Financial Literacy Basics

Things every young person should know…

- *Murray Moerman*

1. Tithe

- The minimum starting point – never compromise or postpone.
- Plan on moving to a “graduated tithe” (10% on everything; more if/as income grows).
- Balance church & mission.
- Balance evangelism & relief and development.
- Balance regions of the world, give particularly to 10/40 window.

2. No Consumer Debt - ever

- Consumer debt will make and keep you poor (debt + interest), waste God’s resources, destroy your self-discipline.
- Debit cards, ok; credit cards only if full payment is made each month & the card gives you something (e.g. air miles)
- If you can’t pay for it up-front, don’t buy it till you can. Set goals & savings plans.
- (Possible exceptions: education, first home)

Taxes

- Taxes are your greatest expense
- 55% in Canada: there provincial and federal taxes on income, spending taxes, taxes on the return on your investments, and taxes on what you leave when you die.
- Pay no unnecessary taxes.
- Keep up with current tax law, or find people who do and follow their advice.

Brief history of taxes

- Income tax became permanent in the USA in 1913. (It had taken 50 years to sell the public on the idea of income tax).
- Middle & lower class voted for it because they were told taxes were created to punish the rich. Then the government levied taxes on all.
- The more money government taxes from citizens, the more it's appetite for taxes grows.

Instability

- Don’t count on government or company pensions or medical plans to take care of you. Promises are being made which cannot be kept.
- Plan for your own old-age, disability, economic instability, some health-care etc.

Pensions

- 50% of workforce has no pension plan.
- Of the remaining 50% - 75-80% have ineffective plans.

Life Insurance

- Generally not a good investment
- Buy “term” insurance while your family is young (to enable your spouse to stay home with your children if something happens to you).

The Power of Compound Interest:

Example (interest rates of course vary in cycles and with investment strategy):

- Save $100/month from age 18 – 26 (and never add a penny until 65) at 10% compound interest: you will retire with $1M
- If you wait to begin saving $100/month till you are age 26 and do so until age 65: you will not have reached $1M.

3. Start Early

- Begin to save/invest early.
- Start small, be consistent, add as you are able. It’s not how much you make, but what you save/invest that makes the difference.
- Don’t wait till you have extra money to save – it will never happen.
- Pay “yourself” <u>before</u> you pay your “creditors” (i.e. expenses), but <u>after</u> your tithe.

Set Long-Term Goals First

- Let your long-term goals determine your short and medium term goals.
- This is true of spiritual, marriage, vocational, personal growth and financial goals.
- Thinking long-term takes time and effort and will stretch you. You will never regret the commitment.
- Long-term goals will be refined with maturity but maturity will not come without long-term goals (It’s bests to write them and review at least annually).

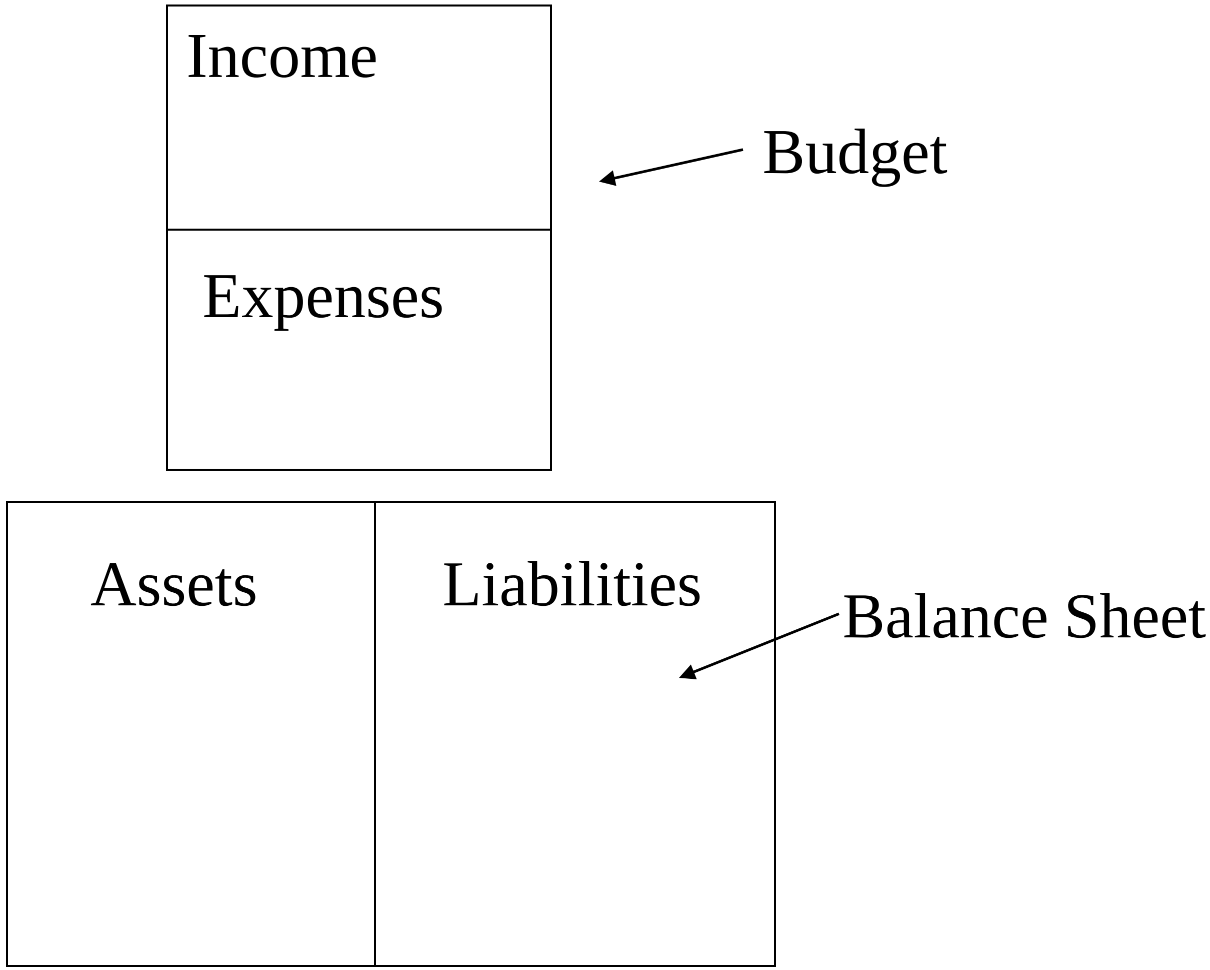
Emotions

- In steering your course, don't let your emotions push you around.
- Be an observer of, not a reactor to, your emotions.
- Rather:
  - Give yourself time to think before responding to your emotions.
  - Allow your emotions to force you to think about what you wouldn't otherwise think about. (But <u>do</u> think about the causes & meaning of emotions, don't simply react to them).

Definitions:

- **Income:** (can’t be controlled, but be creative)
- **Expenses:** (can be controlled but requires discipline) taxes, shelter, transportation, food, fun, clothes.
- **Liabilities:** things that own you & take money out of your pocket (e.g. debt payments, monthly expenses)
- **Assets:** investments which produce income – mutual funds, bonds etc.
- **Budget:** your financial plan
- **Balance Sheet:** how your plan worked

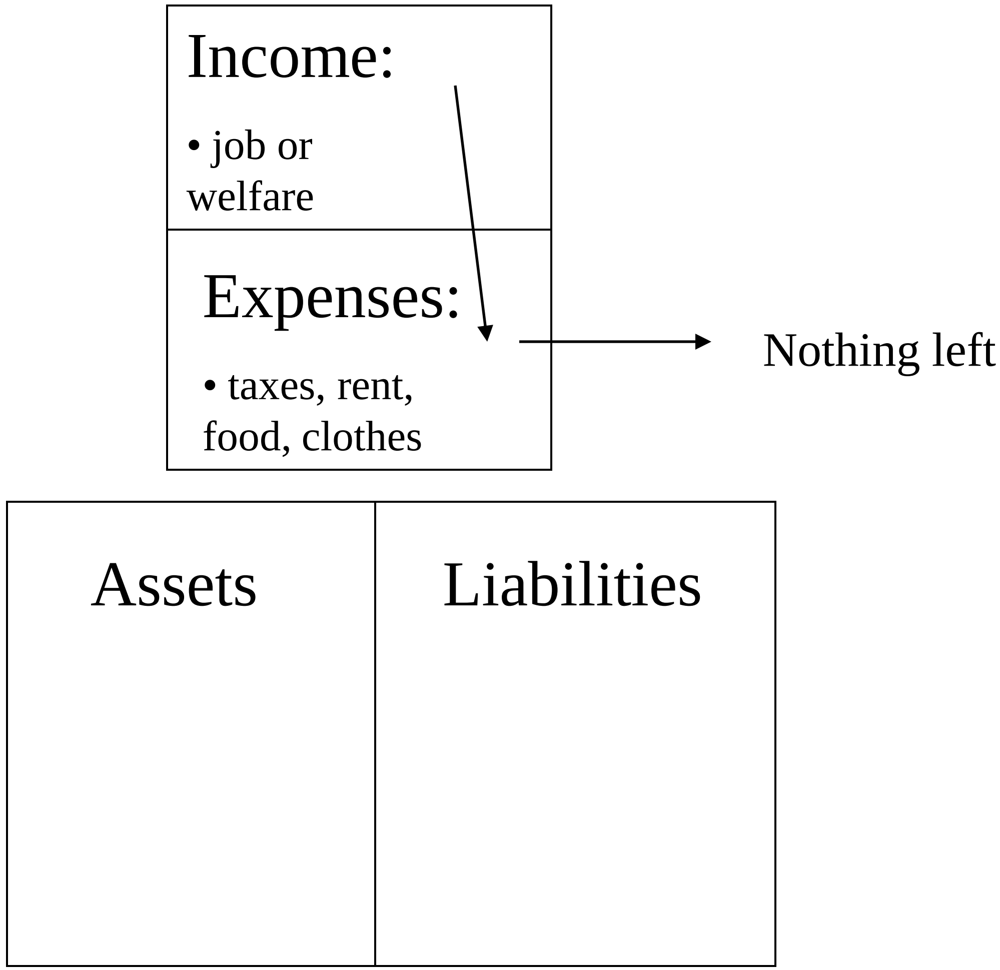
Financial Framework:



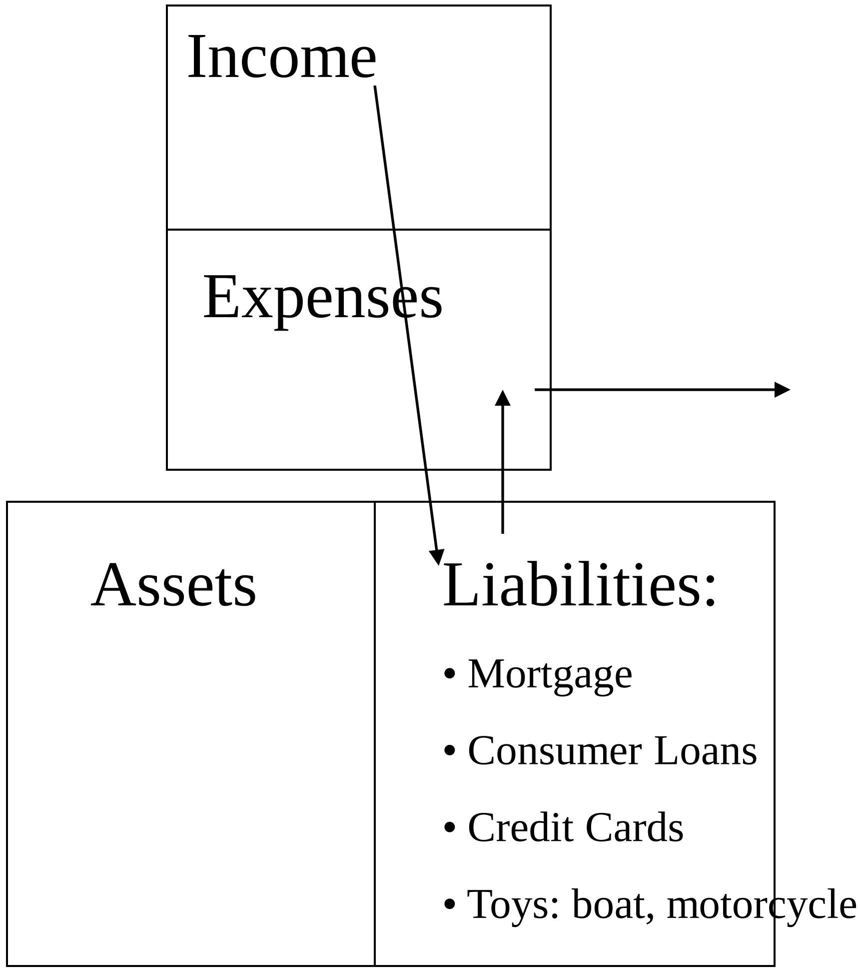
Remember…

- Poor people have only expenses
- Middle-class people acquire liabilities (but think they are assets)
- Well-to-do people acquire assets
- You need to understand your situation to direct it.
- You need a plan/goal to reach it.

Cash-Flow: Poor



Cash-Flow: Middle-class



Cash-Flow: Well-to-do

Income:

- Interest, dividends
- Rental income, royalties

Expenses:

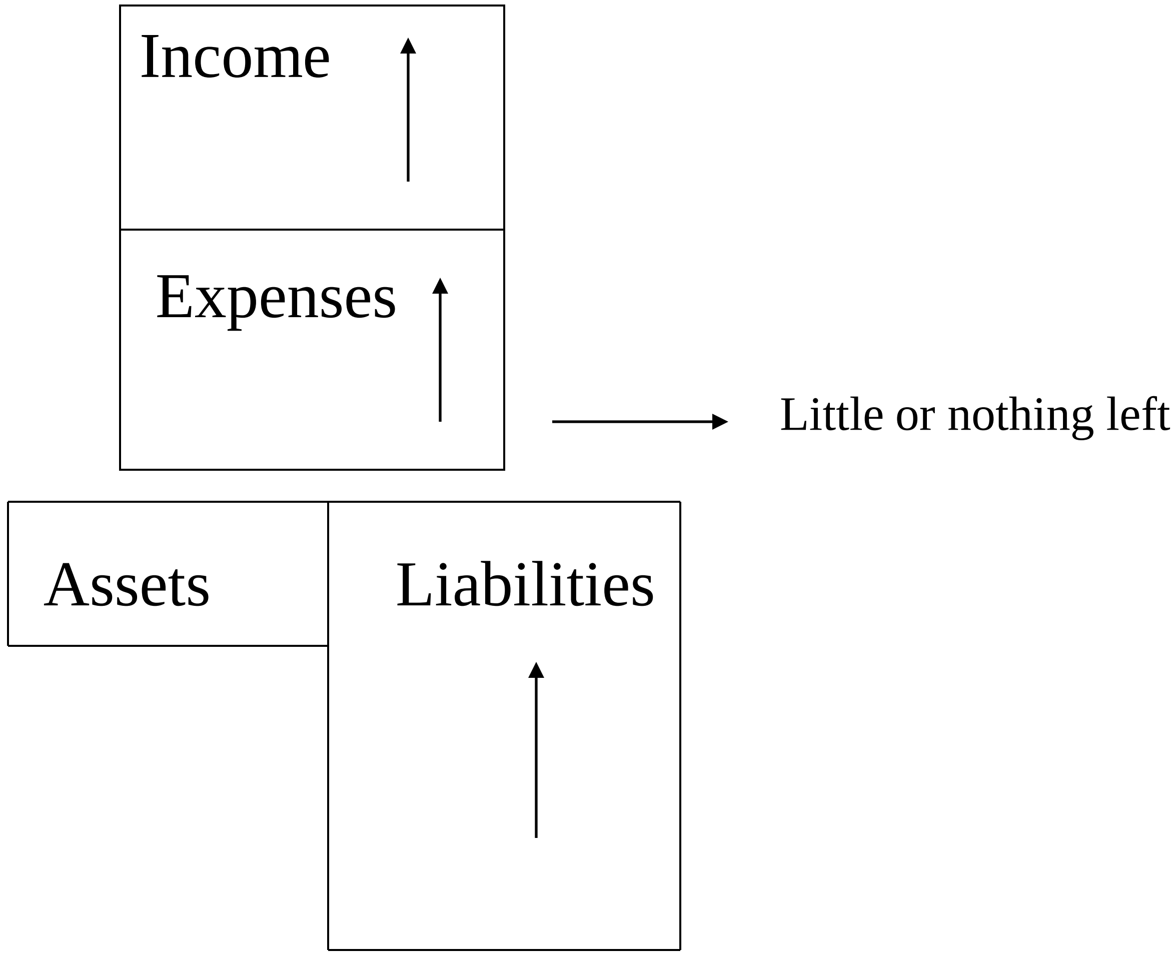
Include the purchase of assets

Assets:

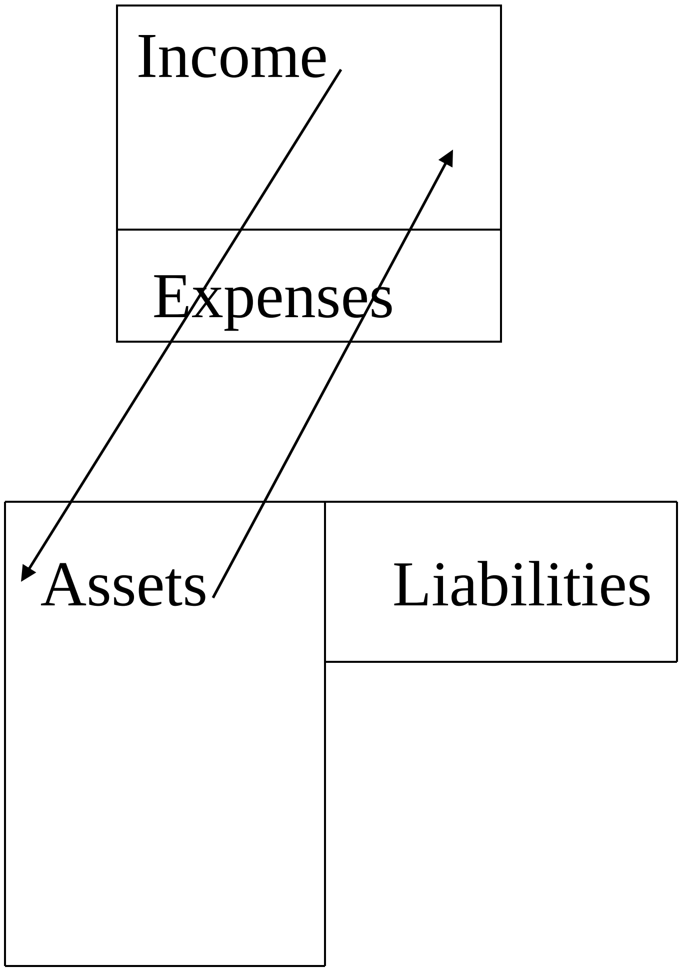
- Stocks
- Bonds
- Real Estate
- Intellectual Property

Liabilities

Pattern of most people: 90%



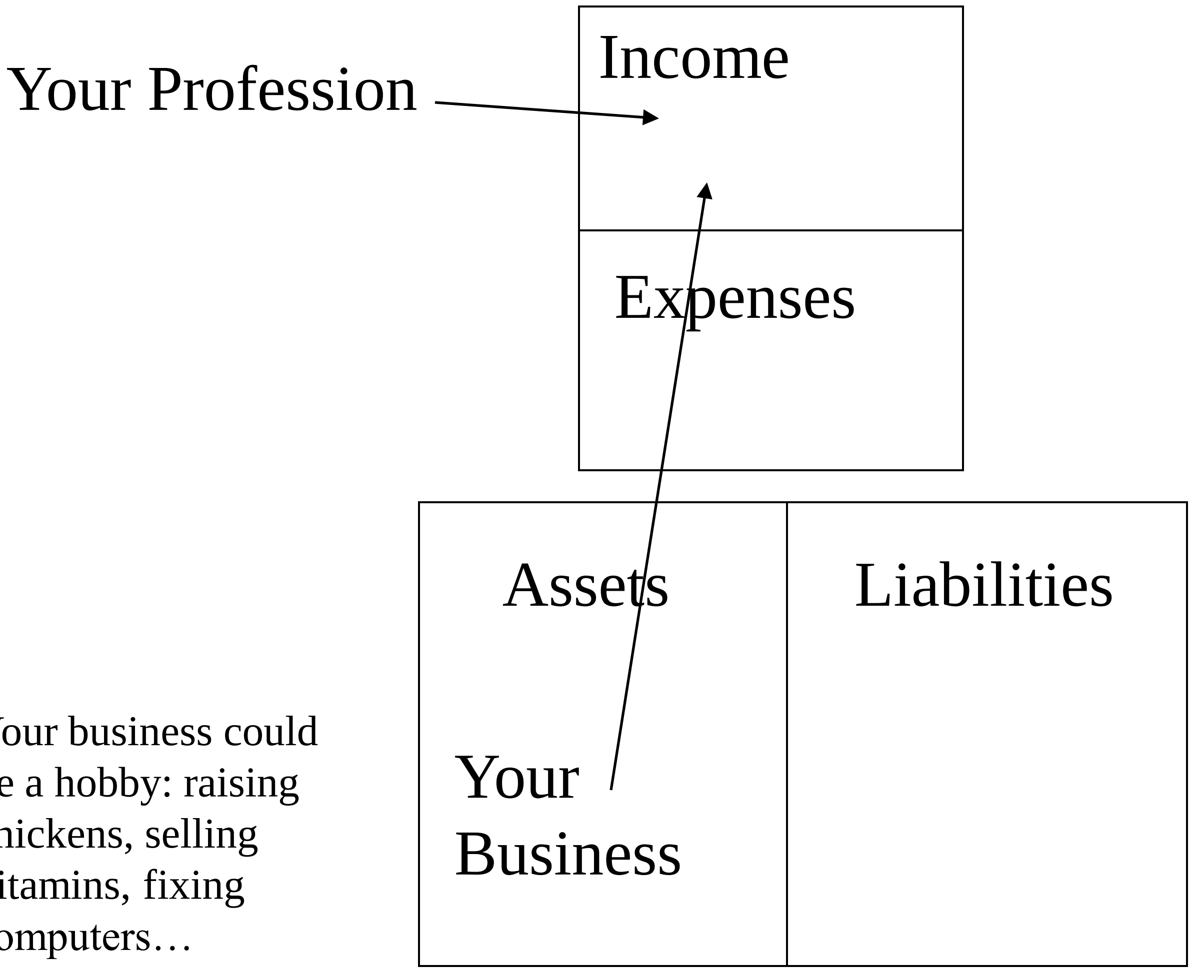
Pattern of the few:10%



The “Well-to-Do” are Those …

- Whose income is derived from assets (rather than job).
- Who live from “asset income” alone.
- Whose income from assets = monthly expenses.
- Whose income from assets exceeds monthly expenses.

Distinguish between your “Profession” and “Business”



Your business could be a hobby: raising chickens, selling vitamins, fixing computers…

Acquiring Assets (possible only after you are out of debt)

Examples of assets include:

- A business, particularly one managed by others.
- Stocks, Bonds, Mutual funds
- Income-generating real-estate
- Royalties from music, books, patents
- Anything that has value, produces income or appreciates and can easily be sold.

Well-to-do people buy:

• assets **first** (with cash, not credit), and

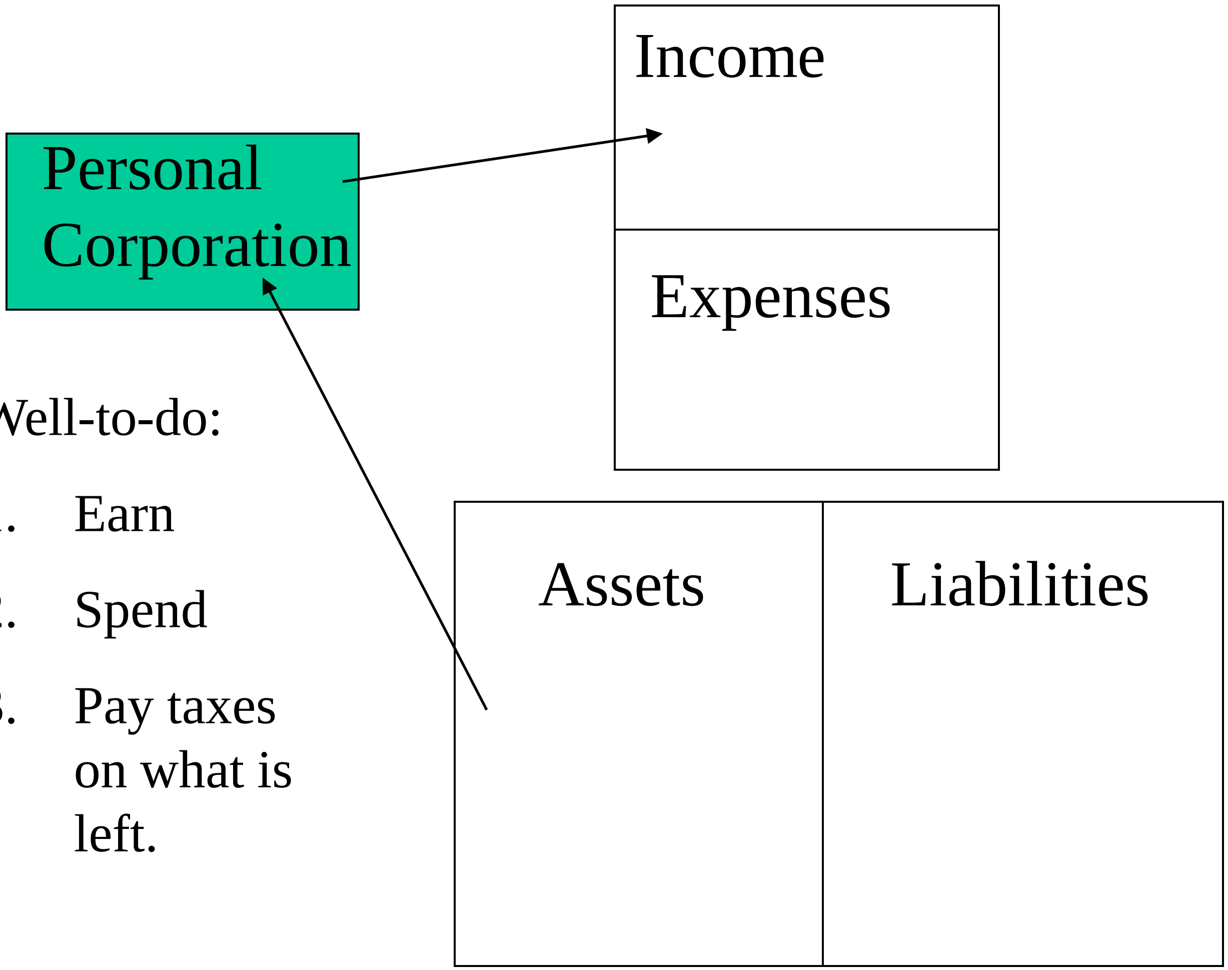
• toys (i.e. luxuries, liabilities) **last** (with income generated by assets).

Others buy:

• toys (i.e. luxuries, liabilities) **first** (usually on credit), and

• assets **last** (or not at all).

Well-to-do Shelter from Taxes:



Well-to-do:

1. Earn
2. Spend
3. Pay taxes on what is left.

Poor:

1. Earn
2. Pay taxes on everything.
3. Spend what is left.

Well-to-do People

- Are self-disciplined
- Keep current on economic trends and issues. Learn a little about a lot of areas.
- Are creative and take calculated risks.
- Develop basic skills in:
  - Accounting
  - Investing
  - Understanding markets
  - Knowing the law, particularly tax law.

Where to start…

- 10% tithe
- 10% to short-term savings (car, vacation, toys etc.)
- 10% to investments / assets (pay yourself second)
- 70% to monthly expenses (rent, mortgage, food, etc.)
- Don’t borrow money for toys or other liabilities.
- Commit to learning
- Ask advice when you need it.
- Stay disciplined

Financial Success is…

- not "he or she who dies with the most toys wins"
- but "he or she who gives the most away wins"

Consider a long-term goal like this: *"Before I die I want to give away $1 million dollars to …."*

(Add zeros to taste ☺)

Framework