

Fundamentals of Money Management
(My Personal Reflections)
by
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Over the thirty-one years of my pastoral ministry, I was often called upon to give advise to families and individuals about how to properly and biblically handle their personal finances. To be sure, through those years God taught me a lot, too! I have set out below a summary of some of the things I have learned along the way. I hope they will also be of benefit to you.

First, let me set out some general observations – and I do mean general:

- Most people live at the level of their income. They usually buy on payments that fit into what they think they can pay per month without much regard to how much they are really paying over time (interest, etc).
- Accordingly, the average person has little discretionary income.
- Most people do not budget. They may be able to list their monthly obligations, but they have no basic plan for allocating their income.
- Without a budget, plans are usually not made for periodic expenditures (taxes, annual or semi-annual insurance payments; auto repairs; vacations; etc).
- Emergency and retirement savings are sadly lacking.
- Even if a person is able to list in a general sense where they have spent money (my experience is that all who do this miss a great deal), without a budget, there are no guidelines to control or accurately measure whether or not you are over or under spending – until after the fact.

Let me define what I mean by a budget. *A budget is a plan for allocating resources: a plan specifying how resources will be spent or allocated during a particular period.* The process begins with the establishment of monthly income. Everyone with any work history at all has an idea of what to realistically expect for income. It may vary a little (investment income, royalties, etc), but everyone can establish a reasonable number to work with. Your budget will be formulated as a plan for spending or allocating that income.

Most expenses are made on a monthly basis – food, housing, utilities, insurance, clothing, entertainment, giving, etc. Some, however, are only made once each year. When I purchased my home, because I did not obtain a loan for the purchase, I became responsible for my own taxes and insurance (often, people who have a strong equity position in their home choose to do this, too). Those expenses also must be included in my budget – they will be paid from my income! That means I will need to set aside an amount on a monthly basis (perhaps putting it into a money market account), so that when January of next year rolls around, I don't have to borrow money or sell an asset to make the payment. It certainly can bring a person a lot of mental comfort to know that when it comes time to pay the money it will be there to do so.

I usually suggest that people save in three categories: 1. for an emergency fund (usually three to six months of normal income) that will be used only in an emergency. An engine blowing up in a car would be an emergency; worn out tires would not be – normal repairs and

up-keep are budget line items in themselves. 2. for periodic expenses (I mentioned this earlier for taxes and insurance). No one buys new tires or gets their oil changed every month, but they will at some time. So you set money aside on a monthly basis for that purpose. 3. for retirement. I suggest that a financial planner be engaged to help plan in this area.

Another area that many (most?) do not budget for is giving. When people are just starting out I suggest that they give 10%, save 10%, and live off of 80%. As time passes I suggest that they increase both their giving and savings and adjust their life-style to a lower percentage of their income.

Depending upon the level of income, budgeting may require some very hard decisions. Sometimes this happens when people retire and their income is greatly reduced. At today's interest rates even if a person has a million dollars in an income producing account, their income will likely not be more than \$50,000.00 annually, or about \$4,000.00 per month. If that person/family has been used to an income of \$10,000.00 per month, it will require serious budgeting adjustments in order to live within their income. If they are unwilling to make such adjustments, most likely they will supplement their income from their savings – until all their money is gone!

Some years ago, I heard Paul Harvey say, “Self-government without self-discipline will never work.” That is a true statement. And it applies to all of life, not just to a national government. It applies to how we eat, how we use our time, as well as how we use our money. The best budget in the world is not a guarantee that a person will not fail financially. But I've never known a person who had one and stayed within it who did. God help the one who does not plan; in reality they are planning – planning to fail.

Let me end with some additional suggestions:

- Stay out of debt (pay cash for everything). In only rare cases does the return on investment exceed the cost of borrowing money. Pay cash for your car (save until you can pay cash; buy a good used car rather than a new one; etc).
- Don't use credit cards for credit (pay the balance at the end of every month). Everything you spend with a credit card (or debit card) must relate to a line item in your monthly budget.
- Before you spend any amount, always ask, “Within what line item of my budget will this fit?” And if it doesn't fit or if you have already spent what you had allocated, don't spend!