Lesson 9

It's Time To Get Practical

Let's call her Melissa. When I met with her, the credit card balance was $67,000. Due to the very high interest rates, Melissa was paying more than $1000 per month in interest just to prevent the balance from increasing. She admitted that her problem didn't happen overnight. She started out with a $2600 balance; then $5800; then $16,500 and before she knew it, she was approaching $70,000. **There seemed to be no end in sight.**

We'll call the couple I met with **Jeff and Sarah Sullivan**. The Sullivans were both pharmacists, and not unlike many parents, they had four teenagers who were helping them spend the money. I helped them construct a budget. The process I use when I do that is to ask a lot of questions regarding their estimated spending in the various areas of normal expenses – housing, food, transportation, medical, miscellaneous, etc. Based on the information that the Sullivans provided, it appeared that they were spending about $300 more than they were making in a typical month. I then took a look at their credit card balance – it was a little over $36,000. Next, I asked how long it had taken them to generate that much debt on the credit cards. Jeff thought for just a few seconds and said, "Two years". I did the math: $36,000 divided by 24 months (two years) equals $1500. I said, "Jeff, based on the budget we developed, you think you're spending $300 per month over your income. But this credit card balance tells me you've been spending $1500 per month more than you're making!" **His response was classic. After the light bulb in his brain came on, he said, "They don't teach this in pharmacy school."**

I shared the previous two counseling stories to illustrate this basic point: **neither Melissa nor the Sullivans planned on being in debt, but neither of them had a plan to avoid it!** Simply stated, they did not have a plan. They were going through the motions each month hoping for the best, and their hoping was only taking them further in debt.

If you and I are to be successful at managing money, we must have a plan.

Crown Financial Ministries developed the Crown Money Map © - a suggested outline of destinations for an individual to follow to arrive at true financial freedom. See www.crown.org to view the Crown Money Map ©. Other non-profit and for-profit organizations have outlined several steps one should follow in order to reach personal financial freedom. Many have common components, and all can provide insight and assistance in your financial journey. For the purposes of this study, we will establish:

3 preparatory steps & 9 primary milestones

When these milestones are attained, you will be on sound financial footing.

Preparatory Steps:

1. Adopt the principles we discussed during the first two weeks of this study and establish them as fundamental for all of your financial decisions.

2. Set specific financial goals and write them down. (Time doesn't allow me to discuss all of the benefits of recording our goals, but suffice it to say that if they're written down, we have a much better chance of accomplishing them.)

3. Determine where you are in relation to the milestones that follow, and then work toward the next one.

Milestones:

Milestone 1:
Establish a balanced monthly budget. (Specific instructions are provided in the next lesson)

Milestone 2:
Break the credit cycle – stop deficit spending. (Ensure budget allocations are not exceeded)

Milestone 3:
Start an emergency fund. (At least $1000 in accessible funds)

Milestone 4:
Aggressively pay off all debt with interest rate at 10% or higher. (Applicable credit cards and loans)

Milestone 5:
Increase savings to equal at least one month's living expenses.

Milestone 6:
Aggressively pay off remaining debt with exception of mortgage. Build and maintain savings at an amount to avoid future consumer debt (at least 6 month's living expenses)

Milestone 7:
Purchase home (if applicable) with a minimum 20% down payment. Maintain savings at previous level.

Milestone 8:
Begin investing for education and retirement; begin prepaying home mortgage.

Milestone 9:
Pay off home mortgage; build savings and investments sufficient to maintain God directed lifestyle and giving levels.

For easy reference, these Milestones are repeated on page A-10.

I should mention that **your monthly giving continues with each Milestone**. Also, these Milestones are a good general guide, but I recognize that every situation is different. For example, many people find themselves with a home mortgage before they have reached Milestone 7. While that situation somewhat limits how aggressively one can eliminate debt, it is doable. Another example might be that you may work for a company that offers matching for a 401K contribution. Due to the immediate return on that investment, it may be prudent to begin contributing prior to Milestone 8. I advise that you consider all factors and discuss your situation with a financial counselor or someone you trust. You'll see as we proceed with the development of your budget and your overall plan, that you will be able to go back and fill in the gaps.

You should have enough information to determine at which Milestone you find yourself. For example, if you have no debt and have more than six months of living expenses in savings, but have yet to develop your budget, you are working toward Milestone 1. As soon as you develop a balanced monthly budget, you will "fast forward" to Milestone 6 or 7. Remember, you arrive at a Milestone when the items or actions listed at that Milestone have been accomplished. **Don't be discouraged if you find yourself working toward Milestone 1 – most people I meet with find themselves at that exact point as they begin their journey.**

If you don't already have a budget in place, it is now time to develop one.

I can hear the groans, because most people don't use one, and most people think a budget is confining and restrictive. It is actually just the opposite of that. Allow me to share a word picture that will hopefully counter most misunderstandings about a budget. Larry Burkett, the founder of Christian Financial Concepts and subsequently Crown Financial Ministries, and long time radio host, told the story years ago about driving by a pre-school that had major construction underway on the adjacent property. Due to the potential danger, the children were kept very close to the school's front door during their recess period – most of the playground was off limits. A few weeks later he drove by the same school and noticed that a large fence had been built between the school's property and the construction area. The children were scattered and playing over the entire playground. Do you see the connection? The fence (boundary) provided more freedom for the children, not less! **That's exactly what a budget does. It allows us to establish spending within the areas we want and gives us the freedom to spend within our ability.** It also provides a boundary to keep us from exceeding our desired spending level, because that is where the danger lies.

In the next lesson, you will take the information you've gained from tracking your expenses and begin to construct your own personal budget – if this is a first for you, get ready to be amazed at how well you will take control of a huge portion of your financial life.

REFLECTION: Think about the two counseling stories at the beginning of this lesson. Can you see yourself in either of those situations? Have you been going through the motions in your financial life and hoping for the best without having a definite plan/ budget in place? How has that worked for you? Are you seeing progress or are you just treading water? Identify and prepare to discuss with your group the statement or concept that was most meaningful to you in this lesson. **Record your thoughts:**

ACTION STEP: Step 2 of the preparatory process is setting a goal. So, let's do that now. Determine one very specific/finite financial goal that you want to accomplish by this time next year (round up to the beginning of next month, i.e. if it is the middle of October, set your target goal date to November 1st next year). Your goal might be saving a certain amount for your emergency fund; it might be paying off a debt; it might be saving for a purchase. It doesn't necessarily matter what the specific goal is, what matters is that you set a reasonable, attainable goal and that you meet it. Use the worksheet below to help you determine the monthly amount needed to meet your 1 year goal. If you're a couple, come together to discuss and determine the best goal that meets your family's need. Obviously, this will become part of your budget. Take into account your progress on the Milestone path. Continue tracking your daily expenses using the spending areas listed on page A-4.

Specific Attainable Goal	Target Date	Amount	Amount per month
Example: Emergency Savings	November 1	$1200	$100

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