The Why's, What's and How's of Personal and Family Finance

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The How's

The final question to answer is the "how's" of personal and family finance, the practical application. Now that we understand the doctrines and principles, the "why's" and the "what's," it should help us with the application, or the "how's." What are the things we should be doing to get our financial houses in order? After review of the scriptures, counsel from Church leaders, and discussions with bishops, stake presidents, academics, and practitioners, we suggest **eight key areas** which are critically important for us to follow in becoming wiser financial stewards and in getting and keeping our financial houses in order.

1. Pay the Lord first in tithes and offerings

Tithing is the primary law upon which financial blessings are predicated. If we pay a full tithing and are generous with offerings, we are promised that the windows of heaven will be opened.[1] What is a full tithing? The First Presidency gave the following definition of tithing: "The simplest statement we know of is the statement of the Lord himself, namely, that the members of the Church should pay 'one-tenth of all their interest annually,' which is understood to mean income. No one is justified in making any other statement than this."[2]

For husbands and wives with regular monthly income, making out the first check each month to the Church for tithing is a reflection of their united faith. While there is no promise that the blessings will immediately be financial, they will be the blessings we need, nonetheless. We should always remember, as the scriptures remind us, that "when we obtain any blessing from God, it is by obedience to that law upon which it is predicated."[3] And obedience is the first law of heaven.[4]

2. Create and use a budget

Budgeting is the process of pondering, planning, setting goals, and following through on our financial plans and goals. Most budgets include a monthly plan for expenditures by category (e.g., tithing, investments, food, housing, clothing, insurance, medical, cars, entertainment, etc.) and then an annual budget for other items. The amounts in a monthly and annual budget should be less than the net income available. When followed, a well-designed budget helps keep us out of debt.

If we have a family, we develop our budget with our spouse and may include the input of children as well. In essence, a budget is the spiritual creation first (as we plan our expenses), followed by the physical creation next (as we spend according to the plan). In a family, it is important to review expenses regularly, perhaps weekly, to assess the current status of the budget.

A living prophet counseled:

> Every family should have a budget. Why, we would not think of going one day without a budget in this Church or our businesses. We have to know approximately what we may receive, and we certainly must know what we are going to spend. 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.[5]

If one of the reasons for the financial success of the Church is that of living within a budget, shouldn't we do the same individually and in our families?

3. Avoid debt

We have repeatedly been counseled to **avoid debt** wherever possible. President Monson recently wrote, "We urge you to be modest in your expenditures; discipline yourselves in your purchases to avoid debt. Pay off debt as quickly as you can, and free yourselves from this bondage."[6] The only exception to this counsel is debt for a modest home, for education, and perhaps for modest transportation (if needed). Consumer debt should be avoided like the plague. President Ezra Taft Benson counseled: "The Lord desires his Saints to be free and independent in the critical days ahead. But no man is truly free who is in financial bondage."[7]

If you and your family find yourselves in debt, then be smart about eliminating indebtedness. Stop unnecessary spending. Follow a debt elimination calendar and cut spending wherever possible to make this happen. Think of debt reduction as an investment with the highest possible returns and no risk. Cut up cards and close accounts if they are too great a temptation. And work to pay off all debt, including mortgage and education debt, as you save for your other long-term goals.

4. Prepare for emergencies and build a reserve

A family will have greater peace of mind and will be more insulated from unexpected financial difficulties if they **build a financial reserve** to act as a cushion for rough times. Most financial planners recommend 3 to 6 months' worth of living expenses be set aside in a savings account or money market fund. That money, then, is ready to be used immediately, when truly needed. These emergency funds should be held in reserve for major unexpected needs—lost job, hospital or medical bills, major home or car repairs, travel to a funeral, etc. In addition to a cash reserve, it is important to be prepared in other ways: build up appropriate food storage and assemble 72-hour kits, first aid, and other emergency essentials to prepare against a time of need.

5. Save for short- and long-term goals

After a reserve is built, a husband and wife should agree on, and **begin saving** for, short- and long-term goals. Some short-term goals may include the down payment to buy a home, to purchase a newer vehicle, or to buy furniture. It is gratifying to work together and sacrifice as a couple to save for these short-term goals.

Most couples will set the short-term goal to own their own home. It is appropriate to borrow for a modest home, but be cautious. A mortgage is the likely largest financial obligation you will take on, and it will be a burden on your shoulders until the day it is paid. President Gordon B. Hinckley's advice was to "get a modest home and pay off the mortgage,"[8] the same advice he received from his father. Try not to be "house rich and cash poor."

A long-term goal that most couples have is retirement. A couple should decide together to save for retirement and understand their available options. If your employer offers a matching contribution to a 401k, always contribute enough to get the full match. If your employer does not offer a 401k, then consider investing in an IRA. Until you make a substantial income, it is usually advisable to choose a Roth 401k or Roth IRA rather than the traditional 401k or IRA. When you are young, invest in primarily stock-based, diversified mutual funds consistent with your ability to tolerate risk. Invest for the long term, and don't try to time the market.

6. Protect yourself and your family through adequate insurance

Without insurance, major financial setbacks could wipe out decades of savings. **Adequate insurance** that protects major investments provides a family peace of mind. Elder Marvin J. Ashton counseled:

> Appropriately involve yourself in an insurance program. It is most

important to have sufficient medical, automobile, and homeowners insurance and an adequate life insurance program. Costs associated with illness, accident, and death may be so large that uninsured families can be financially burdened for many years.[9]

Once you have someone who is dependent upon you for income, you have a moral obligation to get life insurance. You should have enough insurance to replace your income for long enough to raise your children and for your spouse to be financially self-sufficient. Some financial planners recommend 8-12 times your gross salary. In general, term life insurance is preferable to whole life insurance to obtain this coverage. In addition, be sure to have adequate insurance against other catastrophic losses as your financial stewardship increases. This should include, at a minimum, health, auto, life, and homeowners/renters insurance.

7. Open communication about finances

Open, transparent financial **communication** between husband and wife is critical to managing finances effectively. Husband and wife should each communicate about and agree to live within the family budget. Communication plays an important part as the couple works together and agrees upon financial goals. Major purchases require open communication so that each understands and agrees to these important financial decisions. Hide no assets or liabilities from each other.

Regarding open financial communication in marriage, Elder Marvin J. Ashton wrote:

> Management of family finances should be full and equal and mutual between a husband and a wife. Control of the money by one spouse as a source of power and authority causes inequality in a marriage and is inappropriate. Conversely, if a marriage partner voluntarily removes himself or herself from family financial management, that is an abdication of necessary responsibility.[10]

Since family finance is a sacred stewardship, our communication with God through prayer is critical at every juncture. We have been promised that if we are humble, "the Lord thy God shall lead thee by the hand, and give thee answer to thy prayers."[11] We also have the promise from Nephi that "the Lord giveth no commandments unto the children of men, save he shall prepare a way for them that they may accomplish the thing which he hath commanded them."[12] This promise even includes divine help with our finances.

Christ-like attitudes and relationships toward money based on the doctrines and principles discussed above should be developed by all individuals and couples as they come closer to the Savior, work on common individual and family goals, and put their financial lives together as a couple.

8. Teach your children and family

It is essential that we **teach our children** to manage money. Teach family members why we want to be financially responsible, specifically the "why's" and the "what's." Teach them to set and achieve goals, and let them see you doing the same. Teach them the principles of financial management and show them how you apply it in your life. Involve them in creating their own budgets and in the family budgets as well, and in saving and sacrificing to achieve individual and family goals consistent with their age and abilities. Teach the principles of hard work, frugality, and saving, and stress the importance of obtaining as much education as possible. And teach through your example, the most powerful method and teaching tool available.

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[1] Malachi 3:10.
[2] First Presidency letter, 19 Mar. 1970).
[3] D&C 130:21.
[4] Bruce R. McConkie, Mormon Doctrine, p. 539.
[5] Spencer W. Kimball, April Conference, 1975, pp. 166-167.
[6] Thomas S. Monson, *Ensign, 2014*
[7] Ezra Taft Benson, "Prepare Ye," *Ensign*, Jan. 1974, p. 69.
[8] "Living Worthy of the Girl You Will Someday Marry," *Ensign*, April 1998.
[9] Marvin J. Ashton, "Guide to Family Finance," *Liahona*, Apr. 2000, 42.
[10] Marvin J. Ashton, "One for the Money," Intellectual Reserve, 2006, p. 3.
[11] D&C 112:10.
[12] 1 Nephi 3:7.