

8-2-2017

When Life Throws a Curve: Mid - Course Financial Corrections

Annetta M. Gibson

Andrews University, gibson@andrews.edu

Follow this and additional works at: <https://digitalcommons.andrews.edu/pubs>



Part of the [Business Administration, Management, and Operations Commons](#)

Recommended Citation

Gibson, Annetta M., "When Life Throws a Curve: Mid - Course Financial Corrections" (2017). *Faculty Publications*. 566.
<https://digitalcommons.andrews.edu/pubs/566>

This Presentation is brought to you for free and open access by Digital Commons @ Andrews University. It has been accepted for inclusion in Faculty Publications by an authorized administrator of Digital Commons @ Andrews University. For more information, please contact repository@andrews.edu.

When Life Throws a Curve: Mid-Course Financial Corrections

1

**PRESENTATION FOR THE
MID-AMERICA UNION CONFERENCE
PASTORS CONVENTION
AUGUST 2, 2017**

Ann Gibson, PhD, CPA
Andrews University

Personal Finance Statistics

2

Americans have:

- \$999 billion in credit card debt
- \$2.8 trillion in loans
- \$1.17 trillion in auto loans

- 63% have credit card balances
- 17% have student loans

Personal Finance Statistics

3

29% of American households over 55 have no retirement savings or pensions

1975: Average savings rate was 17.1%

2005: Average savings rate was 1.9%

2017: Average savings rate is 5.6%

Personal Finance Statistics

4

Median net worth (assets minus liabilities) in 2017:

Individuals between 35-44: \$14,226

Individuals between 55-64: \$45,447

Financial Framework

5

GOD GIVES

“You may say to yourself, ‘My power and the strength of my hands have produced this wealth for me.’ But remember the Lord your God, for it is he who gives you the ability to produce wealth.”

Deuteronomy 8:17-18

Financial Framework

6

GOD OWNS

“Everything under heaven belongs to me”

“The whole earth is mine”

“The earth is the Lord’s and everything in it”

“The land is mine”

Job 41:11; Exodus 19:5-6; Psalm 24:1; Leviticus 25:23

Financial Framework

7

Our responsibility as stewards:

1. Be faithful whether we have a lot or a little.
2. Be faithful with ALL our money.

Financial Framework

8

“Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment.”

1 Timothy 6:17

Outline

9

1. Discussion will use the “Financial Milestones” from Dayton’s book: *Money and Marriage God’s Way*
2. Information on estate planning, including what the non-financial spouse needs to know
3. Warnings regarding identify theft and fraud
4. Pointers for taking charge of your financial life

Financial Milestones

10

Destination 1: Emergency Savings

Begin using a spending plan (budget); save \$1,000 for emergencies.

Destination 2: Credit Cards Paid Off

Pay off credit cards; increase savings to one month's living expenses.

Financial Milestones

11

Destination 3: Consumer Debt Paid Off

Pay off all consumer debt (auto, students loans, etc.) and increase savings to three months' living expenses.

Destination 4: Save For Major Purchases

Begin savings for major purchases such as home, auto, etc., and for children's education.

Financial Milestones

12

Destination 5: Buy Home and Begin Investing

Buy an affordable home; begin prepaying home mortgage; begin investing wisely.

Destination 6: Home Mortgage Paid Off

Home mortgage paid off; children's education funded; estate plan is in order.

Financial Milestones

13

Destination 7: Final Destination

Retirement is funded; one is free to be more generous with both time and money.

Financial Milestones

14

Identify where you are on the “map.” Go back to the first destination that you have not yet finished.

Complete each destination **IN ORDER** before proceeding to the next one. Doing this allows you to focus, make steady progress, and build a solid financial foundation.

Step 1: Emergency Savings

15

“In the house of the wise are stores of choice food and oil, but a foolish man devours all he has.”

Proverbs 21:20

Step 1: Emergency Savings

16

1. Use automatic payroll deductions
2. Be consistent, even if the amount is small
3. When an installment payment is finished, continue making the payment—but to yourself in your savings account

Step 1: Emergency Savings

17

If you have little or no savings, consider life insurance.

The more debt you have, the more life insurance you need.

If you or any family member had major medical problems or special needs, you may need more coverage.

Step 1: Emergency Savings

18

If you have children that you need to put through college, or if they wish to go to professional school or graduate school, you need more coverage.

Do you have elderly parents to assist?

Recommend purchasing term insurance and choose a policy that is guaranteed renewable.

Step 2: Credit Cards Paid Off

19

Snowball Effect (Dave Ramsey):

1. Pay the smallest balance first, while making minimum payments on all the others.
2. When the smallest one is paid off, add what you have been paying on that one to pay off the next smallest balance.
3. Develops momentum; number of creditors dwindles steadily.

Step 2: Credit Cards Paid Off

20

Pay off the debt with the highest interest first:

1. Prioritize your debt by the rate of interest charged by the creditor.
2. Pay the debt with the highest interest rate first, while making minimum payments on all the others.
3. When the debt with the highest interest rate is paid, add what you have been paying on that one to pay off the next bill in line.

Step 3: Consumer Debt Paid Off

21

Auto Loans:

Pay off the loan and keep your car for three more years. During those years, continue payment of the loan—but to yourself, thus saving for a new (used) car.

Student Loans:

Avoid if possible; keep to a minimum if used. Generally these loans do not disappear in bankruptcy.

Step 4: Save for Major Purchases

22

Saving for education: **529 Plans**

- Administered by states
- Contributions are tax-deferred
- Qualified disbursements are not taxed
- Funds never become the property of the beneficiary
- Anyone can contribute, including grandparents

Step 4: Save for Major Purchases

23

Saving for education: **Coverdell Accounts**

- Contribution limited to couples with less than \$220,000 annual income; limited to \$2000 annually; are taxable
- Withdrawals for higher education are not taxable
- Ownership passes to the student at age 18 unless provisions are made for parents to retain ownership

Step 4: Save for Major Purchases

24

Savings for education: **Prepaid Tuition Plans**

These plans lock in tuition rates but require that the child attend the school where the tuition was prepaid

Step 4: Save for Major Purchases

25

Savings for education: **Roth IRAs**

- Contribute after-tax dollars
- Earnings and qualified withdrawals are tax free
- Qualified withdrawals require that you are 59 1/2 and have held the account for five years
- Age rule exception: first-time home buyers who can withdraw \$10,000 for down payment

Step 5: Buy Home and Begin Investing

26

Ramsey: Mortgage payment no more than 25% of your take-home (**net**) pay.

Others: 28% of **gross** pay should be spend on mortgage payments, property taxes and insurance.

Lenders: No more than 35-40% on housing costs.

Step 5: Buy Home and Begin Investing

27

Basic Investment Rules:

1. Generally stocks outperform bonds and cash.
2. Be lazy. Put money in a plan and forget it.
3. Don't pay high fees.
4. Put your money in tax-favored accounts.
5. There is no such thing as a "hot tip."

Step 5: Buy Home and Begin Investing

28

6. Automate savings
7. Diversify investments
8. If you need the money soon, skip stocks
9. Think globally
10. Antiques are not investments

Step 6: Home Mortgage Paid

29

This step is concurrent with funding your children's education.

One method is to make an additional annual payment (i.e., the amount paid on the principal).

Consider whether refinancing would be beneficial.

Step 7: Retirement

30

Thinking About Retirement?

1. Plan both financially and personally.
2. Take stock of your resources.
3. Re-evaluate your insurance needs.
4. Evaluate healthcare/living options.
5. Decide what to do with your retirement plan money.
6. Pick a pension option.
7. Get your estate in order.

Step 7: Retirement

31

Retirement under the SDA Church Plans:

You may qualify for the annuity payments under the defined-benefit plan. You will need to apply.

You qualify for the defined-contribution plan. These monies are already yours. Be sure you are taking full advantage of the employer's match.

Step 7: Retirement

32

When considering investment options under the DC plan, consider your risk tolerance level and your age. Work with Empower when selecting investments.

Don't use your retirement monies for debt pay-off or to fund your children's education.

Step 7: Retirement

33

If your retirement savings are inadequate:

1. Plan to spend less in retirement.
2. Postpone retirement.
3. Work part-time in retirement.

What about a reverse mortgage?

Step 7: Retirement

34

Estate Planning:

A plan to transfer ownership of your assets to the recipients of your choice and making sure there is enough cash to care for immediate and ongoing expenses.

Step 7: Retirement

35

Minimum documents required:

- A will
- A financial power of attorney
- A medical care directive

Step 7: Retirement

36

Essentials to share with the non-financial spouse:

1. Where are all the bank records?
2. Where are the income tax records?
3. Where are the wills, POA, and health care documents?
4. Where are the insurance documents?

Step 7: Retirement

37

5. What is the location of any stocks, bonds, or CDs?
6. Where are the titles to the automobile and the house?
7. Where are the current bills kept?
8. Where is the key to the safe deposit box?
9. Who are the financial advisors?
10. Identify the sources of retirement income from previous employers.

Step 7: Retirement

38

11. Prepare a list of whom should be notified in the event of death.
12. What are the spouse's burial preferences and preferred resting location? Is the funeral prepaid?
13. At the time of death, order at least 15 copies of the death certificate.
14. Prepare a one-page summary as a guide for your spouse.

Step 7: Retirement

39

The one-page summary is to guide your spouse as to “where to start” and should include details:

- Contact the attorney
- Check with the financial advisors
- Make sure these bills are paid
- Notify the insurance companies

Identity Theft and Fraud

40

1. Never give out personal information over the phone, especially if you did not initiate the call.
2. Never respond to emails soliciting information.
3. Review your monthly financial statements for your credit card and check accounts.

Identity Theft and Fraud

41

4. Secure all receipts, especially those that contain your personal financial or account information.
5. Close unnecessary credit accounts.
6. Review your credit reports annually. Go to www.annualcreditreport.com or call 877-322-8228.

Identity Theft and Fraud

42

7. Consider freezing your credit reports.
8. Keep personal information off your checks.
9. Protect your computer and files, especially if you keep financial data on your computer.
10. Protect your mail.

Taking Charge of Your Financial Life

43

1. Get organized--Particularly with respect to income tax information and vital documents.

Taking Charge of Your Financial Life

44

For income tax purposes, save:

- records dealing with income;
- medical receipts for paid expenses;
- receipts for charitable gifts;
- property tax payment stubs;
- confirmation statements for purchases or sales of investments or IRA contributions.

Taking Charge of Your Financial Life

45

Keep vital documents in a home safe or in a bank safe-deposit box.

For the home safe, put documents you need quickly and can replace in the event of a catastrophe.

Examples: passports, insurance policies, emergency cash, a copy of your will.

Taking Charge of Your Financial Life

46

Put documents you rarely need in a safe-deposit box:

Examples: titles to assets; deeds to property; birth, marriage, and death certificates; military papers; stock certificates; list of bank and brokerage accounts; a copy of your will; an inventory of your valuables

Taking Charge of Your Financial Life

47

What do you really need to save?

One month: credit card and ATM receipts (until you get your monthly statement); receipts for items you might wish to return in the next 30 days.

One year: paid utility bills; monthly and quarterly bank, brokerage, and credit-card statements; pay stubs until you get your W-2.

Taking Charge of Your Financial Life

48

Seven years: Tax returns, receipts for major purchases and year-end credit card, bank, and brokerage statements.

Indefinitely: Medical records; receipts for home improvements; mortgage documents; current insurance policies; warranties until they expire.

Taking Charge of Your Financial Life

49

2. Pay bills as they come in rather than all at once, or pay bills electronically.
3. Keep tabs on your cash.
4. Save at least 5% of your household income. Use an automatic payroll deduction plan.

Taking Charge of Your Financial Life

50

5. Protect your family and yourself from financial hardship in the future through 3-6 months of savings, a written will, and appropriate insurance.
6. Minimize/eliminate credit card debt.
7. Do unto others through appropriate charitable actions.

Taking Charge of Your Financial Life

51

8. Spend sensibly. Spend no more than you can afford on big items AND on small items.
9. Start working toward your goals.
10. Constantly communicate with your spouse.

Taking Charge of Your Financial Life

52

Can't do it all?

Try doing 4 of the following 6:

Taking Charge of Your Financial Life

53

1. Balance your checkbook at least once a month.
2. Have some sort of filing system in place.
3. Pay bills as they come in, or pay them electronically.
4. Don't spend more than you can afford on 3 or more things (even if you bust the budget on 1 or 2).
5. Don't buy things you don't need.
6. Know where your money goes.

Helpful Websites

54

<http://www.choosetosave.org>

An aggregation of resources for saving, including on-line calculators and budgeting tools.

<http://www.feedthepig.org>

Sponsored by the AICPA; provides weekly savings tips.

Helpful Websites

55

<https://www.smartaboutmoney.org>

Includes courses about spending and saving, credit and debt, insurance, investing, and employment.

References

Allen, Mitchell. *A Survival Guide to Debt*. 2009. Austin, TX: Greenleaf Book Group Press.

Butler, Tamsen. *The Complete Guide to Personal Finance for Teenagers and College Students*. 2nd edition. 2016. Ocala, FL: Atlantic Publishing Group.

Dayton, Howard. *Money and Marriage God's Way*. 2009. Chicago, IL: Moody Publishers.

Edelman, Ric. *The Truth About Money*, 4th edition. 2010. NY: HarperCollins.

Foster, Richard. *Money, Sex & Power: The Challenge of the Disciplined Life*. 1985. San Francisco, CA: Harper & Row.

References

Kobliner, Beth. *Make Your Kid Money Genius (even if you're not)*. 2017. NY: Simon & Schuster.

Schwab-Pomerantz, Carrie. *The Charles Schwab Guide to Finances After Fifty*. 2014. NY: Crown Business.

Tyson, Eric. *Personal Finance for Dummies*. 8th edition. 2016. Hoboken, NJ: John Wiley & Sons.

Tyson, Eric and Bob Carlson. *Personal Finance After 50 for Dummies*. 2nd edition. 2016. Hoboken, NJ: John Wiley & Sons.