Your Money Map

Description of Map

Overview

Bev and I had a dream. We wanted to work toward *true financial freedom*. In other words, we wanted to get completely out of debt even including our mortgage and be in a position where we didn't need to earn a salary to meet our needs. We wanted to live a modest lifestyle on the income from our saving, investments and retirement. And be in a position to volunteer to serve a ministry without needing a salary.

But we had all kinds of questions. Where should we start? How could we stay motivated for so long? We knew reaching this goal would take a long time, but that by God's grace it was possible. We were encouraged when we learned that Proverbs 21:5 says, *"Steady plodding brings prosperity."*

We realized steady plodding was the way to reach true financial freedom. We needed to have a plan with a series of small achievable steps along the way. And we always needed to focus on reaching the next step.

The money map is easy to follow and is a step-by-step guide that will work for *everyone*, regardless of income. You may not reach the final destination, but with God's help you can make progress. And each destination brings greater financial health and stability.

The map answers two big questions—where am I financially, and what do I do next? The first step is to find out where you are.

Look at the map. There are seven destinations. Review each one and check off what you've already accomplished. Now, you know where you are. The next step is to determine what to do next, which is simply to focus on accomplishing the *first destination you haven't yet finished*.

Complete each destination *in order* before proceeding to the next. This will help you focus, make steady progress and build a solid financial foundation. Click on each destination to learn more.

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Destination 1

- Learn God’s way of handling money
- Start using a spending plan (a budget)
- Save $1,000 for emergencies
- Begin giving

Learn God’s way of handling money

God loves and cares deeply for us. And that’s why the Bible has so much to say about money. It contains 2,350 verses dealing with money and possessions, and 15 percent of everything that Jesus Christ said had to do with it. God knows that from time-to-time money will be a struggle for all of us, and He wants to equip us to handle it well. The financial truths revealed in the Bible are practical and work for all generations and in any economy. ***Suggested resources*:** click on *Navigating Your Finances God’s Way* small group study or *Your Money Counts* book to learn more.

Start using a spending plan (a budget)

We don’t like to use the word *budget*, because it feels like a financial straightjacket that requires hours of monotonous bookkeeping. We prefer to call it a *spending plan*, because it simply enables you to spend your income on that which is most important to you. If you need to start one, click on compass spending plan to learn how.

Save $1,000 for emergencies

The reason for saving $1,000 for emergencies is because emergencies happen—the refrigerator goes on the fritz, the car brakes won’t work. And if you have saved the money for emergencies, you don’t have to pile up more debt to pay for them.

Begin giving

There are more verses dealing with giving than any other financial topic in the Bible. Gifts obviously benefit the recipient, but in God’s economy, gifts given with the proper attitude benefit the giver more than the receiver. *“Remember the words of the Lord Jesus, that He Himself said, ‘It is more blessed to give than to receive’”* (Acts 20:35). However, generosity without an attitude of love provides no benefit to the giver. *“If I give all my possessions to feed the poor…but do not have love, it profits me nothing”* (1 Corinthians 13:3).

The Bible teaches that we should give to our church, the poor and needy and to those who teach God’s word. Especially when we face financial difficulties, it requires faith in God to give generously. The Lord recognizes this and encourages us to *“Bring the whole tithe* [give 10 percent] . . . *and test Me now in this,” says the Lord of hosts, “if I will not open for you the windows of heaven, and pour out for you a blessing until there is no more need”* (Malachi 3:10). This is the only instance in the Bible where the Lord invites us to test Him.

Destination 2

- Increase Emergency Savings to 1 month's income
- Pay off Credit Cards

Increase Emergency Savings to 1 month's income
Keep adding to your emergency savings until you accumulate 1 month's income. We recommend adding half of your monthly surplus to your emergency savings and half to prepay your credit card debt. Once you've accumulated 1 month's income in your emergency account, stop adding to the savings and apply the entire surplus to pay off your credit cards. If you pay off your credit cards first, add the entire monthly surplus to your emergency savings.

As you work on Destination 2, continue contributing to your retirement account up to the amount your employer matches. For example, if your employer matches up to 3 percent of your income, contribute 3 percent of your income to retirement because it is *free money*. But do it only if, and it is a *big IF*, you can still make steady progress on Your Money Map. If you can't, temporarily stop your retirement contributions until you reach Destination 4.

Pay off Credit Cards
Snowball your way out of your credit card debt, and here's how. In addition to making the minimum payments on *all* your credit cards, focus on paying off the smallest balance card first. The reason we don't recommend paying off the card with the highest interest first is simple—getting out of debt is hard and we all need to be encouraged by seeing the balance go down and finally to be completely paid.

After the first credit card is paid off, apply its payment toward the next smallest one. After the second card is paid off, apply what you were paying on the first and second toward the third smallest. That's the snowball in action!

Destination 3

- Increase Emergency Savings to 3 month's income
- Pay off Consumer Debt (auto, student loans, etc.)

Increase Emergency Savings to 3 months income
When you arrive at Destination 2, you have accumulated an emergency fund equal to 1 month's income. Now, you are going to increase your emergency savings to 3 months income.

Use exactly the same strategy recommended for Destination 2. Add half of your monthly surplus to your emergency savings and half to prepay your consumer debt. When you've reached the goal of three months income in your emergency fund, stop adding to it. Instead, apply the entire surplus to pay off your consumer debts. If you pay off your consumer debts first, add the entire surplus to your emergency savings until you reach that goal.

Pay off Consumer Debt (auto, student loans, etc.)
Consumer debt is all debt other than credit card debt, the home mortgage, and business loans. How do you decide which consumer debt to pay off first? The same way you decided which credit card to pay off first—snowball them!

Continue making the minimum payments on all your consumer debts, but focus on accelerating the payment of your smallest higher-interest consumer debt first. Then, after you pay off the first consumer debt, apply its payment toward the next smallest one. After the second one is paid off, apply what you were paying on the first and second toward the third smallest consumer debt, and so forth.

The three most common consumer debts are auto debt, student loans, and home equity loans, including home equity lines of credit. To learn more click on auto debt, student loans, home equity loans.

Auto Debt. Car debt is one of the biggest obstacles for many people on their journey to true financial freedom because they get out of it. Just when they are ready to pay off a car, they trade it in and purchase a newer one with credit. Unlike a home, which can appreciates in value, the moment you drive a car off the lot it *depreciates* in value. It's worth less than you paid for it.

Take these steps to get out of auto debt: (1) Decide to keep your car at least three years longer than your car loan, and pay it off. (2) After your last payment, keep making the payment, but pay it to yourself. Put it into an account that you will use to buy your next car. (3) When you're ready to replace your car, the cash you have saved plus your car's trade-in value should be sufficient to buy a low-mileage used car without credit.

Student Loans. Student loans come from two sources: the government and private lenders. The government usually offers the lower interest rates because they want to encourage college attendance. They subsidize the loans to drive down the cost.

The day always comes when student loans must be repaid. If you have more than one school loan, consolidating them may be a good option. It may reduce your interest rate and lower your monthly payment. If you are unable to consolidate them, pay them off using the same "Debt Snowball" strategy as with credit card debt.

Home Equity Loans. Home equity loans are simply additional mortgages: They use the equity in your home as the collateral that secures the loan. The two most common are a second mortgage and a home equity line of credit. Don't secure a home equity loan without understanding the risks. If you cannot pay a credit card bill, the issuer can take you to court and sue you for recovery. With a home equity loan, however, failure to pay could cost you your home.

Think of a home equity line of credit (HELOC) as a *giant credit card*. You can borrow whenever you want and as much as you want—up to the credit limit. Your monthly payments are based on the amount you actually borrow. The major downside to using a HELOC is that it can be a *huge* temptation. Just like a credit card, the tendency is to use it too often rather than spending carefully. Pay off home equity loans using the "Snowball" method if you have more than one of them.

Destination 4

- Save for Major Purchases (home, auto, etc.)
- Save for True Financial Freedom (retirement)
- Save for Children's Education and Save for Business (if you want to start one)

Save for Major Purchases (home, auto, etc.)

To establish the order in which you will save for future needs, establish your goals and decide what are most important to you. This will help guide how you choose to allocate your savings. For example, you may already own your home, so won't need to save for a down payment. However, saving for your retirement, your children's education and starting a business may be your priorities. You may decide to allocate your savings this way: 40 percent for retirement, 40 percent for the children's education, and 20 percent to start a business.

Save for True Financial Freedom (retirement)

Every year more and more companies break their promises to provide a pension to their employees. Some think the Canada Pension Plan will run out of money. The bottom line: don't rely solely on an employer or the government; *you* need to invest for your retirement.

When investing for retirement I recommend a simple rule of thumb*: First, take advantage of all employer matches, and second, invest in an RRSP*. If your employer offers to match your contribution, do it! It's free money. For example, if your employer will match up to three percent of your salary in an RRSP contribution, make sure you put at least three percent in. It's that simple.

Invest in a Tax Free Savings Account (TFSA). I'm a huge fan of the TFSA. Although you don't get a tax deduction for your contribution, it grows tax free and if you need to use some of it you can, tax free, and return it later! Since there are yearly limitations, check with your tax preparer to determine how much you can invest in a TFSA.

Save for Children's Education

Paying for a college education is an opportunity for parents and children to grow closer to each other and to the Lord. As soon as children are old enough, pray together each week for God to provide funds for their education. Ask God for solutions that will eliminate or reduce the need to borrow. And then watch! He is eager to reveal Himself by answering our prayers.

It is a blessing when parents are able to save to help pay for their children's education. An RESP, started for your children when they are young is an excellent way to save for their education later. Often grandparents are willing to contribute.

Many parents and grandparents are not in a financial position to fund any part of their children's education. If you're one of them—*don't feel guilty*! You can only do what you can do, and this may be a blessing in disguise. When children are old enough, have them work to save for their college. When students work to pay for college, they appreciate it more, are more serious about their studies, and develop a solid work ethic.

Save for Business (if you want to start one)
The reason for waiting until Destination 4 to begin saving for a business is that it is important to have your *personal* finances as stable as possible. When you no longer have credit card or consumer debts, your monthly expenses are lower. And having set aside three month's living expenses (at Destination 3), you have a margin in case you need income from the business during some of its lean months.

This may surprise you: It is preferable to start your business *before* you buy your home. The Bible says, *"Build your business before building your house"* (Proverbs) In other words, create your source of income; then acquire your home.

One of the most common reasons for the failure of start-up businesses is lack of capital—not enough cash saved up. When you begin a business with lots of borrowed money, you invite added pressure to be profitable quickly. Many businesses require several years to become profitable. So, these are my recommendations: (1) Be patient! (2) Save as much as you need before launching your business. (3) Use as little business debt as possible, and pay it off as quickly as possible. When you operate with little or no debt, you have more financial stability to weather unexpected challenges.

Destination 5

- Purchase Affordable Home
- Start Prepaying Home Mortgage
- Begin Investing

Purchase Affordable Home
There are two rules of thumb for purchasing an affordable home. First, put a down payment of at least 20 percent of the purchase price. Smaller payments also make it easier to afford larger prepayments, speeding up the day when you can burn your mortgage. And starting with at least 20 percent equity protects you from the becoming "upside down" on your home mortgage where the debt is greater than the value of your home.

The second rule of thumb is your total housing expenses should not exceed 40 percent of your gross income**.** That 40 percent includes all housing expenses: mortgage payment, real estate taxes, utilities, insurance, and maintenance (estimate maintenance each year to be 1–2 percent of the value of the home). If these combined expenses exceed 40 percent of your income, you will need to reduce spending in other categories.

Start Prepaying Home Mortgage

For most of us our home mortgage is our largest expense. Without a mortgage, we would enjoy greater financial stability. It would free up a big part of our income so we could give more generously to the work of Christ *and* invest more aggressively to reach our goal of *true financial freedom*.

There are several ways to accelerate the payment of your home mortgage. If you need a new mortgage or the conditions are favorable for you to refinance, consider a shorter-term mortgage. You can also accelerate the repayment of your mortgage simply by paying an extra amount each month. Contact your lender to find out how they want this done to ensure your prepayment is reducing the outstanding principal. Most lending institutions have a prepayment calculator right on their website.

Begin Investing

There are three biblical investing principles that are important to apply.

First, *the fundamental principle for becoming a successful investor is to spend less than you earn and then regularly invest the surplus.* In other words, be a steady plodder. We've talked about this before. The Bible says, *"Steady plodding brings prosperity*" (Proverbs 21:5). Nothing replaces consistent, month-after-month investing. Regardless of the economy or investment climate—just do it.

Second, s*eek the advice of a professional.* If you are not an experienced investor, we recommend that you use a financial planner or investment advisor when you begin investing. Use an advisor who understands what the *Bible* says about money because it will make a huge difference in the quality of their advice. If you do not know one, Kingdom Advisors Canada www.kingdomadvisors.ca is an excellent place to search. I suggest interviewing at least three candidates before choosing the one with whom you are most comfortable.

Third, the Bible says, *"Divide your portion to seven or even to eight, for you do not know what misfortune may occur on the earth"* (Ecclesiastes 11:2). No investment is guaranteed, and money can be lost on any of them. The stock market, bonds, real estate, gold—you name it—can perform well or poorly. Each type of investment has its own advantages and disadvantages. Since the perfect investment doesn't exist, we need to diversify and not put all our eggs in one basket.

Destination 6

- Home Mortgage Paid Off
- Children’s Education Funded

Home Mortgage Paid Off
Time to celebrate with a mortgage burning ceremony! Invite family and friends to join you to honor the Lord for enabling you to own your home free and clear of any mortgage. Often these celebrations have encouraged others to focus on prepaying their mortgages. Don’t forget—burn a photocopy—you want to keep the original “paid in full” mortgage.

Children’s Education Funded
The portion of your children’s education that you have decided to contribute to is now fully funded! Reallocate what you were saving for their education to pay off the mortgage if it’s not yet free and clear. If it is, focus all your saving and investing on funding retirement (reaching *true financial freedom*).

Destination 7

- Retirement Funded
- True Financial Freedom
- Pass on Legacy of Financial Faithfulness

Retirement Funded
You have reached the goal of adequately funding your retirement. You can now be even more generous with your money and your time in serving others and funding God’s kingdom.

True Financial Freedom
You now are completely out of debt even including your mortgage. You no longer need to earn a salary to meet your needs. You’re able to afford your chosen lifestyle on the income from your saving, investments and retirement.

You are in a position to volunteer all or part of your time to serve your church or a ministry without needing a salary. If the Lord makes it clear you are to remain employed in your job, you are now able to give most of what you earn to help fund the work of Christ.

Pass on Legacy of Financial Faithfulness
You have learned and applied what God says about handling money. Nothing is more influential than is a person who has *faithfully modeled* these principles. We want to encourage—not that’s not strongly enough expressed—we want to challenge you to teach your family, your friends, you church and perhaps beyond your church and even beyond your community—these life changing financial principles.

Dream with us. How many marriages could be strengthened? How many people could be freed to make a difference with their time and finances if they reached *true financial freedom?* How many family trees could be changed if future generations learned these truths? All because you invest time in passing on to others what you have learned.

If you have a sense the Lord is calling you to do this, please contact Compass at www.compasscanada.org.