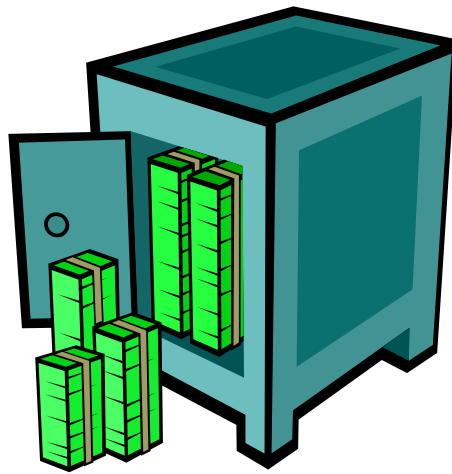


Saving Money

*"There is treasure to be desired and oil in the dwelling of the wise; but a foolish man spendeth it up."
Proverb 21:20*



By

Mike Coe

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INTRODUCTION

While people in other countries (Japan, Germany, England, France, Canada, etc.) are saving 10% - 15% of their income, Americans are saving less than 4%. According to the Commerce Department, savings as a percentage of after-tax income bottomed out in 1998 with it's worst performance (Sept. of '98 was minus 0.2%) since the government began tracking the rate on a monthly basis in 1959. Even though 30% of American households earn more than \$50,000 annually, the average household net worth is less than \$15,000 (excluding equity in house).

The focus of this booklet is on saving money – *why* you need to save money, *how* to save money and *what* to do with the money you save. You will see that saving money is not only a practical necessity but is also Biblically encouraged.

Saving money on a monthly basis requires a well thought out plan and a lifestyle free of impulsive financial decisions. This booklet will provide you with a logical plan that will help you start a savings program that will work. Equipped with the necessary knowledge, the only obstacle to your success will be procrastination. Read this booklet and take action! When you stop spending more than you make and start saving money, your attitude about life will take on a whole new perspective.

WHY SAVE MONEY?

There is treasure to be desired and oil in the dwelling of the wise; but a foolish man spendeth it up. Proverb 21:20

As the verse so simply states, a wise man saves money and a fool doesn't. The wise man possessed treasure (money) and resources (oil). As a result of his planning and ability to resist making impulsive financial decisions, he is prepared for life. What he has, others want for themselves (*..to be desired..*).

The fool on the other hand is a spender. He is always in need. Based on statistics, the average American would best be represented by the fool. He spends all he has – and even more! I'm sure if credit cards were around at the time, the verse would have been written differently (*..but a foolish man spendeth it up and then must turn to debt to make ends meet*).

There are basically two practical reasons why you need to save money:

- 1) To build a strong **FINANCIAL FOUNDATION** *and then*
- 2) To build a strong **FINANCIAL FUTURE**.

Financial Foundation

A strong financial foundation is designed to take the anxiety, pressure and stress out of personal money management. It puts a buffer between you and danger. It removes unnecessary risk from your life. It is like the house in the parable of the two builders. *“And the rain descended, and the floods came, and the winds blew, and beat upon that house; and it fell not; for it was founded upon a rock.”* Matthew 7:25

A strong financial foundation is established for those inevitable unexpected negative financial events in life. Surveys show that 75% of all Americans will incur a major negative financial event in their life within the next 10 years. *“A prudent man foreseeth the evil, and hideth himself; but the simple pass on, and are punished.”* Proverb 27:12

In order to establish a strong financial foundation, you will need to follow the three steps outlined later in this booklet. Decide today that you are going to start walking in the right direction and begin establishing *your* financial foundation. This booklet will show you how.

Financial Future

After you have established a strong financial foundation, you are ready to begin building a strong financial future. Too many Americans are failing to plan for their financial futures.

In a survey funded by the American Association for Retired Persons (AARP), only 25% of those surveyed knew how much they needed for retirement and 30-40% were not even saving regularly for retirement. Of those surveyed over 53 years of age, approximately 20% had saved less than \$10,000, 50% had saved less than \$100,000 and only 30% had saved more than \$100,000.

Providing for your financial future is a reality that you must face. Time is your greatest asset and procrastination is your greatest enemy. Although this booklet was not designed to give you detailed investment advice, it will outline the steps you should take as you plan out your financial future.

“But if any provide (short-term and long-term) not for his own, and specially for those of his own house, he hath denied the faith, and is worse

than an infidel (unbeliever).” I Timothy 5:8

HOW DO YOU SAVE MONEY?

In order to start living on less than you make and saving money you must do one of two things or a combination of both:

- 1) **Limit** your lifestyle *and/or*
- 2) **Increase** your income.

I know it seems too simple, but that’s the way it is. No magic wands or money trees, just plain old fashion logic and elementary math.

When you limit your lifestyle, you will obviously reduce your monthly expenses. This does not only include your variable expenses but you might also need to consider downsizing or downgrading your fixed expenses such as autos or even your mortgage/rent payment.

If you feel that you’re already at a bare bones existence, you have no other choice but to increase your income. Your short-term options are: working more at your present job, changing jobs, taking on an additional part-time job or possibly getting a non-working spouse to look at opportunities to generate income from the home (data entry, bookkeeping, etc.). Long-term, you should consider making yourself more valuable through further education or increasing your skills.

WHAT TO DO WITH THE MONEY SAVED?

The average American spends \$100 – \$200 more each month than they make. This is largely due to the fact that less than 10% use a written *monthly* cash flow plan - more commonly referred to as a budget. Before you can save money, you must first spend less than you make. A plan to begin a regular savings program must start with a monthly budget (see publication FF-01).

Once you have identified the amount you can save each month, those saved dollars should be directed to one of five goals I refer to as my “**Five Step Plan**”.

Financial Foundation:

- 1) Checking Account
- 2) Debt
- 3) Savings Account

Financial Future:

- 4) Major Purchases
- 5) Long-term Savings

Each step in the plan is accomplished in sequence. Steps 4 & 5 can be done together.

1) Checking Account

According to the Wall Street Journal, 70% of all Americans are living paycheck-to-paycheck (week to week). Your first goal in building a strong financial foundation is to establish a reserve in your checking account so you can stop living paycheck-to-paycheck. I have found that this one step (regardless of your debt situation) is the most freeing step in your journey towards getting control of your finances.

Therefore, the first step is to direct all of the dollars saved towards building up a reserve in your checking account. How much? A minimum of \$1,000 and eventually one months worth of living expenses. After saving \$1,000, you can either move to step two (Debt) or continue until you have an entire months reserve in your checking account.

The reserve in your checking account serves a dual purpose. It allows you to stop living week-to-week while serving as a mini emergency fund. Step three (Savings Account) is where you will establish a *real* emergency fund.

With a minimum of \$1,000 in your checking account, you are ready to move on.

2) Debt

Statistics tell us that 80%-95% of all American households have one to four credit card accounts each. For each individual account, 70% of them carry monthly balances and pay interest. This results in 55% of the households in America having an average credit card balance of \$7,000.

Step two in my five step plan is to direct all of your saving dollars toward the elimination of your consumer debt. This should be done using a systematic debt repayment plan (see publication FF-04).

With your debts listed from lowest balance to highest balance, apply all of your saving dollars to the first debt on the list. Once that debt is eliminated, apply the total amount that was being paid on debt #1 to the

minimum that is currently being paid on debt #2. You continue rolling the payment amounts to the next debt on the list until they are all eliminated. If at anytime your checking account surplus falls below \$1,000, stop working on step two and go back to step one. Once you have rebuilt your checking account surplus to the minimum of \$1,000, you can continue with step two.

3) Savings Account

Now you need to build a *real* emergency fund. Financial planners often recommend having 3-6 months' living expenses set aside. I suggest a minimum of three months living expenses but preferably \$10,000.

The emergency fund is only for *real* emergencies! This might include unanticipated medical expenses, a temporary layoff at work or a disabling injury. Without an emergency fund, you are forced to resort to debt. This account will also be used for unexpected auto repairs until you have established the auto repair/replacement account in step four.

The emergency fund should be located in a place that guarantees safety and stability of principal and is completely liquid (easily and quickly converted to cash). A good place to store these funds would be a money market mutual fund (MMF), a credit union or even a NOW account at your local bank. MMFs are essentially as safe as insured money market accounts offered by banks, have check writing privileges and charge no withdrawal penalties, but pay 1%-1.5% more.

4) Major Purchases

Steps four and five can be started simultaneously. At this point you are ready to begin building a strong financial *future*. Step four will get you into a position to be able to pay cash for all of those known major purchases.

Spending less than you make and saving for known major purchases (cars, vacations, Christmas, household furnishings, down-payment on a house, etc.) will allow you to enjoy the benefits of keeping all of that interest that you are now paying to someone else. Compounding is magical, but when it is in a negative direction it's like a chain and ball. You need to stop letting others get rich just because you are too lazy to plan.

These funds should be stored in an account that offers safety and stability of principal along with liquidity. My *savings distribution sheet* will help you allocate and track your savings for each item even while storing the

funds in the same account. For savings needed *5 years or more* in the future, investing in a stock mutual fund would be worth considering.

5) **Long-term Savings**

The average Social Security check paid out today equates to an annual income of less than \$10,000. If you are planning to have a strong financial future, don't depend solely on the government. The Social Security program, at best, was only intended to be a supplement to your retirement savings.

Your worst enemies are inflation, taxes and procrastination (not necessarily in that order). Any long-term investments that you make should therefore be positioned so as to yield a reasonable return (3%-5% above inflation and after taxes). I recommend that all of your initial long-term investments be put into qualified investment opportunities (Regular IRA, Roth IRA, 400 series plans, etc.). Once the limits on these plans have been reached, you can then consider other opportunities.

With steps 1, 2 and 3 completed and step 4 underway, you are now in a safe position to start accepting some risk. You must carefully analyze your own risk profile and invest accordingly. I strongly recommend the book "**Sound Mind Investing**". (see publication FF-08)

FIVE STEP PLAN

(Check each step when completed)

CHECKING ACCOUNT

(One months living expenses on the first day of the month,
minimum of \$1,000)

DEBT

(Eliminate all consumer debt)

SAVINGS ACCOUNT

(Three to six months living expenses)

MAJOR PURCHASES

(Begin saving for KNOWN major purchases)

LONG-TERM SAVINGS

(Begin investing for the future)

CONCLUSION

Saving money is not unspiritual nor does it represent a lack of faith. The reason so many of God's people have gotten themselves in financial trouble is because they have not practiced the principle of saving. If saving money does not become a lifestyle, debt will!

The need to establish a savings program can not be over emphasized. Only a fool would continue to spend all that he/she makes (and possibly more) and deny the fact that things break, emergencies happen and it's hard to get a good paying job when you're old. *"...the prudent man looketh well (considers carefully) to his going."* Proverb 14:15.

Saving money becomes wrong only when it turns into hoarding. Saving money in order to purchase a future need and prepare for the prospect of advancing years is a sign of a wise steward.

Using a monthly budget, living on less than you make and saving money to meet future needs requires teamwork. It is imperative that husbands and wives be united in this effort. *"And if a house be divided against itself, that house cannot stand."* Mark 3:25

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SCRIPTURE REFERENCES

“Go to the ant, thou sluggard; consider her ways, and be wise: Which having no guide, overseer, or ruler, Provideth her meat in the summer, and gathereth her food in the harvest.” Proverbs 6:6-8

“The soul of the sluggard desireth, and hath nothing: but the soul of the diligent shall be made fat.” Proverb 13:4

“The wisdom of the prudent is to understand his way: but the folly of fools is deceit.” Proverb 14:8

“The simple believeth every word: but the prudent man looketh well to his going.” Proverb 14:15

“He also that is slothful in his work is brother to him that is a great waster.” Proverb 18:9

“The thoughts of the diligent tend only to plenteousness; but of every one that is hasty only to want.” Proverbs 21:5

“He that loveth pleasure shall be a poor man; he that loveth wine and oil shall not be rich.” Proverb 21:17

“Seest thou a man diligent in his business? He shall stand before kings;...” Proverb 22:29

“Be thou diligent to know the state of thy flocks, and look well to thy herds.” Proverb 27:23

“He that tilleth his land shall have plenty of bread: but he that followeth after vain persons shall have poverty enough.” Proverbs 28:19

“He that hasteth to be rich hath an evil eye, and considereth not that poverty shall come upon him.” Proverb 28:22

“..if riches increase, set not your heart upon them.” Psalm 62:10

Review Questions

1. What happens when you don't apply the Biblical principle of saving money?
2. What are the two options for a person who is presently unable to save money?
3. Considering the "Five Step Plan", describe the steps required to establish a ***Financial Foundation***.
4. What should you do if while working on step #2 of the "Five Step Plan", an unexpected auto repair requires you to dip into your checking account reserve?
5. Why is it important to establish your financial *foundation* before you start building your financial *future*?
6. Name three known major purchases that *everyone* should save for.
7. When you start working on step #5, where is the first *place* you should start investing? Why?
8. Assume that it's the first day of the month. You have one months surplus in your checking account, no consumer debt, a \$10,000 emergency fund and are aggressively working on steps #4 and #5. Your savings account statement shows a balance of \$15,000. How do you keep track of where the money in your savings account should be allocated?
9. Discuss whether saving money is unspiritual and represents a lack of faith?
10. When is saving money wrong?