, toys, cleaning and building material, etc. Such savings can be achieved by:

Buying in bulk
Buying during the supplier's quiet season
Watching for sales
Looking for substitutes
Comparing prices of several suppliers
Better quality for recurring purchases

E. Insurance

Minimum insurance should be arranged to avoid calamitous expenses, as follows:

Fire and other destruction of the home
Fire and other destruction of the contents of the home
Third party liability insurance

Such policies should be reviewed annually to ensure they are adequate.

F. Lending

Simply don't lend. If you have to, do two things:

- Be very specific about repayment terms
- Be prepared for a write-off

G. Budgeting

The purpose is to plan spending, whereby spending does not exceed income.

Budgeting should cover a thirteen month period to ensure that once a year late payments are not missed.

Husband and wife should prepare the budget together, and it should be reviewed every three months.

A sample budget appears on the next page, for someone earning approximately $20,000 per year. The excess in certain months is planned, so as to meet subsequent irregular large expenditures.

SAMPLE BUDGET

	Month												
Description	1	2	3	4	5	6	7	8	9	10	11	12	13
Property Expenses													
Mortgage Payments	150	150	150	150	150	150	150	150	150	150	150	150	150
Property Taxes	60	60	60	60	60	60	60	60	60	60	60	60	80
Repairs	40	20	10	20	20	40	160	20	20	80	20	20	40
Electricity	30	30	20	20	30	50	50	50	30	20	20	30	30
Heating Oil	60	60	30	-	-	-	-	-	-	30	60	80	60
Property Insurance	-	-	-	100	-	-	-	-	-	100	-	-	-
Furniture Purchases	-	-	-	-	140	-	-	-	-	360	-	-	100
Household Expenses													
Food	200	200	200	200	200	200	200	200	200	200	200	300	220
Clothing	80	20	10	20	20	60	20	20	120	80	200	60	100
Cleaning Supplies	20	10	10	10	10	20	20	10	20	20	10	30	20
Telephone	20	20	20	20	20	20	25	20	20	20	25	45	20
Miscellaneous	30	30	20	30	30	30	30	30	30	30	30	50	40
Financial													
Car Payments	100	100	100	100	100	100	100	100	-	-	-	-	-
Other Debts	80	80	70	80	-	-	-	-	-	-	-	-	-
Giving	125	125	125	125	125	125	125	125	125	125	125	200	140
Saving (Retirement, etc.)	50	50	50	50	50	50	50	50	50	50	50	50	50
Saving (Car)	-	-	-	-	-	-	-	-	-	-	100	100	100
Travel													
Train, Bus	30	30	20	30	30	-	30	30	30	30	30	30	40
Car Repairs	-	-	120	-	30	-	-	80	-	-	150	-	-
Gas	40	40	40	40	40	120	40	40	40	40	40	50	50
Car Insurance	-	-	-	220	-	-	-	-	-	-	-	-	-

Description	1	2	3	4	5	6	7	8	9	10	11	12	13
Personal													
Life Insurance	-	-	-	280	-	-	-	-	-	-	-	-	-
Pocket Money	40	40	40	40	40	40	40	40	40	40	40	60	50
Vacation	-	-	-	-	-	350	-	-	-	-	-	-	-
Gifts (Christmas, etc.)	-	-	30	-	40	-	-	-	40	-	140	180	-
Contingency	40	40	40	40	40	40	40	40	40	40	40	40	40
TOTAL EXPENSES	1195	1105	1165	1635	1175	1455	1140	1065	1015	1475	1490	1535	1330

All these figures reflect after tax income.

Summary

	1	2	3	4	5	6	7	8	9	10	11	12	13
Income	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300	1400
Expenses	1195	1105	1165	1635	1175	1455	1140	1065	1015	1475	1490	1535	1330
Cash Surplus (deficit)	105	195	135	(335)	125	(155)	160	235	285	(175)	190	(235)	70
Cumulative " "	105	300	435	100	225	70	230	465	750	575	765	530	600

II. Retirement Planning

Retirement planning involves a budget that applies after retirement.

Current expenses should be adjusted for two reasons, as follows:

A. Disbursements involving children, mortgage payments, future purchases, debt payment, life insurance should be deducted. In the above budget, average monthly expenses were $1250. By deducting these items and adjusting giving, car savings, etc., proportionately, average monthly expenses drop to approximately $600.

B. Expenses should then be grossed up to reflect inflation at some predetermined figure. For example, assuming an average 5% factor per year, for 20 years, current expenses would have to be increased by 5% X 20 years compounded; i.e., $1516.

All liquid assets (savings, investments, second house or cottage) should be converted to a cash value, including inflation factors where appropriate. The lump sum should be recalculated as an annuity. To this should be added <u>all</u> pensions plus income.

The difference between adjusted expenses and income reflects the excess of retirement income over retirement expenses, or vice versa, and require specific action in terms of long term planning.

III. Estate Planning

A. Will

Wills should be written by the husband and the wife.

The will should be revised or re-written periodically, preferably when family circumstances change or at least every five years.

The will should be made out immediately. Too many people have died without leaving a will, causing problems to their families.

- It is wise to have an attorney prepare the will, particularly if the estate is in excess of $100,000.

B. Financial Needs

The budget for the family should be revised and projected for several years, in order to anticipate the needs of the wife and younger children in particular, in the event of the father's death.

The minimum monthly needs should be reduced by continuing income, and the difference covered by life insurance; i.e.,

Minimum monthly needs		$1050
Less Annuity	130	
Wife's Income	480	610
		$ 440 per month
		$5280 per year

C. Estate Taxes

In the calculation of financial needs, after the death of a husband, the payment of estate taxes should be anticipated. With the help of a lawyer estate taxes can be kept to a minimum.

D. Location of Documents

A record should be kept of the location of all documents. The documents should include:

- insurance documents
- wills
- investment certificates
- bank books

The locations may include:

- desk or filing cabinet at the office
- desk or filing cabinet at home
- safety deposit box
- investment dealer
- bank (securities held as collateral)

A copy of this record should be kept by husband and wife.

CHRISTIAN STEWARDSHIP

I. The Fundamental Principle
All is God's. What we have He gives us (1 Cor. 4:7). We are stewards (luke 16:1; 1 Pet. 4:10).

II. Some Additional Scriptural Principles

A. Having or lacking money can be within or outside the will of God. Jas. 1:9-10; Phil. 4:12. Reasons why some have and some lack.

1. Work is commended, Rom. 12:11; Prov. 6:6; 2 Thess. 3:10
2. Self-advancement is commended, Luke 19:13; Matt. 25:16 (cf. Jas. 5:3-5).

B. Planning is not contrary to "walking by faith."
1 Tim. 5:8; 2 Cor. 12:14; Luke 14:28-33.

C. All should give generously, Mark 12:43; 2 Cor. 8:2-3; 1 Cor. 16:2.

D. Debt is forbidden, Rom. 13:8.
A definition of debt: when liabilities exceed cash value of assets. Apply this to various levels of what you have.

III. Some Practical Matters

A. Care of documents. Will, deed, auto title, insurance.
Safe place. Be sure both husband and wife know.

B. Bank accounts. Be sure both know.
Wife should have savings she can get for emergencies.
Check statements. Know current position.

C. Paying bills.
Promptly.
Do not borrow. Illustration of $400 purchase.
House mortgage monthly payments should not exceed 25% of net income.

D. Purchasing
Compare prices. Watch for sales. Don't be afraid to say, "I can't afford this."

E. Insurance. House and contents. Car. Life.

F. Lending. Don't do it.

G. Budget. Husband and wife together. Show surplus. Review it.
Good budget will also provide tax records.