

MoneyWise Module 2: Financial Freedom: Living Beneath Your Means

Personal Finance Essentials:
8 Financial Priorities

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Financial Freedom:
Living Beneath Your Means

Module 2

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Discussion Topics

1. Perspectives: Behavior versus money
2. Income: Maximize your income
3. Reduce Spending: You cannot spend your way to financial freedom
4. Start Saving: What do you value most?
5. Debt: Eliminate Inappropriate Debt
6. Bank Wisely: Options



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1. Perspectives: Behavioral versus money

- 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 to opportunity
 - Be a problem solver
- Understand what drives your business
 - Have mentors in your field--network
 - Make them want to pay you more



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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 HOT DOGS & DRINKS
Saturday, Dec. 27th
11 am - 4 pm
While Supplies Last



- “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! And a free hot dog.”
- The monthly payment distraction
- The elusive “regular price”
 - Don’t go broke “saving” money


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%



A \$699.99 stereo at only \$15 per month
120 payments (10 years) and sales tax (6.6%)

What is the real cost?
After taxes (22%) and tithing (10%)

Principle and Interest Costs	
Stereo	\$699.99
Sales Tax	46.20
Interest	1,044.05
Total Cost	\$1,790.24

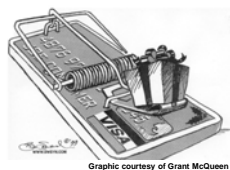
Real Total Costs	
Stereo	\$699.99
Sales Tax	46.20
Interest	1,044.05
Total Cost	\$1,790.24
Taxes	579.20
Tithing	263.27
Real Cost	\$2,632.71

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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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4. Start Saving: What Do You Value Most?





- 2 Nephi 9:51 “Do not spend money for that which is of no worth, nor your labor for that which cannot satisfy”
 - 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 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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Credit Card Purchase: Impact

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Credit Card Purchase: Impact

■ How do you balance this?

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What Adds to Net Worth?

■ Flat Screen TV

■ Assets

■ Credit Card Debt

■ Liabilities

■ Net Worth

■ Net Worth Must Shrink!

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5. Debt: Eliminate inappropriate debt

- 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
- Develop a debt elimination plan (Exhibit 2.1) and follow it
 - Start with either highest interest or smallest balance first

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Debt: Develop a Debt Elimination Plan

- Follow a debt elimination schedule
 - Start with highest interest or smallest balance first, pay the minimum payments on all loans except the one to pay off. Add an accelerator if possible
 - Once that is paid off, move the funds to the next loan (and the next loan) until they are all paid off

Month	Credit Card	Car	Student Loan	Total
Jan.	145	210	100	455
Feb.	145	210	100	455
Mar.		355	100	455
Apr.		355	100	455
May			455	455

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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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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?
- What is the "real" cost to borrow \$1? (Assume 10 years, 22% tax rate, 10% tithing and 6.8% APR)

	Borrow	Earn
	\$1.00	> \$2.03
Rent	\$700	> \$1,422
Dinner	\$50	> \$102
Gas gal.	\$3	> \$6
Clothing	\$100	> \$203
Car pmt.	\$300	> \$609

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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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Pay Off Consumer Debt: Financial Priority 3

- 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?
 - Minimize student debt?
 - Write these on your "Eight Financial Priorities" sheet

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6. Bank Wisely: 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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Financial Freedom Take Aways

- Perspectives: Behavior versus money
- Income: Maximize your income
- Reduce Spending: You cannot spend your way to financial freedom
- Start saving: What do you value most
- Debt: Eliminate inappropriate debt
- Bank wisely: Options

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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://personalfinance.byu.edu>

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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