

MoneyWise Presentation Materials

Financial Principles and Financial Freedom

Day 1: Modules 1 & 2

Purpose

The purpose of these presentations on personal finance is to help you understand that personal finance is not separate from, but simply part of, the gospel of Jesus Christ. We have been commanded to be wise stewards over the things we have been blessed with. These presentations will help you in that stewardship.

Topics and Assignments

Module 1: Understanding Financial Principles: Setting Priorities

Recommended Readings (on the website at <http://personalfinance.byu.edu>):

- Online Reading: Chapter 1. Understanding Financial Principles: Setting Priorities
- Reading 1.1. Richard B. Miller, For Newlyweds and Their Parents, Ensign, Jan. 2006, pp. 26-31.
- MoneyWise/Young Married Manual: Chapter 1. Another Perspective on Wealth
Chapter 2. Setting Personal Goals

Tools:

- Exhibit 1.1 Eight Financial Priorities and Goal Setting Worksheet
- Exhibit 1.2 Key Questions on Money and Family

Module 2: Financial Freedom: Living Beneath Your Means

Recommended Readings (on the website at <http://personalfinance.byu.edu>):

- Online Reading: Chapter 2. Financial Freedom: Living Beneath Your Means
- Reading 2.1 Marvin J. Ashton, "One for the Money: Guide to Family Finance," Church of Jesus Christ of Latter-day Saints, 2006
- Reading 2.2 Gordon B. Hinckley, "To the Boys and to the Men," Ensign, Nov. 1998, 51.
- MoneyWise/Young Married Manual: Chapter 8. Debt and Debt Reduction
Chapter 7. Consumer and Mortgage Loans

Tools:

- Exhibit 2.1 The "Eliminate Your Debt" Schedule
- Exhibit 2.2 Debt Elimination Spreadsheet with Accelerator (works on PC only)
- Exhibit 2.3 Debt Amortization and Prepayment

The *MoneyWise Reference Material Manual* and learning outcomes, chapter readings, slide presentations, videos, assignments, and recommended readings are freely available at the BYU Marriott School of Management's Personal Finance website at <http://personalfinance.byu.edu> (Intermediate Lessons and MoneyWise Financial Workshops). Please feel free to share this free resource with others.

MoneyWise Module 1

Understanding Financial Principles: Setting Priorities

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 Understanding Financial Principles:
 Setting Priorities
 Module 1

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The Provident Living Advocates Network (sponsored by the BYU Marriott School)

- Unpaid Credentialed Professionals (PhDs, CFPs, CPAs, CFAs, and others)
- Nothing for sale—it is all free!
- Our mission is to help you become financially self-reliant so you (and your spouses) can accomplish *your* divine missions and help and serve others!

"To help others become financially independent so they can **serve**."

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All We Ask of You: Be Here and Share

- Give us your next 5 Wednesday nights
 - Try not to miss a single night
 - Watch the last lesson on video
- Attend each night and ask questions
 - Student mentors are available each night
- Fill out the "8 Financial Priorities sheet"
 - They help you set goals in key areas
- Share what you learn with others
 - Encourage others to attend
- Provide us with suggestions for improvement

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MoneyWise Workshop Topics

- Wednesday Presentation Schedule:
 1. Understanding Financial Principles: Setting Priorities
 2. Financial Freedom: Living Beneath your Means
 3. Saving and Investing: The Road to Financial Independence
 4. Tax and Long-term Planning: Key Issues
 5. Making Major Purchases: the Home and Auto Decision
 6. Having Adequate Insurance: Protecting you and your Loved Ones (watch on video at <http://personalfinance-dev.byu.edu>, Intermediate Lessons, and MoneyWise Financial Workshops Lesson 6.

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Tonight's Discussion Topics

1. Understand Perspective
2. Set Goals
3. Communicate Clearly
4. Budget Well

Perspective • Priorities • Communication • Budgeting

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1. Understand Perspective: The Why

- Understand and love the doctrine of Christ. Doctrine refers to the eternal, unchanging, and simple truths of the gospel of Jesus Christ. Doctrines are never altered. They never vary. They will always be the same. You can always count on them. Brothers and sisters, doctrine answers the why questions of our lives. . . In the times in which we live, only the restored gospel of Jesus Christ has the answers to the why questions that matter most (David A. Bednar "Teach them to Understand," Ricks College campus Education Week Devotional, June 4, 1998, Rexburg, Idaho).

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MoneyWise Module 1

Understanding Financial Principles: Setting Priorities

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Understand Perspective

- What are the “whys” of personal finance?
 - I believe God wants us to learn personal finance to:
 - 1. Learn the lessons that personal finance can teach us to help us come to and become more like our Savior Jesus Christ—to bring us to Christ
 - 2. To learn the things we need to prepare for and accomplish our divine missions for which we were sent here on earth
 - 3. Help us return with our families back home to our Savior and Heavenly Fathers’ presence
 - 4. Become wise stewards over the things God has blessed us with

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Understand Perspective: Principles of Finance

1. **Ownership:** Everything we have is the Lord’s
 - The earth is the Lord’s, and the fullness thereof; the world, and they that dwell therein (Psalms 24:1).
2. **Stewardship:** We are stewards what the Lord has given us
 - It is expedient that I, the Lord, should make every man accountable, as a steward over earthly blessings, which I have made and prepared... (D&C 104:13).
3. **Accountability:** We are accountable for our choices!
 - Elder Christofferson: We control the disposition of our means and resources, but we account to God for this stewardship over earthly things (‘Come to Zion’, Ensign, November 2008).

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Perspective: Becoming Provident Providers



<http://www.youtube.com/watch?v=fC7pPAyrSSg>

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2. Set Goals: What do you want out of life?




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Priorities: Our View—Eight Financial Priorities

1. Communicate clearly
2. Pay tithes and offerings
 - Pay the Lord first
3. Learn to manage money and use a budget
4. Avoid and pay off debt
5. Prepare for emergencies and build a reserve (3-6 months)
6. Protect yourself and family through adequate insurance
7. Save for long-term goals
 - Save wisely for a home, retirement, education, and missions
8. Teach family members these things




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Priorities: Other Topics to Discuss

- Starting a family
- Charitable giving
- Owning a business
- Recreation and vacations
- Children’s allowances
- Helping children during high school and college (missions, down payments, weddings, etc.)
- Saving for your own missions!
- Saving for a big purchase (car, a trip to Germany, etc.)
- Goods and services priorities (cell phones, cable, etc.)



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MoneyWise Module 1

Understanding Financial Principles: Setting Priorities

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Priorities: What bishops want you to know!

- Learn how to live on a budget!
- Don't expect to have everything right now.
- Don't blow through large amounts of cash coming (e.g., grants and scholarships) and going (e.g., tuition and rent).
- Use government help only when appropriate.
- Learn to protect your identity.
- Don't automatically turn to your parents to "bail you out." You need to learn that there are consequences to irresponsible spending.
- Learn to manage credit cards and insure yourself to avoid debt.
- Don't bring lots of debt into a marriage.
- Don't take on debt without considering your future earning capacity.
- Don't be afraid to work part-time. Most recruiters prefer a working B+ student to a non-working A student.

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3. Communicate Clearly: Startling Statistics

- In a recent survey conducted by *Worth* magazine:
 - Couples admitted to fighting about money more than anything else
 - Most couples agree "In every marriage, money eventually becomes the most important concern"
- Why do you think this is the case?

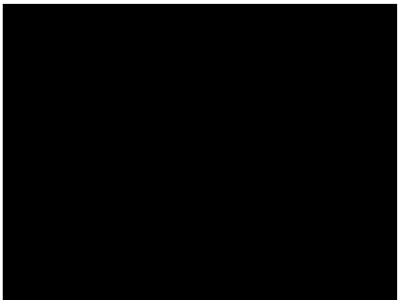


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Communicate Clearly:

Do money issues affect your marriage?




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Communication:

Reasons Money Can Be an Issue In a Marriage

- Top 3 reasons
 - Poor communication
 - Poor communication
 - Poor communication
- General lack of knowledge
- Financial personalities and family "baggage"
- Lack of shared financial goals



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Communication: Weekly Stewardship Meeting

- Discuss finances early and often
 - Set a time to discuss at least weekly
 - Resolve misunderstandings before they escalate
- Set lifetime financial goals *together*
- Implement processes that promote trust and mutual discussion
 - Budgeting and planning together are the best ways to communicate regularly about finances!

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Communication:

Family Baggage and Financial Personality Types

- What family rules (implicit or explicit) shaped your attitudes and beliefs about finances?



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Understanding Financial Principles: Setting Priorities

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Communication: Extreme financial personalities

- Miser
 - Dad paid cash for everything
 - Mom paid the bills and kept the books
 - We never talked about money
- Spender
 - Somehow things will work out
 - If the shoe fits, buy it in every color!
- Sleeper
 - "Disasters and crisis only happen to others...and you'll probably have advanced warning if they are about to happen to you."
 - "Paying tithing is like paying a guaranteed income insurance premium."
 - "We are good people, so only good things will happen to us."



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Communication: Financial Priority 1

- Take two minutes to talk as a group or couple
 - What things will you do to help you communicate better?
 - Meet at a specific meeting time? (Sundays at 8 p.m. for 30 minutes)
 - Write down and share your personal and family goals?
 - Understand how your family did things?
 - Write these on your "Financial Priorities" sheet
- Remember
 - Always assume your spouse is doing their very best and that you and your spouse are equal partners

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Budget Well: It's The Key To Financial Success

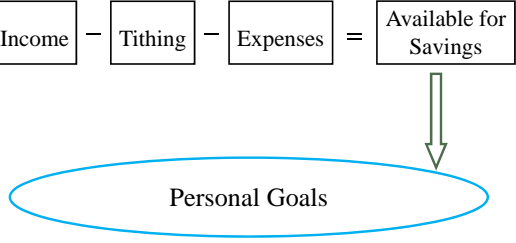
- "Every family should have a . Why, we would not think of going one day without a in this Church or our business. . . . And one of the successes of the Church would have to be that the brethren watch these things very carefully, and we do not *spend* that which we do not *have*."

—Spencer W. Kimball, April 1975

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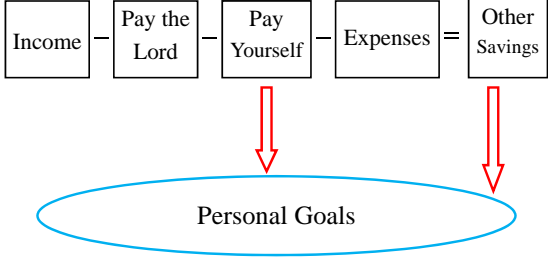
Budgeting: The Old Way

$$\text{Income} - \text{Tithing} - \text{Expenses} = \text{Available for Savings}$$


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Budgeting: The Better Way

$$\text{Income} - \text{Pay the Lord} - \text{Pay Yourself} - \text{Expenses} = \text{Other Savings}$$


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Budgeting: Pay the Lord First

- If everything we have is the Lord's, then we should pay him first
 - Set a goal to make tithes and offerings the first part of your budget, not the last part
 - Bring ye all the tithes into the storehouse, that there may be meat in mine house, and prove me now herewith, saith the Lord of hosts, if I will not open you the windows of heaven, and pour you out a blessing, that there shall not be room enough to receive it (Malachi 3:10).
 - "I, the Lord, am bound when you do what I say; but when ye do not what I say, ye have no promise" (D&C 82:10).

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MoneyWise Module 1

Understanding Financial Principles: Setting Priorities

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Pay the Lord First: Financial Priority 2

- Take two minutes to talk as a group or couple
 - What goals will you set to help you do better with your tithes and offerings?
 - Always pay a full tithe?
 - Pay a fast offering of \$___ per month?
 - Write these on your "Seven Financial Priorities" sheet

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Budgeting: A Team Approach

- A *collaborative* process will take time and commitment (START SLOW)!
 - Decide who manages what expenses--BE A TEAM
 - Identify current spending (this can take 2-3 months)
 - Draft your first budget together
 - Track spending against your first budget
 - Prepare second budget together
 - Track spending against your second budget
 - Communicate daily at first, then weekly, then monthly (*set the dates before you start*)

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Budgeting: The Envelope System


- Label one envelope for each type of expense you have
- Put receipts (or paper notes) for everything you spend in the correct envelope for one calendar month
- Together with your spouse at month-end:
 - Empty each envelope and discuss what you spent
 - Prepare another set of envelopes, and this time write the amount you have decided to spend next month on each envelope
- Next month discuss again your spending and prepare new envelopes and spending goals
- Repeat this process together for several months until you can prepare a "Twelve Month" Budget
 - If you both decide \$100 for clothes, stop buying clothes once you hit \$100 and don't take any money from your food budget

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Budgeting: The Twelve Month Budget

- This approach will help you plan for those irregular or annual expenses (charitable giving, Christmas presents, auto and life insurance, saving and investing, etc.)
- Estimate these amounts for a year
- Set aside enough money each month to cover these expenses on an annual basis (in a savings or money market account)
- Discuss with your spouse when these things come up




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Budgeting: Tips

- Don't drive each other nuts!
 - Find and concentrate on expenses that need to be controlled
- Remember you are equal partners
 - Assume you both are doing your best
- Watch out for ATM leakage
 - Keep better records
 - Write more checks
 - Use online banking and debit cards
 - Record credit and debit card transactions in your check register (if necessary)




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Budgeting: Tips

- Software can help
 - Quicken, Mint.com, Mvelopes
 - Other financial software
- Several websites, such as Mint.com and Mvelopes offer FREE ways to keep track of your Budget electronically
 - Syncs with your bank accounts, helps you keep track of loans and other payments
- Make saving easy ... Make spending hard
- Re-evaluate spending needs as life changes



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MoneyWise Module 1

Understanding Financial Principles: Setting Priorities

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Budgeting: Financial Priority 3

- Take two minutes to talk as a group or couple
 - What goals will you set to help you do better with your budget?
 - Will you/we live on a budget?
 - Will we write down all expenses each day?
 - Will we/you use a budgeting program?
 - Write your goals on your "Seven Financial Priorities" sheet
 - Remember
 - Always assume your spouse is doing their best
 - Always remember you are equal partners
 - Always talk with love when addressing these issues

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Summary

1. Financial Principles
 - The things we have are not ours
 - We are stewards over the things we have and are
 - We will be held accountable for what we do
2. Set Priorities
 - Pay tithes and offerings
 - Communicate
 - Avoid debt
 - Use a budget and build a reserve
 - Teach family members
 - Prepare for emergencies and save for long-term goals

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Summary

3. Communicate Clearly
 - Money is an issue in marriage
 - Communication is critical
 - Understand your financial personality types
4. Budget Well
 - It's a team approach
 - Start with the envelope system
 - Incorporate 12 months of spending
 - Revisit your Plan as life changes

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FHE Suggestions

- Work together to develop individual and family goals
 - Write them down and review them often
- Discuss ideas on how you can improve your budget
- Decide what your immediate financial priority will be (e.g., emergency fund, debt elimination, down payment, 401(k) or Roth IRA)
- Discuss how much money you would like to save each month after school

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Resources

***All Resources are Online at <http://marriottschool.byu.edu/plan/> and <http://personalfinance.byu.edu> (Tools and Resources, MoneyWise Workshops)

Readings

- Reading 1.1. Richard B. Miller, For Newlyweds and Their Parents, Ensign, Jan. 2006, pp. 26-31.
- MoneyWise Reference Manual 2012-2013, 5th Edition (online)
 - Chapter 1: Another Perspective on Wealth
 - Chapter 2: Creating Your Personal Financial Plan and Setting Goals
 - Chapter 3: Budgeting and Measuring Your Financial Health

Tools

- Exhibit 1.1 Seven Financial Priorities and Goal Setting Worksheet
- Exhibit 1.2 Key Questions on Money and Family

Websites

- BYU Personal Finance Website: <http://personalfinance.byu.edu>
- Videos: Lessons 1-3 (Tools and Resources, Videos)

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Understanding Financial Principles: Setting Priorities

Module 1

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MoneyWise Module 2: Financial Freedom: Living Beneath Your Means

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Financial Freedom:
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Module 2

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Discussion Topics

1. Financial Perspectives
2. Maximize Income
3. Reduce Spending
4. Start Saving
5. Eliminate Inappropriate Debt
6. Bank Wisely

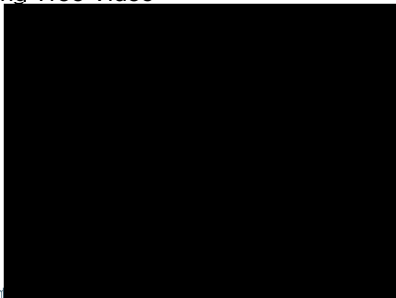


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"I'm in Debt"

Lending Tree Video



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1. Financial Perspective

- In most cases, financial problems are behavioral problems, not money problems
 - We know what we should do: live on a budget, spend less than we earn, not go into debt, etc.
- How do we motivate ourselves and others to make better financial choices?

"True doctrine, understood, changes attitudes and behavior. The study of the doctrines of the gospel will improve behavior quicker than a study of behavior will improve behavior."

(Boyd K. Packer, "Little Children," Ensign, Nov. 1986, 16.)


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2. Income: Maximize your income

Why waste time working at a low-paying job?

- Money today is worth more than money tomorrow
- Earned money is harder to spend than borrowed money




Working 15 hours/week at \$8/hour for 4 years could:
save \$24,960 in student loans
OR
give you \$29,390 in Roth IRA or other investments (assumes 8% return)

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Income: Increasing Your Earning Power

- Be good at what you do
 - To increase wages, increase your contribution
 - Education is the key
- Be a problem solver
- Understand what drives your business
- Have mentors in your field
- Network



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MoneyWise Module 2: Financial Freedom: Living Beneath Your Means

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3. Reduce Spending:

You cannot spend your way to financial freedom!

- Roadblocks include:
 - Lack of specific savings goals
 - Poor record keeping
 - Easy credit
 - Stress
 - Entertainment spending
 - Excessive debt



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Spending: See Through the Marketing Hype

- SAVE \$400
 - \$699⁹⁹
 - \$15 per month*
- FREE
 - and more at midnight
 - Saturday, Dec. 27th
 - 11 am - 4 pm

“Come in and save big! You can’t afford to miss this once-in-a-lifetime event. And this weekend only get free delivery on qualifying purchases!”

- The monthly payment distraction
- The elusive “regular price”

Source: Belsky and Gilovich, Why Smart People Make Big Money Mistakes

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Spending: The Real Cost of Consumer Credit

- What’s in an asterisk?

*Annual percentage rate: Fixed at 21%

Only 120 payments (10 years), sales tax (6.6%), and \$14 per month

What is the real cost?

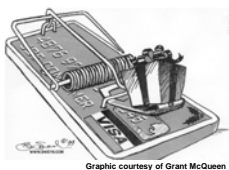
| | |
|-----------|-----------------|
| Stereo | \$699.99 |
| Sales tax | 46.20 |
| Interest | <u>1,044.05</u> |
| Total | \$1,790.24 |

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Spending: Other Financial Traps

- Payday loans
- “Free”
- Rent to own
- Leasing cars
 - Cost comparisons ignore older used cars
- The tax refund bonanza
- Extended warranties, extras




Graphic courtesy of Grant McQueen

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Spending: Don't Buy Stuff You Can't Afford!




<http://www.hulu.com/watch/1389/saturday-night-live-dont-buy-stuff> (2:28)

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Spending: Ownership Is Stewardship

- Don’t be anxious to own “stuff”
- Look beyond the acquisition cost
 - Maintenance
 - Insurance
 - Repair
 - Storage
 - Opportunity costs
 - Depreciation
 - Time!!!



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MoneyWise Module 2: Financial Freedom: Living Beneath Your Means

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4. Start Saving: What Do You Value Most?



- 2 Nephi 9:51 “Do not spend money for that which is of no worth.”
 - It doesn't say “...unless you can afford it” or “...unless you get approved”

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Saving: Pay Yourself Second

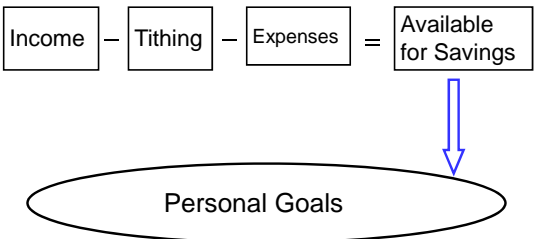
After paying your tithing of 10 percent to the Lord, you pay yourself a predetermined amount directly into savings. That leaves you a balance of your income to budget for taxes, food, clothing, shelter, transportation, etc. It is amazing to me that so many people work all of their lives for the grocer, the landlord, the power company, the automobile salesman, and the bank, and yet think so little of their own efforts that they pay themselves nothing.

(L. Tom Perry, "Becoming Self-Reliant," Ensign, Nov. 1991, 64.)

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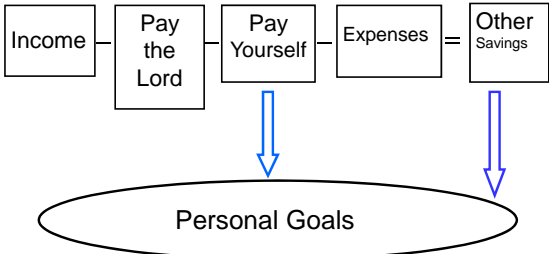
Saving: The Old Way



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Saving: The Better Way



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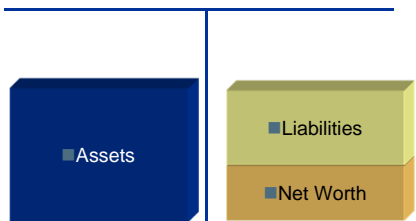
Net Worth: How can it help?

- Net worth = Assets - Liabilities
- Assets:
 - Valued at market value, not purchase price
 - These are both real and financial assets
- Liabilities
 - Credit card and other consumer debt
 - Mortgages
- Why do this?
 - Net worth helps you do things in the future
 - Track over time—it should be growing
 - It identifies assets that could be used to reduce debt

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Net Worth—A Picture



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Impact of Credit Card Purchase

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Impact of Credit Card Purchase

How do you balance this?

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What Adds to Net Worth?

Net Worth Must Shrink!

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Debt: Appropriate vs. Inappropriate Uses

- Appreciable assets increase in value
 - Homes, education, investments
 - May require accumulating a manageable amount of debt
- Depreciable assets lose value
 - Cars, electronics, entertainment, vacations
 - Often referred to as "bad debt" or "consumer debt"
 - Minimize spending on depreciable property

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Debt: Putting Savings to Work with Debt Elimination

- Plastic surgery
 - Cut 'em up if they are a temptation
 - Consider keeping accounts open for emergency and to improve credit scores
- Follow a debt elimination schedule (Exhibit 2.1)
 - Start with highest interest or smallest balance

Source: Marvin J. Ashton, *One for the Money*

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Debt: Opportunity Cost of Student Loans

- What you give up when you choose something else?
 - \$5.00 a week buys either:
 - Option A: Date to dollar movie
 - Option B: Power sized Jamba Juice
 - Option C: Invest for a goal
 - After 40 years at 8% you would have \$76,285
- We make financial choices every day
- Can you see the future impact?

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MoneyWise Module 2: Financial Freedom: Living Beneath Your Means

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Debt: Opportunity Cost of Student Loans

- How much will you pay on Stafford loans?
- What is the “real” cost?
 - Assume “best case” subsidized Stafford at 6.8% APR with no interest growing during school
 - Unsubsidized Stafford loan or alternative loan will be much more expensive

\$1.00



Borrow


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Debt: Opportunity Cost of Student Loans


- How much will you pay on student loans?
- The “real” cost? (Assume 10 years, 30% tax rate, and 6.8% APR)

\$1.00




Borrow

\$1.41



Pay

\$1.83



Earn

| | Borrow | Give Up |
|----------|---------------|---------------------|
| | \$1.00 | > \$1.83 |
| Rent | \$700 | > \$1,284 |
| Dinner | \$50 | > \$110 |
| Gas gal. | \$3 | > \$6 |
| Clothing | \$100 | > \$183 |
| Car pmt. | \$300 | > \$550 |

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Debt: Student Debt Cautions

- Avoid “alternative” loans
 - No interest rate cap!
 - Rate changes quarterly
 - Rates may be twice as high as government loans
 - 12% loan **DOUBLES** in 6 years
- Avoid car loans
 - Beware paying interest “twice” as it falls in value
- Eliminate credit card debt
 - Most students hurt their credit score
 - Decades of payments divert money from life goals

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MoneyWise Workshop

Pay Off Consumer Debt: Financial Priority 4

- Take two minutes to talk as a couple or group
 - What things will you do to help you pay off your consumer debt?
 - Save \$___ each week to pay down principle
 - Not go into any more consumer debt?
 - Write these on your “Eight Financial Priorities” sheet
- Remember
 - Always assume the spouse is doing their very best
 - Always remember you are equal partners


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MoneyWise Workshop

Banking: Options

Student account offerings:

- Bad credit
 - Free checking, check (debit) card(s)
- Good credit (requires credit check)
 - Regular checking (minimum balance required), check (debit) card(s), overdraft protection
 - Credit card(s)
- Free statement savings account, easy access
- Internet banking, online bill pay, etc.



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Banking: Tips and Tricks

- Young couples usually benefit from having one joint checking account, but you may need two!
- Money market accounts are a good, safe place to put excess funds
- Balance your checking account each month to avoid overdrafts, ask your bank for help if you are not sure how
- If you use online banking services (bill-pay, etc.) be sure you can integrate that information with your budget
- Banks are usually not the best source for mortgages (covered later in the course)

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MoneyWise Module 2: Financial Freedom: Living Beneath Your Means

III MoneyWise Workshop

Summary

1. Financial Perspective
 - Most financial problems are behavioral problems, not money problems
2. Maximize Income
 - Increase your earning power
 - Education is the key
3. Reduce Spending
 - Avoid financial traps
 - You cannot spend your way to financial freedom

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Summary

4. Start saving
 - The time to begin saving for your goals is now
5. Eliminate inappropriate debt
 - Appropriate debt is for education and a modest home
 - All other debt is inappropriate
6. Bank wisely
 - Determine your banking needs
 - Find a bank that can meet your needs at the lowest cost (preferably free)

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FHE Suggestions

- Set up a debt elimination schedule (if applicable)
- Discuss ideas for expanding income, both short- and long-term
- Decide what your immediate financial priority will be (e.g., emergency fund, debt elimination, down payment, 401(k) or Roth IRA)
- Make a mental inventory of your major possessions—have you chosen a lifestyle that's making it hard to get ahead financially?

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Resources

***All Resources are Online at <http://marriottschool.byu.edu/plan/>

Readings

- Reading 2.1 Marvin J. Ashton, "One for the Money: Guide to Family Finance," Church of Jesus Christ of Latter-day Saints, 2006
- Reading 2.2 Gordon B. Hinckley, "To the Boys and to the Men," *Ensign*, Nov. 1998, 51.
- MoneyWise Reference Manual: Chapters 5 (Consumer and Mortgage Loans) and Chapter 6 (Debt and Debt Reduction)

Tools

- Exhibit 2.1 The "Eliminate Your Debt" Schedule
- Exhibit 2.2 Debt Elimination Spreadsheet with Accelerator
- Exhibit 2.3 Debt Amortization and Prepayment

Websites

- BYU Personal Finance Website: <http://personalfinance.byu.edu>
 - Intermediate Lessons: Debt, Consumer and Mortgage Loans

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Financial Freedom:
Living Beneath Your Means
Module 2

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