Main Street Baptist Church Financial Literacy Workshop

APPLYING BIBLICAL PRINCIPLES TO YOUR FINANCIAL PUZZLE
SESSION VIII – Virtual (via Zoom)

" Strategies to Financial Empowerment"

180 Session

November 7, 2020 - 10:00 am – 11:30 am

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Strategies for Economic Empowerment

- Some Facts about Millennial's
- Applying Biblical Scripture to Your Finances
- Understanding Financial Literacy
- Understanding Your Spending Habits
- Don't Believe the Myths
- Avoiding Financial Pitfalls
- Practicing Self-Control
- Investing TIME for Your Finances
- Calculating and Knowing Your Net Worth
- Maintaining a Spending Plan
- Creating and Maintaining an Emergency Fund
- Saving for Financial Goals
- Understanding Financial Obligations/Debts
- Understanding the Importance of Good Credit
- Financial Benefits of Owning a Home vs Renting
- Understanding the Benefits of Life Insurance
- Importance of Saving NOW for Retirement

Biblical Principle….

Some Facts about Millennials….

- Many <u>regret</u>s their pursuit of a college education; due to high student loan debt; on average, students have over $30,000 in student loans.
- They have slower growth in their savings, causing further delays in starting a business, starting a family, buying a home, or building wealth.
- Graduated when unemployment was high, jobs were scarce, and salaries were low; many resorted to desperate measures, accepting jobs with low pay in hopes of student loan forgiveness.
- Many use credit cards to pay for basic daily necessities such as food and utilities. Over 25% have late payments or are dealing with bill collectors, and well over half are still receiving some form of financial aid from their parents.
- Want their purchases to make them feel good, 60% of millennials tend to gravitate toward purchases that are an expression of their personality.
- They place value on experiences. Half of millennials prefer to spend their money on experiences than material things -- and they are willing to pay extra for it.

https://www.investopedia.com/articles/personal-finance/021914/money-habits-millennials.asp

What is Financial Literacy and Why is it Important?

- It's the ability to make informed decisions in managing your personal finances in order to make smart decisions about what to do with your money.

- By becoming financial literate or gaining financial education you increase your potential of becoming financially empowered and secure.

Needs vs. Wants: Needs are something that you **must have**, in order to live. On the contrary, wants are **something that you wish to have, so as to add comforts in your life.**

Needs represents the **necessities** while wants **indicate desires.**

Needs

- Rent/Mortgage
- Utilities
- Food
- Transportation
- Clothing
- Health Care
- Child Care
- Taxes

Wants

- Entertainment
- Cable/Satellite/Streaming
- Internet Service
- Magazines
- Eating Out
- Hobbies/Sports

Practice Self-Control

Learn the fine art of delaying gratification, the sooner you learn, the easier It will be keep to your finances in order.

Although you can purchase an item on credit, it could be in your best interest to save up for those new shoes or dinner out, do you really want to pay interest on a pair of shoes or dinner?

If you avoid paying off that bill in full at the end of the month, you could still be paying for those items in 5 years or more.

Don’t Believe the Myths

- Living on a budget/spending plan doesn’t work- I tried it already
- Car payments are necessary
- You need a credit card for emergencies
- I don’t earn enough money to save
- Never invest in the stock market
- I can’t afford to invest
- I don’t make enough money to save or pay off my debt

Avoid Financial Pitfalls

- Spending more than you make
- Not **balancing** your checkbook
- Not writing down your ATM and debit card transactions
- Relying on overdraft protection
- Purchasing cars from Buy Here – Pay Here Lots
- Purchasing - Rent-to-Own
- Check into cash – Pay Day Advance Loans
- Not saving money
- Not paying bills on time
- Breaking cell phone contracts without paying off your balance
- Co-signing on loans
- Ignoring debt collectors' letters and phone calls
- Not reviewing your credit reports yearly for mistakes, monitoring scores, and ID theft
- Carrying a balance on interest bearing credit cards

Understanding Millennials Spending Habits

- **Convenience…** value time and are willing to pay more for convenience to make their lives easier; including online shopping.
- **Debt payments** - owe $1.1 trillion of the country's $3.6 trillion in consumer debt, and much of that is due to the amount of student loan debt they're carrying.
- **Eating out -** thanks to food delivery services, takeout has never been easier, and millennials are biting at every opportunity to try new restaurants. Millennials spent 47% of their food budget on eating out.
- **Experiences and travel** – value recreation and personal experiences over possessions; and spend more on travel than any other age group. Focus less on getting rich and buying stuff, and more on living an awesome life!!

https://money.usnews.com/money/personal-finance/spending/articles/how-millennials-spend-their-money

Money Behaviors

- **Your money mindset causes certain types of money behavior to play out in your life. Money mindset has a huge effect on your financial habits, which have a huge impact on your mental, physical, and spiritual life in a lot of unexpected ways.**
- **Most money problems ultimately boil down to what you believe and *how you behave with money*.** The effects your money behaviors have on your life can be uplifting, or they can be devastating.
- **When you have financial problems, it can often lead to other life problems.** When your finance are out of order, then other areas of your life tend to follow suite, and vice versa.
- **Learn what you can do to change your behavior, your mindset, and ultimately your destiny through learning how to behave better with money.**

Invest Scheduled TIME for Your Finances

- Household finances must be shared between all appropriate family members; most importantly, between husband and wife.
- It is recommended that newly married young couples maintain a joint bank account for a minimum of the first 4– 5 years of marriage, for maximum budget control.
- Spend at least an hour per week discussing and paying your bills.
- Always schedule a time to review your finances and create a spending plan monthly. This will allow you to identify any upcoming expenses that you may only pay periodically such as car insurance.

What is Net Worth?
How to Calculate Your Net Worth

- Net worth is the value of all your non-financial and financial assets **minus** the value of all outstanding debts/liabilities.

Simple example, if you have:

$25,000 in the bank

$80,000 in land & home equity

$15,000 in investments

$30,000 valuable property (jewelry, cars, etc.)

$ 150,000 total value of all your assets (things you own)

- $40,000 mortgage loan balance

- $5,000 in car loan

- $2,000 in credit card debt

$47,000 amount of all your liabilities (debts owed)

= $103,000 is your total net worth

Why is Knowing Your Net Worth Important…

There are several situations that require you to have a personal financial net worth statement:

- When the bank wants to see what kinds of assets you have in order to evaluate the risk of lending to you
- Developing a financial plan for your estate or retirement
- Developing a strategy to reduce income taxes
- Identifying property during a separation or divorce proceeding

****…so that you know where you stand financially at ALL TIMES**

What is a Spending Plan?

A spending plan is not meant to be a strict budget. Instead, it's a guide that will help you take control of your finances.

There are 5 basic steps to creating your monthly spending plan:

1) **List your total household income**
2) **Subtract the total cost of your obligations**
3) **Subtract the amount allocated for your goals**
4) **Assess what is remaining**
5) **Analyze and adjust as needed**

Why you Should Have a Spending Plan?

- It gives you a process of tracking your income and expenses.
- It's a safety process to prevent overspending.
- It gives you control of your finances.
- It allows you to manage your ongoing financial activities.
- It helps you plan and set your priorities.
- It makes you accountable for God's blessings.

You Should Always Have an Emergency Fund

An emergency fund is a stash of money set aside to cover big unexpected expenses or financial surprises life throws your way which can be stressful or costly: Job loss, medical expenses, unexpected events, home repairs, car troubles emergency, unplanned travel expenses

3 Benefits of having an emergency plan:

1) It keeps stress levels down

2) It keeps you from spending on a whim.

3) It keeps you from making bad financial decisions.

Cost of Unexpected Car Repair

COST INFORMATION	EMERGENCY SAVINGS	CREDIT CARD	PAYDAY LOAN
Amount needed	$350	$350	$350
Annual Percentage Rate (APR)	None	15.99 percent APR	$15 for every $100 borrowed for 14 days—equals a 391 percent APR
Repayment terms	You can decide when you rebuild your savings	Must pay at least a certain amount each month—for this example, we're using a fixed monthly payment of $25	Must pay back loan amount ($350) plus fee ($52.50) within 14 days
Time to repay	None	16 months	14 days
Total interest and fees	$0	$40 over 16 months	52.50 for every 14-day loan
Total cost of car repair	$350	$390	$402.50

What is Savings?

- **Savings** is money you set aside today to use in the future. It could be for something you need, for emergencies, or unexpected expenses.

- **Money in savings accounts, can earn interest.** Allocating money in certain savings and investment accounts will allow it to earn interest…giving you financial growth over time.

- **Maintaining savings** prevents you from borrowing money and paying high interest rates.

Misconceptions About Savings

- My income is too small for me to save
- When you save you are worried about the future
- Money is just for spending
- I can wait until I am over 50 to start saving for retirement
- Saving is hoarding
- You are stingy or penny-pinching when you save
- A good salary means financial security
- If I do a poor job at paying my bills and saving, I can always just file bankruptcy

Taking Steps to Create Savings

- Must make the decision to save and be committed
- There are two ways to find money to save…spend less (decrease expenses) or earn more (increase income)--- work a second job
- Barter services, work overtime, earn bonus, tax refund money
- If paid bi-weekly, there are two months each year when you get three paychecks instead of two

Banking Options
Differences Between Each

Traditional Banks/Credit Unions

- Has some online services
- In-person banking and relationships
- Ability to deposit and withdraw cash
- ATM Machines
- Many have low to no interest-bearing accounts
- Higher interest rates on loans and credit cards

Web-Only Banking

- Convenient – anytime banking
- Best interest rates on loans and credit cards
- Better earnings on savings and money market accounts
- No way to deposit or withdraw cash

SMART goals should be:

- Specific
- Measurable
- Achievable
- Relevant
- Time bound

Typical Financial Goals Includes…

- Creating an emergency funds…unexpected expenses
- Saving money for down payment for a home
- Planning to purchase your next car
- Planning for a vacation
- Planning for education for you or your child
- Planning to pay your home off early
- Planning to start a business
- Maximizing your income tax strategies and liabilities

Create Savings/Emergency Plan

- **What to do:**
- Pick a reason for saving. Consider starting an emergency fund.
- Figure out how much money you'll need to save for that goal and how many months you must save.
- Divide the amount of money you want to save by the number of months you have to save it. That's your monthly savings target.
- Brainstorm some ways to decrease spending or increase income to fund your goals.
- **Example: Emergency Fund Goal is to save $500 in the next 6 months; $83.33 per month; if paid bi-weekly $41.67 per check**

Creating a **Savings plan** can make it easier to save

1. Write down the goal you're saving toward.
2. Figure out the total amount you need to save to reach that goal.
3. Decide how many weeks you have to save.
4. Divide the total amount by the number of weeks. That is your savings target.
5. Think about ways you can cut expenses to match the total amount you need to save per week.

Create a savings target.

	EXAMPLE	YOUR INFORMATION
Savings goal	Save $1,000 for an emergency fund within 10 months (about 40 weeks)	
Total amount needed	$1,000	
Weeks to reach goal	÷ 40	÷
Weekly amount to save	= $25	=

Brainstorm strategies for saving.

	EXAMPLE	YOUR INFORMATION
Strategies for saving and amount saved per week	Switch from premium cable to basic ($40/month = $10/week) + $10 Cut down on eating out + $15	
Total projected savings per week	= $25	=

- **What is debt?**
  - Money you owe.
  - Debt is a liability.
  - Debt may obligate future income.

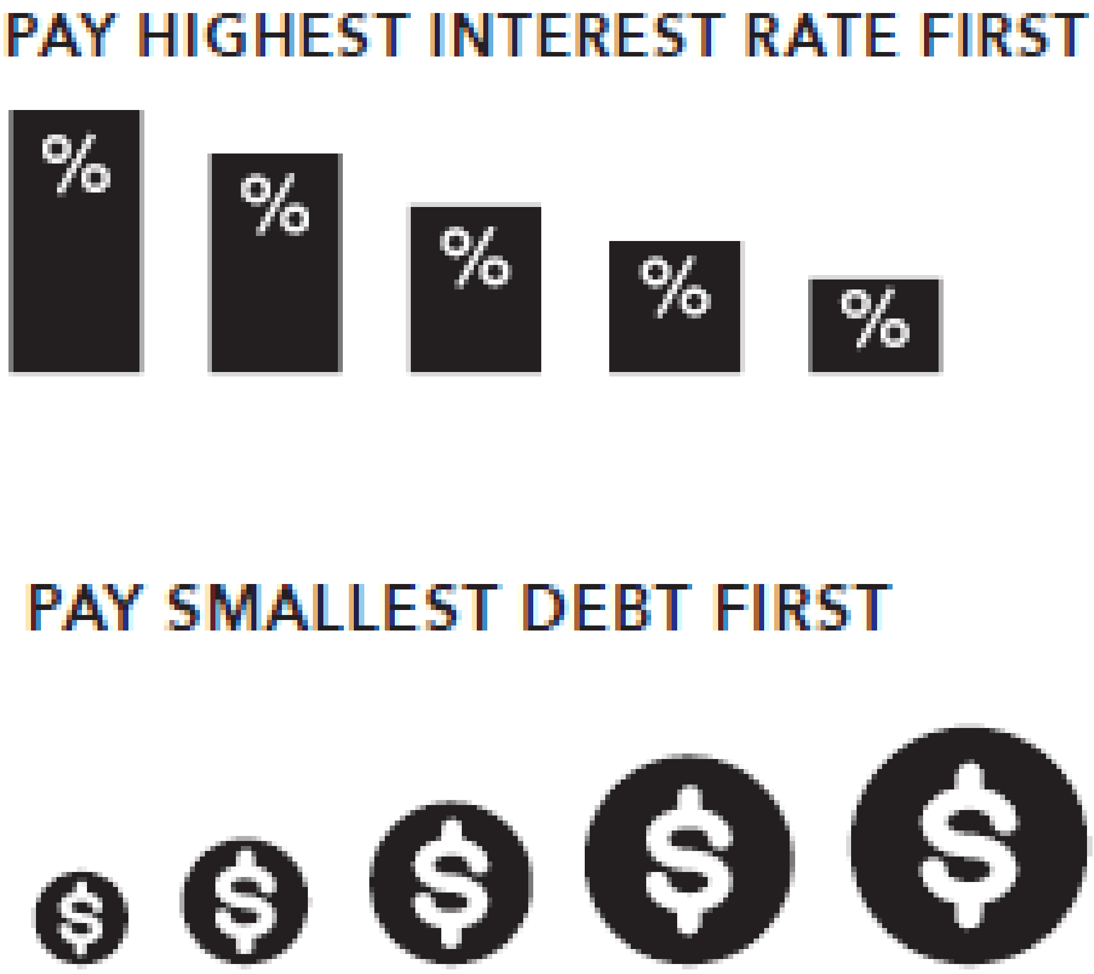
- **How is debt different from credit?** For our purposes…
  - Credit is the ability to borrow money.
  - Debt is the result of using credit.

Good Debt, Bad Debt

- Loan from friend or family member
- Auto loan
- Student loan
- Payday loan
- Mortgage (loan for a home)
- Auto title loan
- Pawn shop loan
- Medical Bills

Debt Action Plan

- The two ways to reduce debt:
  - Pay highest interest rate first
  - Pay smallest debt first
- Consider the pros and cons of each.



How to Calculate Debt-to-Income Ratio

- Once you've calculated what you spend each month on debt payments and what you receive each month in income, you have the numbers you need to calculate your debt-to-income ratio. To calculate the ratio, divide your monthly debt payments by your monthly income. Then, multiply the result by 100 to come up with a percent.

Example

- In our example, Sam's monthly debt payments total $1,540 and his monthly income totals $4,000. So, divide $1,540 by $4,000 and then multiply by 100:
- $1540 / $4000 = .385 X 100 = 38.5%
  Sam has a debt-to-income ratio of 38.5%.

Tool: Debt-to-income calculationtor

- **What to do:**
  - Complete the "Debt log" to figure out your total monthly debt payment.
  - Figure out your gross monthly income (before taxes or insurance). If your income varies from month to month, estimate your income on a typical month (it's better to estimate lower for the purposes of this tool).

The **Debt-to-income calculator** gives you a benchmark for planning

1. Enter your total monthly debt payment on the first line of the equation. You can copy it from the "Debt log."
2. Enter your gross monthly income on the second line. If your income varies from month to month, estimate what you receive in a typical month.
3. Calculate your debt-to-income ratio and review the recommended ratios to see how yours compares.

Lenders use your debt-to-income ratio when considering your loan application.

CALCULATE YOUR DEBT-TO-INCOME RATIO

Your total monthly debt payment includes credit card, student, auto, and other loan payments, as well as court-ordered fixed payments, like child support	
Divide by **your gross monthly income** which is all of your income before taxes and insurance	÷
Multiply by 100 to calculate **your current debt-to-income ratio**	%

Here are some guidelines to think about:

HOMEOWNERS

36% or less Consider maintaining a debt-to-income ratio for all debts of 36 percent or less. Some lenders will go up to 43 percent or higher. Your home mortgage is included in this ratio.

RENTERS

15-20% or less Consider maintaining a debt-to-income ratio for all debts of 15-20 percent or less. Your rent is not included in this ratio.

If your debt-to-income ratio is higher than the guideline (as either a homeowner or renter), you may want to think about ways to lower debt to put less pressure on your budget. Use the "Debt action plan" for help.

What is Credit?

Credit is the ability to borrow money and repay it later.

You can have credit available to use without having debt.

How is credit used?

Creates credit history

Compiled into credit reports

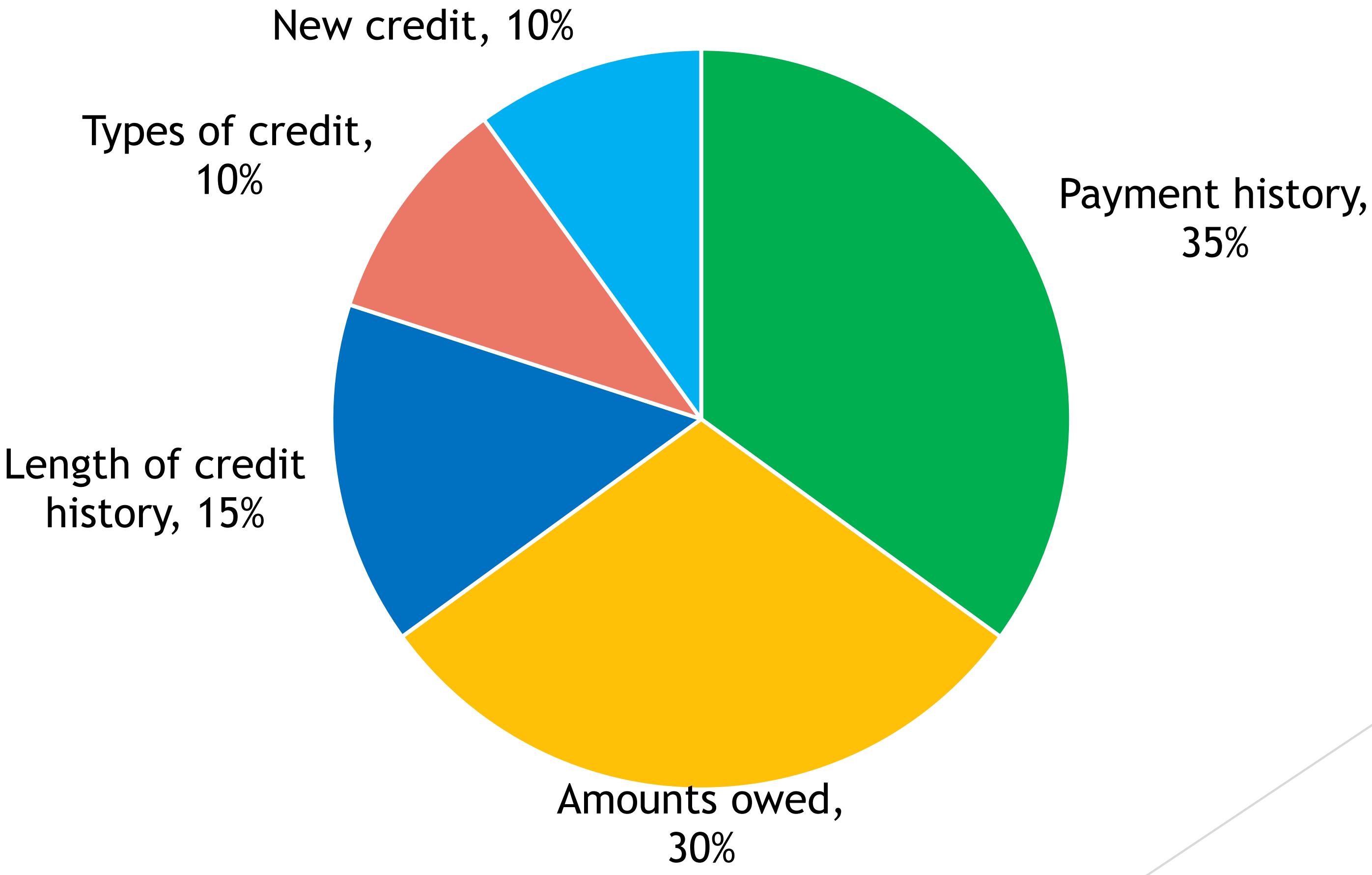
Used to calculate credit scores

Importance of Good Credit

- Low interest rates on credit cards and loans
- Better chance for credit card and loan approval
- More negotiating power
- Easier approval for rental houses and apartments
- Better car insurance rates
- Get a cell phone on contract with no security deposit
- Avoid security deposits on utilities
- Bragging rights….something to be proud of, especially if you’ve had to work hard to take your credit score from bad to good!!

https://www.thebalance.com/having-good-credit-score-960528#:~:text=%209%20Benefits%20of%20Having%20a%20Good%20Credit,based%20on%20your%20income%20and%20your...%20More%20

These Percentages Reflect How Much Each Category Determines a Typical FICO score.



Poor Credit Scores Can Make it Difficult for You to:

- Get a job and a security clearance for a job, including a military position
- Purchase a home
- Get an apartment
- Get insurance coverage
- Pay lower deposits on utilities and get better terms on cell phone plans
- Get a credit card
- Improve your credit score

** Review your credit report minimum of 3 times per year. During COVID once per week until April 2021…all bureaus– www.annualcreditreport.com

Financial benefits of Owning a Home vs Renting Investing in Yourself

- Rents continue to increase
- Homeownership is a better long-term investment
- Interest rates are historically low, can keep your payment lower
- Gain equity as property values continue to rise
- Predictable monthly payments
- Bring in extra income by renting a room
- Tax deductions

https://www.americanfinancing.net/purchase/benefits-of-owning-a-home-vs-renting

Start saving NOW for Retirement

1. Compound interest means you'll have to save much less

- The single biggest reason you need to start investing for retirement ASAP is that it enables you to save much less and still end up with a hefty account balance. The chart on the next page demonstrates why it's so important to start saving early.
- The discrepancy is so big because if you start saving when you're young, your money works for you for many more years through compound interest. The returns you earn will be reinvested, and you'll begin earning returns on this money as well, which seriously accelerates the growth of your account balance.

2. Demands on your money are only going to increase

- It may seem difficult to save even a few thousand dollars a year when you're young and broke. But unfortunately, it's not necessarily going to get any easier to find spare cash as you get older. While your salary is likely to go up as you develop professional experience, demands on your money will also increase.
- Procrastinating doesn't pay. The longer you wait, the more you'll have to save and the harder it will be to achieve financial security in your later years. You owe it to your future self to find a way to put aside a little cash, even if you're young and broke.

Age You Start Saving	Annual Investment Needed to Save $1 Million by 65 (at a 7% Annual Return)
20	$3,168
25	$4,572
30	$6,660
35	$9,828
40	$14,808
45	$23,040
50	$37,860

https://www.fool.com/retirement/2020/01/24/why-you-should-save-for-retirement-when-youre-youn.aspx

Planning for Retirement

- Most employers no longer offer a traditional pension plan.
- Most employers offer 401(K) or 403(b) retirement plans or other defined benefit plans.
- You should **always take advantage of whatever retirement plan your company offers** as soon as you are eligible.
- Many plans require that you invest in the plan as well, by payroll deduction and offer you a defined percentage amount as a company match.
- You should reframe from withdrawing from these plans as there will be penalties, fees, and additional tax liabilities depending on your age. You stand the chance of losing a lot of money, that could grow for you over time, for your retirement.
- *In the event you change employers, you do not have to cash out or withdraw your funds, in many cases, they can be* rolled over into another plan without excessive fees.
- **You should meet with a financial advisor for additional retirement/investment options.

Benefits of Life Insurance

Don’t be caught uncovered. There are good reasons to get life insurance as a millennial

- People depend on you
- It's more affordable when you're young and healthy
- Don't leave your loved ones on the hook for funeral expenses
- You may need to supplement the insurance provided by your employer**.**

<u>Types of Life Insurance:</u>

All types of life insurance fall under two main categories:

1. **Term life insurance.** These policies last for a specific number of years and are suitable for most people. If you don’t die within the time frame specified in your policy, it expires with no payout. More affordable.
2. **Permanent life insurance.** These policies last your entire life and usually include a cash value component, which you can withdraw or borrow against while you’re still alive.

Signs That You Are On Track to Financial Empowerment…

- Consistently saving
- Living on a budget – living within your means
- Committed to stewardship and charitable giving
- Balancing your checkbook
- Planning meals and shopping ahead
- Giving yourself permission for an occasional treat
- Setting financial goals
- Having your tax withholding right – avoiding large refunds
- Eliminating or reducing debts and expensive habits
- Involving the family in money discussions