Introduction

Proverbs 3:13-14—"Blessed is the man who finds wisdom, the man who gains understanding, for she is more profitable than silver and yields better returns than gold."

Why Solomon?

When thinking about the Bible and money and wisdom, for many people, Solomon will immediately leap into mind as an excellent starting place, for obvious reasons. Many people know that he is considered to be the wisest man in the Bible. If we are looking for wisdom, should we not look toward the wise? Many people also know that he was the richest man in the Bible. If we want to know what wealth is, should we not look toward the rich? And many people know that a plethora of his proverbs mention money and wealth explicitly. If we want to know how to handle money, should we not look to one who has written much on the subject?

But as we explore the life of Solomon, one more reason is revealed. Beyond his teachings, the life of Solomon gives insight into the consequences of unpracticed wisdom, both through passive refusal to put his wisdom into action and through active rebellion against what he knew to be true. That is not to say that Solomon was devoid of good deeds, for he had grand moments. However, he had equally as grand failures.

Solomon on the Way Up

Solomon was born to King David and Bathsheba, a couple whose relationship began in adultery and was cemented in David's murder of Bathsheba's husband. Despite this less-than-auspicious beginning, God loved Solomon from his birth (2 Samuel 12:24-25). Solomon was chosen by his father (1 Kings 1:17, 30) and God (1 Chronicles 22:9-10) to succeed his father as king of Israel, overcoming an attempted coup by David's eldest son, Adonijah. Solomon co-reigned with David until David's death and was charged with the building of the great temple—an honor God chose to place specifically on Solomon rather than David.

When told by God to ask for whatever he wished, Solomon showed his wisdom by requesting wisdom. Pleased with his unselfish request, God granted him wisdom and also added to him riches and honor (1 Kings 3:5-15).

Solomon greatly expanded the geographic scope of the kingdom, becoming a man of substantial international influence. He established districts throughout Israel to assist in governing the people and supplying provisions to the royal family. His Song of Songs, written early in his reign, shows the deep love Solomon felt for his bride and gives a godly perspective on the roles of love, marriage, and sex. His Proverbs, written throughout much of his reign, show the results of the wisdom he sought from God (1 Kings 3:7-9). Solomon became known far and wide, spurring leaders of other lands to his courts, some to learn his wisdom and some to weigh his legitimacy (1 Kings 4:34; 10:1-5, 24). What a potential for world evangelization! However, leaders were not the only people from other lands coming to see Solomon….

Solomon on the Way Down

When Solomon was not instructing the leaders of other lands in the ways of wisdom, he was busy with the ladies of other lands. The Bible reports that Solomon had 700 wives and 300 concubines (1 Kings 11:1-3). These wives included the Pharaoh's daughter, Moabites, Ammonites, Edomites, Sidonians, and Hittites. God knew the trouble this would cause and had given explicit instructions not to intermarry with them, but Solomon moved according to his own love and lust. Indeed, these wives led Solomon to other gods and away from the Lord — to the point that he even constructed altars for the foreign gods (1 Kings 11:4-8).

During the completion of the myriad architectural projects Solomon started, he used forced labor for the construction (1 Kings 9:15*f*). The man of unmatched riches used foreign slave labor to complete the work on his structures.

Because of Solomon's waywardness, God stripped the kingdom away from his family with the exception of one tribe, God's provision for David's faithfulness. Solomon continued his reign for several more years, but he died as the leader of a nation which was about to be divided. His last canonical work, Ecclesiastes, reveals the bitterness that was left after he realized the futility and vanity of life apart from God.

1 What God Offers

1 Chronicles 29:25 — "The Lord highly exalted Solomon in the sight of all Israel and bestowed on him royal splendor such as no king over Israel ever had before."

Although the son of a king, Solomon had his humble moments. He was regularly a pointer to wisdom and not an example of it—"Do as I say, not as I do," epitomized. Despite how his life ended, God blessed him and used his wisdom to draw the world's attention to Himself.

Now, God has not necessarily promised to each of us the splendor granted to Solomon; in fact, the splendor was only granted to Solomon because it was not his first desire (1 Kings 3:10-14). God has, however, promised us provision, prosperity, and success; the catch is realizing that His definitions for those words differ significantly from the world's.

Promises of Provision

He has promised to protect us and meet our needs.

- Psalm 37:23-29

- Matthew 6:28-33; Philippians 4:16-19

He has also promised to go beyond our needs and grant us prosperity.

- Joshua 1:6-9; Proverbs 3:9-10

- John 15:5-8; Matthew 25:20-23

What are the preconditions for the various forms of prosperity?

Will meeting those preconditions change what we ask for and how we view prosperity?

A When you ask for things, are they things that are in God's will? How can you know?

Does this mean no believer will be financially poor? Observation and logic immediately tell us no, but what does the Bible tell us?

- Mark 12:41-44

- Deuteronomy 15:7-11; Matthew 26:8-13

How is it that the Lord will meet our needs, but there are also the poor?

What has God's timing been for others who have been in need?

- Psalm 74:10-18

- Psalm 75:1-3

- John 11:1-7

Has God chosen not to fulfill His promises to the poor? Certainly not. What does He say about those we call poor?

- Luke 6:20-26

What are some of the world's ideas of needs and prosperity?

Was Solomon prosperous in the eyes of the world?

- 1 Kings 4:22-23; 10:21-22

God has different ideas. The Bible reveals:

- The truth of worldly wealth
  - Matthew 19:23-30
  - Luke 12:13-21
- What true wealth is
  - James 2:5-7
  - Titus 3:4-8

How did Solomon consider his great wealth?

- Ecclesiastes 2:1

A What prosperity has God given to you that the world might not immediately identify as wealth?

Of course, it does not mean much when someone promises something they cannot deliver—Jesus called Satan's bluff on this when Jesus was tempted (Matthew 4:8-11). Fortunately, as the creator of the universe, God can deliver on his promises.

Position of Power

God holds four positions of power with regard to physical resources:

- Creator of all
    - Genesis 1:1; Nehemiah 9:6; Acts 14:14-17
- Owner of all
    - Psalm 24:1-2; Psalm 50:9-12; Haggai 2:8-9
- Ruler of all
    - 2 Chronicles 20:5-6; Matthew 28:18
- Giver of all
    - 1 Chronicles 29:11-13; Ecclesiastes 5:19

Does it matter that He holds all four roles? What if he were the creator but not the owner? What if he were the creator and owner but not the ruler?

A What are some ways that each of these should affect our view of wealth and possessions?

2 Our Response: Stewardship

Proverbs 9:10,12 — "The fear of the Lord is the beginning of wisdom, and knowledge of the Holy One is understanding…. If you are wise, your wisdom will reward you; if you are a mocker, you alone will suffer."

Many people, when they hear the word "stewardship," think immediately of the three or four week sermon series on giving money to the church. Giving back a portion of what God has granted is a part of stewardship, possibly the most important part, but it is only a part. Stewardship, or our managing of God's resources, actually consists of three parts: sacrificing, saving, and spending. Faithful stewardship is dependent on wisdom. The wisdom needed does not come from CPAs, MBAs, CFPs, or any other TLA (three letter acronym). The wisdom required comes from fearing and knowing the Lord. By trusting in Him and following the commands and advice He has already given us in the Bible, we will gain the wisdom that will reward us.

Sacrificing

Our first duty as stewards is returning part of what has been given to us. God has given us extensive guidelines regarding our giving practices.

Before Christ, offerings, sacrifices, and gifts were made for what three reasons?

- Leviticus 1:2-4; 3:1-2; 5:14-16

- Numbers 18:8-11, 21-24

- Proverbs 22:9; Isaiah 58:9-10

With the atoning and substitutionary sacrifice of Christ, the first reason is no longer valid, but the other two are still required.

- 1 Timothy 5:3-5, 17-18

A Are you setting apart a portion to return to God before you set apart the portion you will keep? What are your reasons for giving?

Saving

Once we have returned a portion to God, we must set aside a portion for future needs.

We have been admonished to save, but why?

- Proverbs 21:20; 6:6-8

- Proverbs 13:11; Luke 19:12-13

A Is it possible for us to save too much? Why?

Spending

After giving and saving, we must decide how to use the remainder of God's provisions.

What should our priorities be when spending money?

- 1 Timothy 5:4, 8

What are some dangers that can come from using money inappropriately?

- Luke 15:11-13

- Luke 16:1-4

- Ezekiel 7:19-20

- Deuteronomy 8:10-14

A How do you determine how to spend what God has provided?

A Why is the order of sacrificing, saving, spending important? What could happen if priorities were different?

3 Family

Proverbs 22:6 — "Train a child in the way he should go, and when he is old he will not depart from it."

For those who are married or engaged or for those who have children, money management is not something that should be handled exclusively by one person. Everyone who is affected by it should be able to offer input and be aware of the family's financial status.

Couples

Roles

Despite what contemporary culture tries to tell us, there are biblical roles for husbands and wives that are still important today. A full study of the roles is beyond the scope of this study and is well-covered by other resources. However, we do need to briefly look at how the roles affect money management.

What is the husband's role in marriage?

- Ephesians 5:23

What are the husband's responsibilities?

- Ephesians 5:25-30

Which is given more attention, the role or the responsibility?

Christ is to be the model for the husband's role. What did He say about His responsibilities?

- Matthew 20:25-28

If a husband is to do what is mentioned above, that places him in the role of the provider as well as the head. That is not to say summarily that women cannot work outside of the home, but providing what is needed for the family is the husband's responsibility.

From the time of creation, what has been one of the wife's primary roles?

- Genesis 2:18-24

What are some of her responsibilities within this role?

- Titus 2:1-5

A How should the husband's and wife's roles be reflected in money management?

Questions to ask

Every step of financial planning should be made by both spouses (or future spouses in the case of engaged couples). A prerequisite for this co-planning is communication. In addition to communicating about everyday financial decisions, couples should communicate about broader financial ideas as well. For example:

- How do each of you view money? Is it security? Power? Luxury?
- How much would you like to be giving? What sort of ministries and charities would you like to support?
- How much would you like to be saving and investing?
- If one of you loses your job, how will you handle it?
- Do both of you tend to pinch pennies or burn money? If you are both "money-burners," how will you control your spending? If both are "penny-pinchers," will giving be difficult?
- For those who are not yet married, what debt is being brought into the marriage? Is there a plan for getting rid of the debt?
- What are your dreams and ideals? What about long-term financial goals?
- What are your retirement ideas? For example, when do you want to retire and what do you want to do afterwards?
- Are there any spending limits that need to be set? (e.g. – What is the largest house you will need? The fanciest car? The fastest computer?)
- Do either of you want to pursue future education?
- What provisions would you like to make for your children? Pay for their first car? College? Wedding? House down payment?
- What would you like to do with your estate?

Children

Just like their parents, children need to know about the three parts of stewardship. For each part, children also need to know that their parents are being faithful stewards as well. Be sure that your children see you sacrificing, saving, and spending wisely and incorporate them into as many family discussions about finances as are appropriate for their age. Early starts are important, and educating children on money management will give them a terrific step up once they are on their own.

A What are some things that your parents taught you that you want to be sure to pass on to your children? What are some things about money that you wish your parents had taught you before you were on your own? Will you teach your own children those things? How?

A For each of the three areas of stewardship below, make a list of things you want them to know before they are on their own. Even if you are not sure what some things might be, this will give you the opportunity to learn about them as you teach your children.

Sacrificing

Just as with adults, the first priority for children should be teaching them about sacrificing. This is also the concept that can be introduced at the earliest age.

A What are some things you can do to teach your children, at various ages, about giving to others?

A If they have an income (e.g.—an allowance or a job), will you hold them accountable to giving? How?

Saving

Even as adults we struggle with wanting instant gratification; that is one of the primary reasons personal debt is so high in our country. Children need to learn the importance of saving money for future needs and wants. By teaching them that they cannot have everything immediately and that they need to save up for some things, you can help reduce their future dependence on debt.

A What are some things you can do to show your children the benefits of saving?

A If they have an income, have you set up savings accounts for them?

Spending

There are plenty of opportunities to teach children about spending (such as every time they ask if they can have something new at the store). It may be easier for them to understand if they see you consistently making wise spending decisions and not buying things that you want, but cannot afford, as well.

A Do you let your children participate in budget discussions?

A If they have an income, have you helped them create their own budget?

4 Ownership and Contentment

Proverbs 15:16 — "Better a little with the fear of the Lord than great wealth with turmoil."

As we saw in the first chapter, God created and has control over all of the resources in the world. We need to realize that He not only has ownership of everything that we do not have, He also has ownership of everything that we do have. This may sound like a rather obvious statement, and to some degree it is, but it is often the obvious facts that we overlook the most often. It is somewhat easier to claim God's ownership of that which we do not have.

Ownership

What God Owns

What is the scope of God's ownership?

- Psalm 24:1-2

- Ezekiel 18:4

What Is Not of God

There are three things that God outright says are not his.

- 1 John 2:15-16

How could these three things be manifested with regard to finances and wealth?

A How does recognizing God's ownership allow us to avoid these things?

A In addition to avoiding the items mentioned above, what are some benefits we gain by recognizing God's ownership?

Once we acknowledge God's ownership over all, we can begin to find contentment with the blessings we have already received. It is very easy to allow ourselves to become consumed with the material wealth around us while ignoring the lavish gifts God has already given us.

Contentment

A What is contentment?

Accept What You Do Not Have

We cannot begin to work with what we do have until we take our focus off of what we do not have. Since all is under God's ownership, He alone decides how resources are to be divided, and it is not necessarily ours to understand.

God's plan is ____ .

- Matthew 6:31-33

God's plan is ____ .

- Romans 12:1-2

God's plan is ____ .

- Isaiah 55:8-9

A How does recognizing God's ownership impact our acceptance of what we do or do not have?

Be Faithful With What You Do Have

Once we can realize God's plan and no longer focus on our worldly desires, then we can begin to make wise use of what we do have.

Be __________________ , even for the little.

- Matthew 14:17-19; Matthew 15:32-36

Be __________________ , even with the little.

- Matthew 25:19-23

Be __________________ , even with little.

- Mark 12:41-44

Consider That None of It Matters

For all of the worrying we do about what we have or do not have, is it really worth it?

Worldly wealth will never be __________________ , but God offers __________________ .

- Ecclesiastes 5:10-12, 18-19

Worldly wealth is not as __________________ as __________________ is.

- Proverbs 3:13-15

Worldly wealth is not __________________ , but __________________ is.

- 1 John 2:17

Worldly wealth is not even __________________ .

- Ecclesiastes 2:10-11

A Are you content? Are there areas in which you find more contentment than others? Are any of the three parts of contentment more difficult for you than any other the others? Which and why?

5 Integrity

Proverbs 19:1 — "Better a poor man whose walk is blameless than a fool whose lips are perverse."

Continuing to build on what we have already covered, the more contentment we have with our current station in life, the more likely we will be to live a life of integrity. Few things will bring dishonest action more quickly than greed or envy. Lapses in integrity can start off rather subtle, but even the smallest lapse is a sin and a stench to God. It doesn't matter how many possessions we have, if they were gathered through sinful means, both our possessions and ourselves are tainted with that sin. Solomon reminds us that even if we suffer financially for living sincerely, we are still better off than those who gained from impropriety.

Integrity Required

What does God require of us?

- Ephesians 4:28-5:1

Specific Effects of Integrity

First, integrity affects out relationship with God.

How does God view integrity, or the lack thereof?

- 1 Chronicles 29:17

- Proverbs 11:1

In biblical times, particularly in the Old Testament before the Roman empire came around, almost all of the references to specific amounts of money (e.g.—talent, mina, shekel, gerah, etc.) are units of weight, not currency. Because of this, balances and weights were an integral part of commerce. When God condemns dishonest scales, He was not talking about one aspect of some business dealings, but rather He was addressing the core of all commerce.

When we attempt to profit from dishonest actions, we are actually attempting to usurp God as owner, ruler, and giver of all.

What is in store for the honest and the dishonest?

- Proverbs 11:3; 20:7; 28:18

- Proverbs 12:13; 20:17; 21:6

Is God concerned with integrity in our hearts or in our actions?

Who is typically credited with the consequences encountered by the righteous? By the wicked?

Second, our integrity affects our relationship with others.

- Proverbs 16:13; 28:23; Matthew 7:1-5

We have already read what God thinks of “dishonest scales.” What would a business associate, client or customer think?

A What are some additional consequences of being dishonest towards another believer? What about towards an unbeliever?

Specific Areas of Integrity

Christians need to take integrity one level higher, though; we need to be living above reproach in every area of our lives. (Easier said than done.) Living above reproach means living with such integrity that there is not even the appearance of impropriety or the opportunity for inappropriateness.

Work

Is work a punishment?

- Genesis 2:15; Ephesians 4:28

What are our responsibilities as employees and employers?

- Deuteronomy 24:14-15; Ephesians 6:9

- Matthew 24:45-51; Colossians 3:22-24

Taxes

Are taxes sinful?

- Matthew 22:17-22

What if we object to the way the taxes are used or if they are blatantly used for sinful purposes?

- Romans 13:1-7; Matthew 17:24-27

While we should certainly pay all of the taxes due to the government, we are also bound, as stewards of God's resources, not to be wasteful by overpaying our taxes. There are legal and ethical ways to reduce our tax burden and we are obliged to use them to free more resources for God's work in the Church.

Giving

How does God consider those who do not give adequately?

- Malachi 3:8-9; Acts 4:32-5:10

In what way does God require integrity in our offerings?

- Proverbs 21:3; Deuteronomy 23:18

A What areas of your life present the occasion for lapses in integrity? In which of these areas do you actually struggle?

6 Giving

Proverbs 3:9 — "Honor the Lord with your wealth, with the first fruits of all your crops."

Giving is what most people think of when they hear the word "stewardship" spoken in church. Many will pick "Stewardship Sundays" to be the weeks they take their vacation, and that is a terrible shame. Honestly giving back to God through the ministries He has established on earth can be, and should be, a tremendous joy for all believers. Few things compare to the thrill of seeing how God takes a gracious gift and multiplies its use while miraculously providing for all of our needs.

Tithing or Giving

You may have noticed that this chapter is called "Giving" instead of "Tithing." Why? Tithing is part of the Old Testament laws. It is difficult to fully discern the original nature and implementation of the tithe, and much more difficult to correctly apply it to our lives today. Some studies report that the actual "tithe" may have ended up being in excess of 20% of the person's income. Other references indicate some Israelites gave 10% of their possessions, not their income. The words "tithe," "tithes," and "tenth" (when used as a reference to the tithe) are used 38 times in the Old Testament (NIV). Only the word "tenth" is used in the New Testament, never "tithe" or "tithes" despite over 70 references to money and wealth. When counting the usage of "tenth" as a reference to the tithe offering in the New Testament, it is used only 10 times, and each time it refers to the past actions of Jews.

Just as Christ brought us out from under law into grace, the standard for our giving has moved from the law of the tithe to gracious (or sacrificial) giving.

What are some areas we should consider in our giving?

- 1Timothy 5:17-18

- 2 Corinthians 8:1-5

- Acts 11:27-30

Which of the above, if any, should be the priority?

You may have also noticed that this chapter is in the "Attitude" section rather than the "Action" section, even though the act of giving is very important. Why? In 1 Corinthians 13:3, Paul writes, "If I give all I possess to the poor and surrender my body to the flames, but have not love, I gain nothing." The attitude of the giver is of extreme importance.

Instructions for Giving

What does God tell us about how we should give?

- Matthew 6:1-4
- 1 Corinthians 16:1-2
- 2 Corinthians 8:10-12
- 2 Corinthians 9:6-8

Why are each of these important aspects of giving?

A Do your giving habits meet each of these directions?

Encouragement for Giving

What awaits those who give?

- Proverbs 11:24-25, 22:9; Matthew 6:19-21

Motives for Giving

There are three primary motivations for giving:

1. Giving out of prosperity
2. Giving out of obedience
3. Giving out of love

What is the reward of those who give out of their prosperity?

- Matthew 6:1-2

What does it mean to "give out of prosperity"?

Some people will give because they feel as though they have to. Others will give because they want the rewards that come from it. Either way, they are giving only because they are trying to follow the letter of the law (and hoping that God will do likewise).

What is said about those who go through the action without the proper attitude?

- 1 Corinthians 13:3; 2 Corinthians 9:6-7

God also denounces those who would seek to use His law for personal gain.

- Deuteronomy 15:1-2, 9

A What is your motivation for giving?

A How do you decide how to give?

7 Debt

Proverbs 22:7 — "The rich rule over the poor, and the borrower is servant to the lender."

"**Debt**, *n*. An ingenious substitute for the chain and whip of the slave driver." – Ambrose Bierce

With Americans encountering hundreds of advertisements and mailers for credit cards and loan companies each year, debt has become a way of life. Consider the following facts:

- The average American spends $1.20 for every $1.00 earned (*Resourceful Living Series* by Larry Burkett, chairman of Crown Financial Ministries).
- 70% of credit card holders carry an average of $6,000 to $7,000 in unpaid balances (Ibid.).
- Personal bankruptcies have climbed steadily for the past several years, from about 325,000 in 1981 to 1,165,523 in 1996 (http://moneycentral.msn.com/articles/smartbuy/debt/4955.asp).
- In 1999, "Americans charged up more than $400 billion on their [credit] cards, according RAM Research, a credit-card tracker. That'd be just fine, if it weren't for the interest they paid for the privilege. That $50 billion in finance charges could have bought the inventory of 5,000 Jag dealerships. Or a 2,000-season contract with Michael Jordan. Or Nike, the company, with $34 billion to spare" (http://www.fool.com/credit/credit.htm).
- In March 2002, the average amount of personal debt in America, not including real estate, was 20% of disposable income. On average, a family making $35,000 a year was carrying about $6,000 in debt (*BusinessWeek*, August 12, 2002, p. 33).

Dangers of Debt

What should we understand about debt before taking on debt? Is debt in general condemned?

- Psalm 37:21; Proverbs 3:27-28; Proverbs 22:7

In Proverbs 22:7, the word translated as "servant" in most English Bibles is the Hebrew word *'Evedh,* which is translated elsewhere as *laborer*, *slave*, *man in bonds*, *subject*, and *worshiper*.

Are all forms of debt permissible? When should we absolutely not enter into debt?

- Proverbs 6:1-5; 11:15; 17:17-18

A What are some practical dangers of debt? What are some inappropriate attitudes and actions that are encouraged by debt?

Bad Debt vs. ~~Good~~ Not-as-Bad Debt

Although not directly addressed in the Bible, there are some forms of debt that, financially, are not as dangerous as others.

For each of these, think of examples and situations that fit each category and what dangers and problems the alternatives would create.

Debts for things which ____

Debts for things which ____

Debts for things which ____

Eliminating Debt—Putting It Into Action

To work towards eliminating debt, you need to develop a payback schedule for each debt and determine how much of your budget will need to go towards paying off debts. For each loan, mortgage, credit card with a balance, and any other debt, make a copy of the repayment worksheet on page 26 or the "Debt Schedule" page of the financial planning worksheets. If you are doing the schedule by hand, it will require a little math and a calculator. Some loans (such as mortgages and car loans) are based around existing repayment schedules, so you can create schedules based on the monthly payments and the length of the loan.

Creating a repayment schedule using the spreadsheet

1. Fill in the name of the creditor, the annual interest rate, the current balance, and the amount you will pay each month in the appropriate yellow boxes. The spreadsheet will fill in everything else. When the principal balance column reaches zero, the debt is paid off.
2. Look in the first two columns to see how long it will take.
3. Look in the last column to see how much interest you spent on this loan.
4. To create your mortgage schedule, use the spreadsheet called "Mortgage" rather than the "Debt Schedule" page.

Creating a repayment schedule by hand

1. Write in the name of the creditor, the current balance (how much you still have to pay off), and the annual interest rate at the top of the page.
2. Find the monthly interest rate by dividing the annual interest rate by 12. For example, if the annual interest rate is 18%, then the monthly interest rate is 18% divided by 12, or 1.5%. Write the monthly interest rate in the proper place.
3. On the first line, write in the date the payment is due and the amount of the payment (which should be at least the minimum required payment).
4. Find the amount going to interest by multiplying the current balance by the monthly interest rate. For example, if the current balance is $5,000 and the monthly interest rate is 1.5%, then the amount going to interest is 5,000 times .015, or $75. Write the amount going to interest in the box next to the payment amount.
5. Next, find how much is going towards the principal, or balance, of the debt. This is a bit easier: just subtract the amount going to interest from the payment amount. To continue our example, if our payment amount is $200 and the amount going to interest is $75, then the amount going towards principal is 200 minus 75, or $125.
6. Finally, find the new balance by subtracting the amount going towards principal from the previous balance. So, if the balance was $5,000 and we have just put $125 towards the principal, then the new balance is 5,000 minus 125, or $4,875.
7. Repeat this process all the way down, using each row's balance to calculate the amount going to interest on the next row, until the balance reaches zero.

Frequently asked questions

Q. Should I only pay the minimum payment?

A. Not if you can pay more. Prepaying debts, especially credit cards, is one of the best ways to get guaranteed returns on your money because any additional money you send goes directly to the principal, or current balance. If you have a credit card that has a 20% annual interest rate, then any additional money you send in will essentially be earning 20% interest, guaranteed. The best money managers on Wall Street cannot guarantee returns even close to that. However, check with the issuing bank on loans before you prepay, because some loans do have a prepayment penalty. If you are allowed to prepay, then on a 30-year loan for $75,000 at 8% interest, prepaying even an extra $50 per month will save you $36,472 in interest over the life of the loan and you will own the home about 7½ years sooner. (Note: The savings in interest does not account for tax savings that come from deducting the mortgage interest on income taxes.)

Q. I can't afford to prepay all of my loans, but I can prepay one or two of them. Which ones should I choose?

A. There are two schools of thought here, and you can pick which one you like.

Option 1: Prepay the debts that have the highest interest rates first. This option is financially preferable because you will be generating a higher return on your money. Look through your repayment schedules and find the ones that have the highest interest rates and put additional money towards those.

Option 2: Prepay the debts that will go away first. This option may be psychologically preferable because you can more quickly see your debts going away. Look at your repayment schedules and find the one that you are scheduled to pay off first and put any extra money towards that one.

Regardless of the option you choose, once a debt is paid off, add all the money that is no longer being used to pay that debt to the next one on your list, and so on.

8 Saving and Investing

Proverbs 13:11 — "Dishonest money dwindles away, but he who gathers money little by little makes it grow."

Purpose of Investing

As we saw in Chapter 2, what are two purposes for saving and investing?

- Proverbs 21:20; Proverbs 6:6-8

- Luke 19:12-13, 20-23

What would be some inappropriate reasons to save?

A What future needs might we have?

A How does saving now allow us to give more later?

How do we reconcile God's promises of provision with God's commands to save?

Short-term

Your short-term investments are funds that are kept fairly liquid (that is, they can be accessed quickly and easily) and are not volatile (that is, there is little or no risk that the amount will decrease due to variations in the economy). The time frame for short-term investments depends on each situation, but it is generally at least three years.

Emergency Fund

Your emergency fund should be used to cover large, unplanned expenses, such as major repairs, medical bills, and job loss.

Developing your emergency fund should be your first savings and investment priority. Suggestions for the amount you should save in the fund range from three to nine months' income, depending on your income and how much of your monthly income you need to live and pay bills. Initially, four to six times your monthly expenses (not necessarily your monthly income) should provide a good emergency fund; of course, this is very dependent on your own situation. This money should be kept completely liquid, so avoid putting your emergency fund in things like stocks (which can lose value) or CDs (which have time restraints on withdrawals).

Savings

Short-term savings will be the source of large, planned expenses, such as vacations, income tax, and large purchases.

Because your savings is primarily for planned expenses, this money can be put in CDs, if the CD expires before you will need the money. Once again, you should not invest your short-term savings in anything that could lose its value. The amount of short-term savings depends entirely on your planned expenses over the next couple of years and how quickly you can restore your savings after an expense.

Practice

At a minimum, set up a savings account at a local bank that earns some interest and keep your money there. Unfortunately, most savings accounts earn very little interest (though some interest is better than none). Alternatively, use a money market account as your savings account. Almost all brokerage firms keep non-invested funds in one of several money market accounts that earn substantially more interest than a standard savings account. Look for an account that has free check writing, no annual/monthly fee, a minimum opening balance you can meet, and is FDIC insured. Some may require you to pay a monthly service fee if you do not maintain a minimum monthly balance. For those that do, consider if you will usually be able to maintain the minimum balance. You may sacrifice some convenience to get the higher interest rates of a money market account. For example, you may not have free access to ATMs or be able to switch money from checking to savings, or vice-versa, as easily as if you had a savings account at your local bank.

If your company offers payroll direct deposit, see if they can split your payroll into two deposits so that one can go directly into your savings account. If they cannot do that, most banks and brokerage firms will be able to schedule automatic transfers from your checking account into your savings or money market account.

A Find a time with your family to figure out how much of an emergency fund you need and make a list of short-term savings goals and needs.

Long-term

Your long-term investments should be for large expenses at least three to five years in the future, depending on your investments. These would include house and automobile purchases, education costs, and retirement.

There are myriad vehicles for long-term investments, including commodities, stocks, mutual funds, real estate, bonds, money market funds, CDs, and treasury bills. Some tend to be riskier than others, but higher risk generally (though not always) provides the opportunity for higher returns. For example, a five-year CD has very little risk, but only offers about 3.5% interest (as of early November 2002). Stocks have substantial risk and returns can fluctuate dramatically, but over the past 75 years the stock market has averaged an annualized return of about 11%. Exactly which vehicle you choose depends greatly on how comfortable you feel with each one. Determining what is best for you falls outside the scope of this study, but there are many resources available to help you find out more.

Major Expenses (including education)

Even investing a little amount over time can be very beneficial. If you invest $50 per month, at the end of 30 years, you would have invested $18,000. However, at 10% average annualized return, that $18,000 would have become more than $113,000. At a more conservative 5% average annualized return, that $18,000 would have become more than $41,000. It is important to note that you cannot guarantee certain annualized returns, but this illustration shows the "magic" of compounding interest. With compounding interest, the interest you earn starts earning interest itself; then that interest begins to earn interest, and so on.

It is also important to begin early. Consider John, who begins investing when he is 25 and invests $50 a month until he is 34 (10 years), at which time he just lets it sit, and it earns 10% average annualized return. When he is 65, the $6,000 he invested is worth more than $125,000. Now consider Fred, who begins when he is 34 and invests $50 a month until he is 65 (32 years) and gets the same 10% average annualized return. After investing a total of $19,200, it would be worth just over $87,000. It is important to note that this illustration does not take taxes into account, but you can again see how much more compounding interest can do when it is given a little more time.

In addition to the above mentioned investment vehicles, there are education-specific investment options such as 529 plans. Whether you have decided to assist in your children's education costs or are planning to back to school yourself, it will be worthwhile to investigate the options. The College Board estimates that the total cost of a four-year public college in 2010 will be more than 34% higher than it is today ($13,410 per year versus $10,013 per year).

Retirement

Yes, it's true, retirement is not mentioned anywhere in the Bible. Does that mean it is unbiblical to retire? I do not believe so, though we should make sure to be wise stewards of all of our time and resources, retired or not. Retirement should not be a time of sitting on the couch or in a hammock day in and day out. Retirement should be a time when you are free of financial obligations and can spend your time continuing to serve God.

There are several vehicles available specifically for retirement investments, including 401(k), 403(b), traditional Individual Retirement Account (IRA), Roth IRA, annuities, and pension plans. As with investment vehicles, determining which one is best for you is beyond the scope of this study. Generally, plan on needing about 75% of your pre-retirement income when planning your retirement savings.

If your company offers a 401(k) (or a 403(b) for those who work for a non-profit) with matching funds, that is one of the best options available. These accounts allow you the have money taken out of your paycheck before taxes (reducing the amount of income reported and, therefore, your tax burden) and allow the money to grow in a variety of investments tax-deferred. This means that you will not be taxed on any gains on your investments until you withdraw the money, at which time it is taxed as income. Not all plans are created equal, so be sure to get details from your benefits department.

To show how the matching funds makes a difference, assume our friend John makes $24,000 a year and his company has a 401(k) plan that allows him to set aside up to 10% of his annual gross and the company matches 50% (or 50 cents on the dollar). Not a man to pass on free money and recognizing the importance of retirement planning, John sets aside the full 10%, or $200 per month. The company matches this with another $100, so John now has $300 earning interest in some investment. However, if John had taken that money instead of putting it into his 401(k), he would be left with $160-$170 (he would be in the 15% tax bracket and 0-5% for state taxes). So he could have $170 to play with or $300 invested. That $300 will be taxed when John is old enough to take it out, but by postponing, or deferring, the taxes, he increases the amount earning interest and the amount of compounded interest he will receive in the interim.

Although they do not have the matching funds, IRAs also offer significant tax savings. Traditional IRAs allow you deduct the money you set aside from your income tax (up to a limit determined by your income and your age). Investments then grow tax-deferred, like 401(k)s, and are taxed when you withdraw the money. The Roth IRA differs in that you cannot deduct the money you put into a Roth IRA; instead, your investments grow tax-free and withdrawals are not taxed at all.

With all retirement plans, there are minimum age requirements before money can be withdrawn without penalty. Some plans allow for some degree of early withdrawal or loans under special circumstances. Be sure you fully understand the plan before investing in it.

Life and Disability Insurance

Although not an investment, insurance does provide a way to meet future needs should something happen to require it. Disability insurance should be considered by anyone who is dependent on their income or has others dependent on their income. Disability insurance will provide a percentage of your income in case you are unable to work.

Life insurance needs depend on the needs of your dependents. Those with no dependents need little or no life insurance. Those with a family will need to figure out how much it would take to continue to provide for the family. This should not only include lost income, but also all responsibilities the family member has. For example, if the husband works full time out of the home and the wife works full time in the home caring for the family, then the husband's life insurance would be based on his earnings and what would be required to make sure the family would continue to be provided for. The wife's life insurance would be based on what would be required to handle the responsibilities she had been performing (such as child care).

There are many plans offered by many companies with many lines of small print, so be sure to read the information carefully and seek the advice of others if needed.

Practice

Use the "Investment" worksheet in the Financial Worksheets to look at the results of investing different amounts at different interest rates. Use it to help develop an investment plan for your future. Although you cannot guarantee any particular returns, using the "Investment" spreadsheet can help you see how much you will need to set aside each month and what kind of a return you need to meet your goals. This, in turn, can aid in your decision as to which investment vehicle is best for you. Keep in mind that the spreadsheet does not account for income or capital gains taxes, so the amount available to spend could be between 10 and 39 percent less, depending on your tax bracket and the investment.

One other thing you will note in these examples is that they involve investing over a span of many years. Schemes promising fast and easy riches typically never gain you anything aside from growing greed and discontentment. Instead, as Proverbs 13:11 says, "…he who gathers money little by little makes it grow."

A With your family, list the long-term needs you will have and work on a savings plan that will enable you to meet these needs.

9 Budgeting

Proverbs 13:4 — "The sluggard craves and gets nothing, but the desires of the diligent are fully satisfied."

Budgeting allows us to see exactly how much we have and where it needs to go. Maintaining a budget also provides us with accountability because we can look back and see exactly where we succeeded and where we need more work. Believe it or not, it can also be very liberating.

Starting Your Budget

Look at what you have—determine your net worth

Before beginning a budget, it helps to see exactly where you stand financially. You might be pleasantly surprised and find that you have more, financially, than you thought you did. On the other hand, you might be convicted when you see where your money has gone. Either result should spur you on to develop a financial plan to enable you to administer what you have and to escape debt.

Your net worth is simply the value of your assets minus the value of your liabilities. Your assets are basically anything you have that is of value. Your liabilities are basically anything that you owe to someone else. Examples of both can be seen in the net worth chart on page 35 and on the "Net Worth" page of the financial planning spreadsheets.

To calculate your net worth, determine the fair market value (that is, the current value) for each item on the list. It is okay to take a guess on some things, such as the current value of your furniture, as long as the guess is reasonable. To find an estimate for the value of a car, check your local used car advertisements to find a similar model, or go to http://www.kbb.com to get the "Blue Book" value. For items for which you have a current mortgage or loan, use the item's full market value, not just your equity in the item.

After you have added up your assets, you need to add up your liabilities. Here is where you will enter the current principal of any outstanding loans as well as any other debts. After adding up all of your liabilities, subtract this amount from the total of all of your assets. This number is your net worth, and it should help you get a better overall idea of your financial health.

Look at what you spend—design a budget

Now that you have a grasp of your overall financial health and how much needs to be going towards debts and savings, you can start working on the specifics of your budget. Using the chart on page 36 or the "Budget" page in the financial planning worksheets, fill in your income information. The "net income" is equal to your gross income plus other income minus all taxes

and withholdings. Next, enter in how much you will be giving each month; include all charitable giving in this entry. Subtract your amount of giving from your net income to get your net spendable. Now fill in how much you need in each category, keeping in mind the figures from your debt repayment schedules. Mortgage payments should be included in the "Housing" category and auto payments should be included in the "Auto" category. All other debt repayments should go in the "Debts" category. The "Husband's special" and "Wife's special" categories allow each spouse to have some "fun" money for personal use and to buy gifts for the other spouse.

Below is a general guideline of what percent of your net spendable should go into each category. These are not rules, and each person's situation warrants slightly different percentages, but this offers a starting point to help get you past "budgeter's block." As you start your budget using the suggestions below, you may find that the amounts in some categories are obviously much higher or much lower than are appropriate for your situation and lifestyle. Adjust these amounts as necessary until you arrive at your final budget. Be sure to keep in mind your savings and debt reduction goals from the previous two chapters.

	Starting Point	Behavior as income increases*
Housing	40%	Decrease
Food	12%	Decrease slightly
Auto	15%	Decrease slightly
Life Insurance	2%	Steady
Medical	7%	Decrease slightly
Savings	4%	Steady[1]
Investments	4%	Increase
Entertainment	2%	Increase slightly
Clothing	3%	Increase slightly
Husband	1%	Increase slightly
Wife	1%	Increase slightly
Children	6%	Decrease slightly[2]
Debts	0%	Increase[3]
Miscellaneous	5%	Increase slightly

[*] These percentages will not be the same for different income levels. The percentages are based on a net spendable of $20,000 per year. As income increase, some percentages should shift upward and others downward.

[1] This category is only until you have your emergency fund and short-term savings fully funded. Once they are fully funded, move this money into the Investments category. If your savings are very low, move money from the Investments category into this one.

[2] If you do not have children, divide this percent into the other categories.

[3] If you have debts to pay for, you will need to deduct from other categories to fund this one.

Tracking Your Budget

A budget is only useful if you can hold yourself accountable to it. To help stay disciplined, you need to be able to see how you are actually doing. The traditional method for this is the envelope system. With the envelope system, each budget item has its own envelope. Each month, you cash your paycheck and put the budgeted amount into each envelope, and each time you have an expense, you pay for it out of the money in that budget item's envelope. If there isn't any money left in an envelope, then you either have to re-work your budget to allocate more to that item or wait until the next payday comes around before spending any more on that category. This may be a viable solution for those who find it difficult to stay within a budget, but it has several major shortcomings. First, it requires that you keep a substantial amount of cash in your home, which is not very safe. Second, that money is not able to earn any interest while it is sitting in the envelope. Third, those with the discipline to use credit cards or debit cards to their financial benefit are unable to do so. Two alternatives, which can be used independently or in combination, are the "virtual" envelope method and using personal finance software.

To use the "virtual" envelope method, make as many copies of the chart on page 39 as you have budget categories (or you can use the "Category Pages" worksheets). These pages work just like a checkbook ledger. Print the name of the budget category and the monthly budgeted amount at the top of the sheet for your reference. Each time you spend money, make a note on the appropriate page and deduct the amount from the current balance. Each time you get paid, "deposit" the appropriate amount into each category. Using the "virtual" envelopes allows you to safely keep your money in the bank earning interest, and it gives you the flexibility to use cash, check, or, if you have the discipline, credit cards. If you have money left over at the end of the month, you can either add just enough to bring the balance up to the monthly budget and put any excess into savings, or you can "deposit" the full amount into the category if there is a good chance of increased expenses sometime in the future or if expenses are irregular.

To use personal finance software, such as Intuit's Quicken, set up accounts that reflect all checking and savings accounts and categories that reflect your budget and use the software to balance your accounts. Each time you make a transaction, the software lets you assign the transaction to one or more categories. Then you can have it generate reports to show you how much you have spent in each category.

For those who are new to keeping a budget, it may be best to utilize the first method primarily so that you can see how your budget is doing every time you spend money. The software primarily lets you see how you did in retrospect, which is too late if you have gone considerably over your budget in an area. Once you achieve a stable budget and are disciplined in staying within it, you can start relying more on the software reporting and less on the envelope method, if you want.

Regardless of which method you choose, every month be sure to compare your actual spending to your budgeted amount. If you are using the "virtual" envelope method, you can easily get an overview by seeing which categories still have money. If you are using the finance software, or if you want a little more information on how you are doing, determine how much you spent each month in each category (and subcategory if applicable). Then, using the "Budget—Compare" page in the financial planning worksheets or the chart on page 40, enter how much was budgeted in each category and how much was actually spent. Find the amount different by subtracting the actual from the budgeted. Find the percent different by dividing the amount different by the budgeted amount. For example, if you budgeted $150 for groceries and spent $125, the amount different would be 150 minus 125, or $25. The percent different would be 25 divided by 150, which is .17, or 17%. However, if you spent $200 instead, the amount different would be –$50 and the percent different would be –.33, or –33%. If you end up with negatives, that means you spent more than you had budgeted for that month.

Adjusting Your Budget and Spending

As you track your budget, if you find that a category is consistently running out of money, you know you need to focus on either adjusting your spending or adjusting your budget in that category. Because spending is not always regular, it may take several months of tracking and

adjusting to get your budget stable. Be sure to look at several months' worth of spending because you may be over budget one month and then significantly under the next. Being faithful to a budget is not so strict that you have to spend the exact amount budgeted each month. Rather it means that over a span of several months, you have spent, at most, what you had budgeted, and you always had money available to cover any expenses.

If you make changes to your budget, keep a log of what changes you made and when. If you make some changes that end up disrupting other areas of the budget more than you expected, you will need a record of what you did so you can make the appropriate corrections.

You will, most likely, also need to adjust your spending to meet your budget if you are not used to living with a budget. Here are just a few basic examples of how to decrease your spending in some areas.

Housing

- Set your thermostat a little cooler in the winter and a little warmer in the summer.
- Make sure you have adequate weather stripping and insulation.
- Try the "dial-around" phone numbers to get long distance phone calls for 5¢ per minute (or maybe less). Be sure to read to fine print for any monthly fees or per-call minimums.

Food

- Try the generic brands, unless you can get a better deal on sale somewhere.
- Subscribe to the Sunday paper and clip the coupons. You will probably more than make up the cost of the paper.
- Some grocery stores double coupons. Get the weekly sale paper and look for things on sale that you have coupons for. If something is nonperishable or freezable, get it even if you do not need it right away (as long as you'll need it eventually).
- Check out bakery thrift stores. If you are not going to use the bread that day, freeze it.

Auto

- Shop around for auto insurance every couple of years to make sure you are getting the most bang for your buck. Be careful not to buy more coverage than you need.
- Perform all scheduled maintenance, but do not do more than is needed. Despite what the "quick lube" shops advertise, many cars can go longer than 3,000 miles between oil changes. Check your vehicle's manual to see what it recommends.
- Be careful when driving. Excessive acceleration and speeding will decrease your miles per gallon and a speeding ticket can result in insurance hikes that can quickly bust a budget.

Life Insurance

- Shop around for prices and see if your company offers group pricing. Be sure to research the different types of insurance and coverage options so you only buy what you need.

Entertainment

- Limit eating out. Make a large amount of food at a time and freeze the leftovers for times when you need to make something quickly.
- If you want to see a movie in the theater, wait until it is at the dollar theater. If you want to rent a video, wait until it is no longer a new release.