# First Things First

Learn how to manage your money from a Christian perspective by putting first things first

Abundance CANADA

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*A Study Guide written by Edwin Friesen*

Abundance
CANADA

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**Appendices**

# INTRODUCTION

## A Million Dollars!

If you live in North America, you will likely earn and spend well over a million dollars in your lifetime ($25,000 a year for 40 years equals $1 million; $37,000 a year for 40 years equals nearly $1.5 million; $50,000 a year for 40 years equals $2 million). That's a lot of money.

Money plays a significant role in North American culture and in our personal lives. We are surrounded by influences that tell us that life is better with money—preferably with a lot of money. And for too many of us, money has become more than simply currency with which to buy things. It speaks to who we are, of how important or successful we are. It also influences how we see others.

Into this cultural mix are spoken these uncomfortable words of Jesus: "Real life is not measured by how much we own" (Luke 12:15). Similarly, we are reminded in Proverbs that being rich or poor has pitfalls: "For if I grow rich, I may deny you and say, 'Who is the Lord?' And if I am too poor, I may steal and thus insult God's holy name" (Proverbs 30:8-9). Possessions are tools for living but should never become the central focus of our lives (Matthew 6:25-34).

It is a challenge to manage money wisely. What principles guide your day-to-day money decisions? What is important to you? What are your goals? Where do you go for guidance? What role do your faith and the teachings of the Bible have in your ongoing money decisions?

The lessons in this book focus on managing money from a biblical perspective and invite you to worship, to pursue balance, to be content, and to live generously. You will be challenged to think of yourself as a steward or manager of the resources and opportunities that come your way. You will be offered guidance in areas where you need help. We hope you will find the material useful as you plan your financial future.

# GOD, MONEY, AND ME—LAYING THE FOUNDATION

**Money and God are both powerful forces in our lives. We need both but they cannot both be the central focus of our lives. Jesus said we would have to choose: "You cannot serve both God and money" (Luke 16:13).**

## Its Bright Side

*"Kneeling beside him, the Samaritan soothed his wounds with medicine and bandaged them. Then he put the man on his own donkey and took him to an inn, where he took care of him. The next day he handed the innkeeper two pieces of silver and told him to take care of the man. 'If his bill runs higher than that,' he said, 'I'll pay the difference the next time I am here'"* (Luke 10:34-35).

> Tell them to use their money to do good. They should be rich in good works and should give generously to those in need, always being ready to share with others whatever God has given them.
> I TIMOTHY 6:18

Money has almost unlimited potential for good. With our offerings we confirm our commitment to God. With it we provide for ourselves and our families. With it we better the communities we live in. Money also enables us to reach around the world supporting the proclamation of the good news of Jesus, providing help and hope to the needy, and advocating for the oppressed. To have money is to have options, opportunities, and responsibilities.

Money itself is neutral, simply a medium of exchange. We determine whether it is helpful or harmful, good or bad, by the choices we make. Our challenge is to use money as a gift from God, temporarily entrusted to our management to be used for the good of all. Using our money for good gives witness to our faith and values.

In addition to money, we can use the things we own as tools of generosity. We can open the doors of our homes for hospitality. We can share our tools, our cooking ingredients, our vehicles, our knowledge, our skills, our recreational toys, and our time—sharing with others what God has given to us. It is in generous giving and gracious receiving that we authenticate our interdependence.

## Its Dark Side

*"Those who love money will never have enough. How absurd to think that wealth brings true happiness!"* (Ecclesiastes 5:10)

We are drawn to money and the benefits it provides. If we watch TV, go to the mall, or even listen to our friends, we are continually presented with images that give us the impression that having lots of money is the key to happiness. Money makes us feel good. It gives us status, power, and choices.

Yet simply having more money may not provide the happiness and significance we all long for. The Bible warns that, if we run after money hoping for happiness, we will end up disappointed. If we allow it to, the pursuit of money can quickly become the dominant force in our lives, often destroying the very things we desire and value.

The desire for money can also lead us to become workaholics, leaving little time or energy for others, the work of the church, or the community. Some, desiring fast money, turn to gambling, often losing what little money they do have. Unless we are careful, the desire for more money may control our lives. If our main focus in life is more money, we will have little room for God.

Since money and power are usually linked, those with more money may take advantage of and dominate those who have less. Some people with significant wealth may develop an attitude of superiority, believing they are especially favoured by God. When we have what we need and have the status that we desire, it is easy to become proud and forget that God is the source of all.

**God asks us to regularly give a portion of our income back to Him as acts of worship and thanksgiving. This practice will keep our hearts focused on God and lead to a life of contentment and generosity.**

# Notes:

## CHAPTER 1

# Where Are You Now?

Since all planning starts with where you are now, this chapter asks you to identify your current status and practices around money in the following areas: approaches to managing money, managing personalities, current money practices, debt, and net worth. Once you have identified your current position, you will be asked to mark any areas of your money handling that give you concern. In Chapter 2, you will be asked to revisit these areas of concern and guidance will be offered to help you set new directions. *The Summary of Loans and Vehicle Lease Information* chart, page 10, and the *Net Worth Statement*, page 13, will take considerable effort and should be completed outside of session time. Both are critical for sound planning, so don't skip them.

> Accept your present financial circumstances as the place to begin.

## A. Approaches to Managing Money

People take very different approaches to managing their money. Each approach will work in certain situations. Whether you are aware of it or not, you already have an established way of managing money. Maybe you see your approach reflected in one of the following:

**The seat of your pants approach.** People who use this approach live with the hope that somehow their income will match their obligations each month. This may work reasonably well when there is significant stable income and expenses are mostly routine. However, this approach will not work well for people who are undisciplined and given to making impulsive money decisions.

**The established routine approach.** Those who use this method plan well. Their monthly income and expenses are fairly predictable. They make arrangements with their bank to make automatic payments for utility bills, life insurance premiums, vehicle insurance, loans, savings/RRSP deposits, property tax installments and so forth. Though they may have no written spending plan, sound planning and an established routine provide a strong framework for most of their money allocations.

**The detailed money allocation approach.** This approach is for those who like to have a highly structured plan in which all the income is allocated to various needs in advance, accompanied by detailed income and spending records. In this approach, all the usual expenses (tithing or first fruits giving, food, housing, gifts, medical, transportation, savings, utilities, clothing, etc.) are assigned a specific monthly amount. A variety of books and computer programs are available to help you with this approach. Before you look at other sources, check out the *First Things First Money Allocation Plan*, Appendix 1, page 59.

**The cash and labelled envelopes approach.** Those who prefer a visual, hands-on approach to handling money will find this simple method helpful. As soon as a paycheque arrives and is cashed, predetermined amounts of cash are placed into labelled envelopes already designated for a specific living expense such as groceries, gas, clothes or mortgage payments. When the money in the grocery envelope is gone, this means no more grocery purchases until the next paycheque comes and a fresh amount of money is put into the grocery envelope.

If urgent or unforeseen expenses arise, people who use this approach tend to borrow from another envelope to cover these costs. That is fine as long as they don't make a regular practice of it. If they borrow from other envelopes too often, the system loses its intended benefit: self-imposed restrictions on spending. If you raid envelopes that contain money intended for a once-a-year expenditure such as property taxes, it can leave you in a difficult spot when that bill comes due.

**Tithing** is a biblical guide to giving back to God as an act of worship.

**First fruits offering** is a biblical concept that relates to the ancient practice of gratefully offering to God the first gathered fruits of a harvest. In modern times, first fruits giving means giving back to God from our first and best.

**Which of the above approaches best describes your current style of managing money?**

..... seat of the pants

..... established routines

..... detailed money allocation

..... cash and labelled envelopes

..... a combination of ..... and .....

..... other .....

While there is more than one way to manage money, the plan you adopt should help you manage your money intentionally and do the following:

- facilitate giving
- enable you to provide for yourself (and your family)
- help you spend less than you earn
- provide a current financial picture so you know where things stand on an ongoing basis

It is difficult to be joyful and generous if you are overextended financially.

## B. Managing Personalities

People's personalities are often revealed in how they manage money. Some are savers, others are spenders. Some are impulsive, others ponder and deliberate over every financial decision. Some are cautious and fearful, while others are entrepreneurial, ready to take risks. Some like to live too close to the edge, with every dollar spoken for even before it is earned, while others plan for a comfortable financial margin.

What have you done today that did not, in any way, involve money?

Your management personality has likely been shaped by a number of factors—parents, faith, life experience, self-study, media, friends. Knowing your style and how it was shaped may be most helpful as you try to understand why you handle money the way you do.

Think back to your parents. How did they manage money? What was the atmosphere in the room when money was talked about? Who took the lead? Who kept the records? How did they work at their disagreements around money?

**List three money characteristics you admired in your parents:**

.....

.....

.....

Use this exercise for yourself or together with your spouse.

**PERSON X**

**Place a ✔ in front of each of the characteristics that describe your money management style.**

..... spontaneous

..... careful

..... compulsive spender

..... frugal

..... thankful

..... content

..... honest

..... plans for a financial margin

..... stingy

..... generous

..... saver

..... borrows easily

..... worried about future financial needs

..... faithful to financial commitments

..... other .....

**Now put a ✔✔ in front of the characteristics you feel good about. Put a ? in front of those you would like to change.**

**PERSON Y**

**Place a ✔ in front of each of the characteristics that describe your money management style.**

..... spontaneous

..... careful

..... compulsive spender

..... frugal

..... thankful

..... content

..... honest

..... plans for a financial margin

..... stingy

..... generous

..... saver

..... borrows easily

..... worried about future financial needs

..... faithful to financial commitments

..... other .....

**Now put a ✔✔ in front of the characteristics you feel good about. Put a ? in front of those you would like to change.**

## C. Current Money Practices

**Place a ✔ in front of those statements that best describe your current financial practices.**

..... I/we have started to put money aside for retirement

..... I/we keep financial records that help track our money

..... I/we usually give at least 10 percent of our income to God/charity

..... I/we usually pay our credit card bill in full when due

..... I/we are current with all our debt payments

..... I/we have at least $1,000 available for an emergency

..... I/we have several credit cards

..... I/we have a detailed monthly spending plan

..... I/we have life insurance to provide family income for five years

..... I/we save for and pay cash for holiday trips

..... I/we have an adequate margin to do some fun things

..... I/we are concerned about our current debt situation as a couple. We have very different opinions as to how we should allocate our money

..... I/we have a sports or health club membership

..... I/we own a house

..... I/we are concerned about our use of credit cards

..... I/we would like to buy a new(er) vehicle

..... I/we would like to live debt-free (long term)

..... I/we want to purchase a cottage at the lake

..... I/we pay our monthly bills on time

..... I/we are saving for further education/career advancement

..... I/we have started saving for our children's education

..... I/we eat out more than twice a week

..... other .....

**Look at the list again and note the ✔. Put a ✔✔ in front of the ones you feel good about. Put a ? in front of those you would like to address or on which you would like to take action. You will be asked to consider these in the next section.**

## Summary of Loans and Vehicle Lease Information

To get a quick overview of your current debt, list all loans or lease payments, including lines of credit and credit card debt, on the following chart. List the loans, starting with the smallest one and ending with the largest amount. Shade the appropriate number of squares to indicate the number of years left on each loan.

| Debt amount | Owed to | Monthly payments | Rate of interest | Years left to pay on loan | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10+ |
| E.g., $2,300 | Mom and Dad | $100 | 1.5% | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| Total Debt | | Total payment | | | | | | | | | | | |

## D. Debt

List all your debts on the chart on page 10. Given your current financial status, are you concerned about your debt? If you could go back in time, would you change any of your debt decisions? Can you think of a way to speed up your debt repayment? You will have an opportunity to formalize your good intentions in the next chapter.

## E. Net Worth

For you to realistically achieve your financial goals, they must be based on where you stand today. If you set a goal of having $575,000 in retirement funds by age 65 but have no idea what is in your retirement account today, how can you set a specific goal? A net worth statement gives a current picture, providing a baseline for all future planning. It will also help you monitor the performance of your investments.

Your net worth is what you own minus what you owe. To determine the net worth of your household, assign a realistic value to all the major things you own and then subtract any debts that you owe. This should provide a fairly accurate picture of your current financial net worth. You may wish to refer back to the *Summary of Loans and Vehicle Lease Information* chart, page 10, to complete the *Net Worth Statement*, page 13.

### Tax Credits

*Although this should not be the primary motivation for giving, the Canadian government offers a tax credit for gifts given to qualified Canadian charities, thereby reducing taxes payable. For those who owe taxes, this means that, in effect, each dollar given to charity only costs the donor approximately 55 cents since the other 45 cents would have been paid to the government in taxes. The cost of a donation may be even less if you donate appreciated stocks or mutual funds held outside a retirement plan, thanks to the federal government's decision to eliminate capital gains tax when these gifts are made in-kind. Ask an Abundance Canada consultant for information about the benefits of this type of gifting.*

## F. For Couples

Couples who have sharply different money personalities may still share common values and goals. To get headed in the same direction, couples should work toward agreeing on basics such as charitable giving, loans, savings, RRSP deposits, use of credit cards, who pays the bills, and who keeps the records.

Couples also need to give each other room for personal preferences. One spouse may choose to buy better quality clothes, believing that to be the best value, while the other spouse may prefer to shop for no-name brand rack specials. Even when couples don't agree, they still need to try to respect each other's choices. Some agree to give each other a monthly amount of discretionary spending money so each has at least some measure of financial independence.

Given your different styles of managing money, how do you make it work as a couple? Who takes the lead? Who pays the bills? Who keeps records? Who watches the bank balance? Is there a limit (e.g., $100) on what one spouse can spend without prior discussion or a review of family goals? Let the person who has the interest, skills, and discipline take the lead in managing your household money, or agree on how this is to be shared.

## Recap

In this chapter you looked at your current financial status and practices around money. Hopefully, you found encouragement in at least some of your answers. Other areas may require adjusting. The next chapter will ask you to set meaningful goals for change in the areas that you have identified as needing improvement.

## Net Worth Statement

| | YEAR | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **ASSETS (what you own)** | | | | | | | |
| Property | | | | | | | |
| House | | | | | | | |
| Furniture | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Investments | | | | | | | |
| Savings | | | | | | | |
| RRSPs | | | | | | | |
| Stocks/bonds | | | | | | | |
| | | | | | | | |
| Vehicles | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| **Total assets** | | | | | | | |
| | | | | | | | |
| **Liabilities (what you owe)** | | | | | | | |
| House mortgage | | | | | | | |
| Car loan | | | | | | | |
| Furniture loan | | | | | | | |
| Credit card(s) | | | | | | | |
| Personal loan | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| **Total liabilities** | | | | | | | |
| | | | | | | | |
| **Total assets** | | | | | | | |
| **Minus total liabilities** | | | | | | | |
| **NET WORTH** | | | | | | | |

# Offerings and Worship

As in every other area of life, followers of Jesus need to declare God first in and with their finances. Since the very beginning, God has asked people to bring the first of the crop and herd as a gift of thanks and worship (Genesis 4:4-5). It was a way of recognizing God as the source and owner of all. Through offering their gifts of first fruits, the people openly and deliberately declared God to be first in their lives (Deuteronomy 14:22-29; 26), and in this way confirmed their covenant with God.

> Wherever your treasure is, there your heart and thoughts will also be.
> MATTHEW 6:21
>
> Jesus replied, "You must love the Lord your God with all your heart, all your soul, and all your mind." MATTHEW 22:37

Worship leads to offering and offering leads to worship. God asks for our money because God wants our hearts. The two are inseparable. Giving to God is not an obligatory "God tax" that we pay to gain God's favour or to manipulate God for our own purposes. Giving is a joyful celebration of God's generosity to us and a sign by which we recognize our ongoing dependence on God. Though we often draw a line between the material and the spiritual, our material offerings lead our hearts into worship and gratitude. When we give to God, our hearts will follow.

Often people feel they need all of their income just to make ends meet. Yet, though it might defy logic, many Christians testify that once they developed the discipline of giving to God from the top, their remaining income was more than enough to cover their needs. Others add that the practice of giving to God from the top has reduced the tensions around money issues in their household. Giving tends to break the powers of greed and selfishness—debilitating temptations that afflict all of us.

Even as a wedding band symbolizes the covenant between husband and wife, our ongoing gifts to God are a tangible sign that we belong to God. Each gift we bring confirms once again that we have placed our trust in God for our current and future needs. God is our Lord and we are God's people. We celebrate that relationship by offering our best.

## CHAPTER 2

# Where Do You Want To Go?

*"[And] he will give you all you need from day to day if you live for him and make the Kingdom of God your primary concern"* (Matthew 6:33).

Putting first things first is the key to much of the Christian life, including finances. That certainly applies to giving to God from the first of our income, but it also extends to all the other financial decisions we make from day-to-day. That perspective should influence how we earn, how we invest, how we share, and how we spend money. Even the money we spend on our families and ourselves needs to reflect our understanding that God comes first.

While there is more than one way to manage money, any plan you adopt should help you manage money intentionally and help you:

- give generously
- provide for your family
- achieve your lifestyle goals
- spend less than you earn
- provide a current financial picture so you know where things stand on an ongoing basis

## A. Developing Goals

Money needs to be managed intentionally. Setting financial goals makes money management much easier. Not only do goals provide a target for achievement, they also encourage us to dream. Goals should be visionary, yet attainable. People who plan ahead have choices.

Well-defined goals help focus energies and resources toward the things that are important to us. Goals help us stay on course even when life throws us a financial curve ball, as it will from time to time. Furthermore, achieving our goals gives us reason to celebrate.

Goals may include saving for a down payment on a house, paying off student loans, paying off credit card debt, saving to buy a car, pursuing further education, or putting money aside for retirement income. Other goals may include living without debt or making regular gifts.

Goals will change as you go through the various stages of life. A young adult may focus on paying off a student loan or buying a car. This may be followed by other priorities such as a house purchase, travel, retirement funds, or children's education funds.

For goals to have meaning, they must be specific, attainable, and measurable.

For example, to say that you want to save money to buy a car is a statement of good intentions. To say that you want to buy a $10,000 car a year from now and pay half in cash is specific and measurable.

### What's Your Excuse?

..... *don't think you have enough money to warrant planning*

..... *don't want to face your current financial facts*

..... *don't know how to plan*

..... *don't think you can stick to a financial plan*

In the previous section you were asked to note current money issues that needed attention. Good intentions are great but not enough. To move from good intentions to actually doing something is the hard part, but you can do it. Significant change is possible if you break it down to a series of small, deliberate steps. You are encouraged to formulate specific, measurable goals for each of the areas you noted. Making wise financial decisions is an art learned through experience. Ask God for wisdom. Seek the advice of trusted friends. Then do it.

After each of the following sections, B through F, you will find a box entitled **Going Forward**. Please note any changes you wish to make under the following two headings: Desired improvement; Plan of action going forward.

## B. Approaches to Managing Money

Different approaches to managing money work for different people and different families, but there are some common principles:

- Long term, you must not spend more money than you earn.
- Some purchases are far more important than others.
- Have a giving plan instead of only donating leftover money.
- Just because you can afford it doesn't mean you should buy it.
- Couples need to agree on the basics of their spending plan.
- You will never have enough money to make you happy.

Not all expenditures are equally important. Groceries are more important than eating out. Tires for the car may be more important than a new wardrobe. The way to start thinking about your financial priorities is to ask yourself some questions. If your income were reduced by 25 percent for three months, what would you cut? What would you keep in your spending plan? If you can answer those questions, you are well on the way to determining your priorities.

> I will live within my income even if I have to borrow to do it. MARK TWAIN

**JUST FOR FUN: Following is a list of typical monthly household expenses. Suppose that for the next three months your income is reduced by 25 percent. Place a ✔ in front of the items you would pay as usual and an X in front of the items you would reduce or cut.**

..... pay the credit card bill in full

..... put five percent of your month's income into savings or RRSPs

..... pay the utilities

..... set aside the monthly amount for the annual property tax

..... give 10 percent of your income to your church or another charity

..... go out for a nice supper with your friends

..... buy badly needed tires for your car

..... make your monthly student loan payment

..... buy groceries

..... get a better internet plan

..... pay house insurance

..... put money aside for your next holiday

..... fix a leak in the roof of your house

..... pay your monthly life insurance premium

..... buy new clothes for the family for an upcoming wedding

..... take a shopping trip to New York with friends

..... buy a larger TV to watch your favourite team in the playoffs

While it is easy to think of all your expenses as fixed, in most situations you do have choices.

## Considerations When Making Spending Decisions

- *Is this something you really need, or is it something that would be nice but is not crucial at this time?*
- *Take a long-term look. Are you likely to be happy with the decision one or two years down the road?*
- *Will you need to borrow money to make this purchase? Are there alternatives? Buy used? Rent? Lease? Borrow from a friend?*
- *Would it make more sense to save for the purchase or to borrow for the purchase?*
- *Will this financial decision enhance or restrict your ability to be generous?*
- *Sleep on it. Don't make impulsive financial decisions. Most financial decisions are not that urgent.*
- *If married, do you and your spouse agree that this makes good financial sense?*

**PRIORITIES: To reinforce the concept of priorities, try grouping all your current monthly living expenditures into the following three categories to indicate their relative importance.**

1. ***First Things First* allocations.** These include giving to your church and charities, an account for occasional expenses, rent or mortgage, loan payments, groceries, utilities, and other things you decide are of first priority for your household.
2. **Lifestyle allocations.** Included here are personal allowances, savings, RRSPs, car and gas expenses, and children's allowance.
3. **Discretionary allocations.** Expenses included here are eating out, clothing, travel, furniture, gifts, cable, health club, sports equipment, and the like.

(For a detailed explanation of this approach, see *First Things First Money Allocation Plan*, Appendix 1, page 59. This approach is based on priorities and available cash flow.)

This approach will teach you to prioritize your expenses. In the short term, once you have taken care of the first two categories, you can relax knowing that you have taken care of the necessities until the next paycheque. Even a meal of macaroni and cheese will taste like a feast if you know that all the priority allocations for the month have been looked after. Over the long term, you will need to earmark funds for the items in the Discretionary allocations category as well.

To get a good handle on your actual spending, especially the smaller items, you may need to record every penny you spend over a period of several months. This will alert you to spending that could be reduced or redirected to more important things.

It is small leaks that cause a dam to fail. Can you identify spending leaks in your monthly allocations that, unless curbed, may threaten your financial security?

Involve everyone in your household, including your children where appropriate, in allocating funds. It is important for everyone to understand the priorities and limits of your household income. Sometimes simply saying to your children, "We can't afford it," is appropriate. However, be careful how often you use that line. Saying you can't afford something suggests to the child (and maybe to yourself) that if you had more money you would buy it, thus reinforcing a consumer mindset—that lifestyle is determined by income. At other times you may want to say, "We have other priorities." This shifts the focus from not having enough money to what is really important to you and your family.

### Small Leaks, Big Investments

*If you were able to delete some regular expenses from your daily or weekly living costs (lunch out, daily coffee fix, cable TV, magazine purchase, etc.), it could make a huge difference. See the following table:*

| Weekly savings | Investment rate | Total in: | | |
|---|---|---|---|---|
| | | 20 years | 30 years | 40 years |
| $10 | 5% | $17,857 | $36,176 | $66,372 |
| $20 | 5% | $35,713 | $72,352 | $132,745 |
| $30 | 5% | $53,570 | $108,528 | $199,117 |

*Small amounts saved and invested regularly add up. What "small leaks" do you spot in your daily or weekly spending? Think of the investment potential.*

If you find too much month left at the end of your money, you need to spend more selectively. Look for the small leaks that drain your bank balance. Picking up a cup of coffee on your daily commute to work can cost as much as $625 per year ($2.50 x 250 days = $625). Cut down on single-item trips to the store. Don't underestimate the impact small changes can have over a period of time.

### A Month Can Be a Long Time

*To monitor your cash flow more carefully throughout the month, you need to follow a system that allows you to track incoming funds and record expenses and commitments. These include:*

- *deposits*
- *cash transactions*
- *pre-authorized payments*
- *debit card transactions*
- *credit card purchases*
- *cheques written*

Your system could be a manual ledger, a chequebook, or any one of numerous computer software packages that you can purchase or develop. If you are punctual in recording your transactions, you can review your balance any day of the month.

In the long term, your income must match or exceed your expenses. If it doesn't, you have two choices—reduce expenses or increase income. Usually the shortfall will have to be bridged by reduced spending. Unless you manage your money intentionally, you will become a victim of your own mismanagement and will eventually be forced to live below your means or go bankrupt.

**Look back at the exercise in *Approaches to Managing Money*, Chapter 1, page 6. You were asked to identify your management approach. Do the following exercise to identify any changes you believe you need to make.**

**EXAMPLE**

- **Desired improvement:** I want to know where my money is going.
- **Plan of action going forward:** I will record every purchase I make during the next three months.

## Going Forward

*I want to change my approach to managing money as follows:*

- *Desired improvement*

.....

.....

.....

.....

- *Plan of action going forward*

.....

.....

.....

.....

## C. Managing Personalities

**In the exercise on *Managing Personalities* in Chapter 1, page 8, you were asked to identify your management personality by placing a ✔✔ in front of the characteristics you felt good about and a ? in front of those you wished to change. Choose one or two of the items you would like to change, and list them here along with the steps you will take to change them.**

**EXAMPLE**

- **Desired improvement:** I have identified myself as a compulsive spender and wish to change that.
- **Plan of action going forward:** When tempted to make an unplanned purchase over our agreed spending limit, I commit to practising a 48-hour cooling-off period and then make the purchase only if I really need the item and (if married) if my spouse approves of the purchase.

### Going Forward

*I want to change my approach to managing money as follows:*

- *Desired improvement*

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- *Plan of action going forward*

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## D. Current Money Practices

**On page 9, you were invited to identify your current money practices by placing a ✔✔ in front of the characteristics you felt good about and a ? in front of those you wished to change. Choose one or two of the ones you would like to change, and list them here along with the steps you will take to change them.**

Building margin into our lives reduces tensions and sets the stage for a generous lifestyle.

**EXAMPLE**

- **Desired improvement:** I want to have $1,000 available in a savings account for unexpected expenses.
- **Plan of action going forward:** Arrange with my financial institution to transfer $30 from every paycheque into a monthly savings account until the $1,000 desired improvement has been reached. Remember, these funds are not for monthly living expenses but for unexpected circumstances and for exceptional needs.

### Going Forward

*I want to change my approach to managing money as follows:*

- *Desired improvement*

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.....

- *Plan of action going forward*

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## E. Debt

*"The wise look ahead to see what is coming, but fools deceive themselves"* (Proverbs 14:8).

*"For the love of money is at the root of all kinds of evil. And some people, craving money, have wandered from the faith and pierced themselves with many sorrows"* (I Timothy 6:10).

> While the emphasis here is on careful spending, leave at least some room for personal and family celebrations.

More than ever, North American culture encourages us to use debt to get what we want today rather than to wait until we can pay for the item in cash. Those who sell products strongly encourage and facilitate the practice by offering point-of-purchase credit. Rather than having to go to a financial institution to arrange credit, you can make financing arrangements on the spot.

When the retailers, the media and everyone around them say, "Buy now and enjoy the product today," many people find it hard to say no, especially when credit is so easy to get. Unless you know your self-imposed limits and are determined to live by them, you may find yourself buying things against your better judgment, leaving you trapped under a crippling load of debt.

The enticing power of money coupled with easy credit is the seduction of consumerism: a lifestyle measured by the things we accumulate. We need to hear what Jesus said to the man who was caught up in the pursuit of things: "Real life is not measured by how much we own" (Luke 12:15b).

There is a place for leases, loans, and credit cards. But the availability of credit should not be the primary factor in your decision to make yet another purchase. Just because a lender is willing to lend you the funds doesn't mean that you can afford the item or that you should buy it.

Borrowing to make purchases lets you enjoy the things you need or want before you have the money to pay for them. It is for this privilege that we pay interest (sometimes at exorbitant rates) to the lender. Not all loans are the same. Loans made for assets that normally retain or increase in value (e.g., house, land, income-producing investments) and that are within your financial ability to pay may make good financial sense.

Loans made for items that normally decrease in value (e.g., computer, vehicle, furniture, vacations, yard equipment) should be kept to a minimum. Saving up for such purchases not only eliminates paying interest on the loan but also allows you to earn interest on the savings in the meantime, thus providing a double benefit.

At the very least, plan to pay off your loan on depreciating assets long before the purchased items have lost their value. No one wants to continue making loan payments on things that no longer have any value or usefulness.

> Just because you can afford something, it doesn't mean you should buy it.

If you do need to arrange for loans, financial institutions will generally regard 40 percent of your gross total household income as the absolute maximum that you can allocate for all

**Take another look at the *Summary of Loans and Vehicle Lease Information*, page 10. Keeping in mind the examples mentioned above, place an *A* in front of the loans made for appreciating assets and a *D* in front of the loans made for depreciating assets. Do you see a pattern?**

your combined loan payments. To go beyond that will severely restrict cash flow for daily living. Failure to make timely payments on your debt or utility bills will cast a shadow on your credit rating and affect your ability to borrow for more important things in the future.

Following is a brief description of the most common loans:

- **Student loans.** To encourage people to pursue post-secondary education, the Canadian government offers loans to students to help pay for their education. Once you graduate or decide to terminate your studies, interest begins to accrue on your loan balance. Six months after you leave your studies, you will have to begin paying back the loan, including the interest. Interest payments on student loans are tax deductible.

  Another option may be to borrow from yourself. If you have RRSPs, you can withdraw up to $10,000 annually to a maximum of $20,000 in four years from your RRSP under the government's Lifelong Learning Plan to pay for tuition at an approved learning centre. To avoid having the withdrawn funds taxed as income, the loan balance must be repaid into an RRSP within 10 years.

  Be aware that by withdrawing from your RRSPs for a period of time, you are interrupting the benefit of compound earnings on your retirement funds. Even if you repay the principal, you will still have significantly less money in your retirement account when you retire.

  > People tend to find money for the things they really want.

  Try to keep your student loans to a minimum. Just because you can access funds, it doesn't mean you should. It takes serious discipline to pay off student loans, even more so if you don't immediately get a well-paying job in your field. Also, remember that student loan payments may have to be paid off alongside other financial obligations such as a mortgage and family responsibilities.

- **Consumer loans.** Consumer loans are normally used to purchase household items and vehicles with a repayment period of one to five years. These loans have become big business as major retailers entice buyers by offering very favourable loan rates to people purchasing their product now. The item (e.g., car) is typically considered security for the loan.

- **Lines of credit.** A line of credit allows you to draw on a pre-authorized loan amount that you have arranged with your financial institution. While a loan limit is established, the payment schedule is not. Interest (usually at a reasonable rate) is normally deducted monthly from your account. The purpose of this kind of loan is to tide you over during periods of low income or exceptional expenses—or for investment purposes.

If you find yourself drawing on your line of credit for day-to-day living expenses, it may mean you are living beyond your means and need to adjust your lifestyle.

- **Mortgages.** Loans for a house or other property are usually secured by a mortgage on the property. The loan may last as long as 25 years or even more. Historically, the buyer was expected to have at least 25 percent of the funds in hand to make the purchase. Today, many financial institutions offer mortgages with a much smaller down payment.

  But loan payments, plus the added cost of home ownership (e.g., property taxes, insurance, house and yard maintenance), can leave people pressed for operating cash. Rising interest rates, which lead to higher monthly payments, can quickly put a serious squeeze on cash flow.

- **Credit cards.** Credit cards are big business. Some large corporations generate more profit from their credit card loan business than from their retail sales. In other words, the business makes more money by having you use its credit card to purchase a sofa than by selling you the sofa, which has a smaller profit margin.

  The credit card was designed to benefit business—not you, the consumer. Yes, it offers you convenience, but that convenience comes at a price: high interest charges. You can avoid the interest charges by paying your monthly balance in full by the due date. If you have a habit of leaving an unpaid balance on your credit card, stop using it until the balance is paid in full. Then commit to paying the full balance each month.

  Studies have shown that people spend more—up to 35 percent more—on in-store purchases when using some form of borrowed money (credit card, consumer loan, etc.) rather than paying cash (*Three Simple Rules*, Theo A. Boers, p. 12). If you are unable to control your credit card use, consider cutting it up and paying with only cash or debit.

  Because all retailers want you to use their card, you may end up with a number of different credit cards in your wallet, each with a built-in limit of several thousand dollars—all itching to be spent. By using the multiple credit cards, you may be in for a surprise when you receive your monthly statements and find you spent more money than you thought you did.

  But wait! This is where the card company comes to the rescue. No need to pay the whole amount! Just pay the minimum (the current interest and a tiny bit of principal), and the card company is happy. Of course it's happy. You have just fulfilled its best-case scenario—you will pay the company major interest charges now and likely for years to come. You may end up paying double or more for a purchase you couldn't resist because the item was on sale. Beware!

## Tax Refund

*If you have employment income and make charitable donations or RRSP deposits during the year, you will likely receive a tax refund when you file your annual tax return. Why not consider using part of the refund to make gifts to charities that are not already included in your monthly giving? Consider using half the remaining balance to pay down your debt and the other half for necessary bigger-ticket purchases, to add to your RRSP or savings account, or to fund your account for occasional expenses.*

- **Loans from family or friends.** It is critically important when you are borrowing from or lending money to family members or friends that the expectations are clearly outlined, preferably in writing. This can sharply reduce the risks of misunderstandings and losing relationships. Record the loan amount, the repayment schedule, the rate of interest, if any, and any other pertinent details.
- **Co-signing.** Occasionally, a lender will ask a borrower to provide a co-signer for a loan if other security is lacking. Think carefully and critically before you agree to co-sign a loan for anyone. Co-signing a loan means that you will assume the debt obligations if the person receiving the loan doesn't make the payments.
- **Debt consolidation.** Debt consolidation is another approach to making loans more manageable, but this option should be used with caution. This involves rolling all your loans into one loan, usually at a bank or credit union, using the loan proceeds to pay off all the creditors and then making one monthly debt payment to the bank or credit union. Usually consolidating debt will result in a lower overall interest rate as well as a lower monthly principal payment since the repayment period on some of the loans will have been extended.

  Debt consolidation can bring a measure of relief, but if the reduced loan payments open the door to further debt, this approach is self-defeating and should be avoided. If you find yourself trapped by debt, seek the help of a financial counsellor.

Feeling squeezed by debt? First, make sure you complete the *Summary of Loans and Vehicle Lease Information* on page 10, listing all debts, their rate of interest, and payments. Make the minimum payments on all loans. Then choose the loan with the highest interest rate and concentrate on paying off this loan as quickly as possible.

Any extra payments you are able to make over and above the required amount will quickly reduce the balance and greatly accelerate paying off the loan. As one loan is paid off, roll the amount of that loan payment into the next loan until it is paid off. Continue until all debts are paid off.

> We purchase what we do not need, with money we do not have, to satisfy a need that doesn't exist. GORDON MOYES

**Go back to the *Summary of Loans and Vehicle Lease Information* in Chapter 1, page 10. Are debts a concern to you? Can you think of ways you could address your debt concerns? Take one or two of these ideas and convert them into action plans. Remember, a series of small but intentional changes can make a big difference over the long term.**

**EXAMPLE**

- **Desired improvement:** I/we want to pay off our accumulated credit card debt within 18 months.
- **Plan of action going forward:** I/we will pay off our accumulated credit card debt by paying in full any new charges each month plus pay at least double the required minimum monthly payment until the balance is zero. Once the accumulated debt is paid off, I/we will make it a practice to pay the bill in full each month when it comes due.

### Going Forward

*I want to change my approach to managing money as follows:*

- *Desired improvement*

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- *Plan of action going forward*

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## F. Net Worth

In Chapter 1, you were asked to spend some time developing your own Net Worth Statement. Take another look at it to get a sense of your big-picture financial situation.

Over the years, annual net worth statements will enable you to make year-to-year comparisons and to observe trends. If you discover that your net worth is shrinking from year to year, it is time to take another look at your income and expenditures to determine what is happening. As

you struggle to pay your monthly bills, you may feel you are on a financial treadmill when, in fact, your net worth shows an encouraging increase.

> If you want to feel rich, give. If you want to feel poor, hoard.

Others, upon realizing their net worth, may determine that they have more than enough and, given their stage in life, choose to level off or deliberately decrease their assets. This may include increasing their giving, bestowing an early inheritance to heirs, or leaving a paying job to do volunteer work.

How much is enough? Enough for what? Enough for when? These are tough questions with no definitive answers, but that doesn't mean we shouldn't reflect on them. If we depend on money to make us feel secure, we will never have enough. If we look to money to make us feel important, we will still feel hollow inside. If we think we don't have enough, how can we be grateful and generous? And how do we balance long-term financial planning with trust in God? What does it mean to be content?

If you live without a financial margin, you will feel poor. If you live with at least a small margin, you will feel wealthier, even if your income has not increased. If you share what you have, you will feel even richer. Worship, gratitude, and generosity lead to contentment. Contentment is a choice—make it a way of life.

**Look back at your *Net Worth Statement* on page 13 of Chapter 1. Are there things you would like to change?**

**EXAMPLE**

- **Desired improvement:** I would like to be more grateful for what I already have and focus less on the things I still wish for.
- **Plan of action going forward:** I will memorize Philippians 4:12-13 and thank God daily for what I already have. I will look for opportunities to share my time, abilities, and possessions with others.

## Going Forward

*I want to change my approach to managing money as follows:*

- *Desired improvement*

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- *Plan of action going forward*

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## Recap

This chapter invited you to take firm steps toward change in how you view and manage your money. You were asked to rank your money allocations in order of importance—an approach that permeates this entire book. You are now better informed about debt, its potential and its pitfalls. You have been encouraged to be content, focusing more on what you already possess and less on what you still wish for.

# Notes:

# Pursue Contentment

Whether rich or poor, many of us consider contentment an elusive ideal. We know that we should be grateful for what we have, but we weigh the gifts God has given us and find them inadequate. We don't have to look far to find someone who has more than we do. If contentment is rooted in circumstances and comparisons, then only some people can be content. If contentment is a choice, then we all have the opportunity to be content.

> [F]or I have learned how to get along happily whether I have much or little. I know how to live on almost nothing or with everything. I have learned the secret of living in every situation whether it is with a full stomach or empty, with plenty or little. For I can do everything with the help of Christ who gives me the strength I need.
>
> PHILIPPIANS 4:11-13

Whether he had much or little, the apostle Paul had learned to be content. It would have been easy to focus on the things he lacked (II Corinthians 11:23-31), and yet, instead of griping about his bad circumstances, Paul chose to be grateful for God's provision and presence. Paul chose to focus on God rather than on his immediate physical circumstances. That opened the door to gratitude and contentment.

True contentment frees us to enjoy our gifts in the present. To be content does not mean that we don't work for better tomorrows or plan for the future. It does mean that we do not let our dreams and concerns about tomorrow rob us of fully enjoying the gifts we have today. We will always live with uncertainty about future circumstances. However, in any circumstance, God remains constant and can be fully trusted to be present with us. Our contentment comes not in having everything we want but in having a secure relationship with God.

People dominated by greed have an insatiable obsession to have more (I Timothy 6:9-10). It makes no difference how much they already have; it is never enough. When we take for granted what we already enjoy and become obsessed with what we don't have, we invite greed to take root. Left unchecked, greed will lead to the loss of relationships as people are increasingly viewed as things that either help or hinder further wealth accumulation. Gratitude and generosity are powerful antidotes to greed and selfishness.

Contentment is a choice. Make it your way of life.

## CHAPTER 3

# Planning Family Finances

### A. Decisions for Household Income

Many couples start out with two incomes but then face difficult employment choices when children arrive. Should one of the parents interrupt his or her career and stay at home, at least until the children are in school? Will the career interruption make it difficult to get back into a similar role years later? Will the job market be so different that re-entry will mean significant retraining?

With the added expense of caring for children, can you even survive on one income? Can one of the parents arrange for home-based employment? How much of the second income will need to go for childcare and other related costs? Some parents choose to make significant financial sacrifices so one of them can be at home to spend more time with the children through their early years. Others want to continue with their career or feel they need the additional money from a second income.

Staying at home to care for young children may not be an option for single parents. Even with spousal and/or child support, it is likely that the single parent will need to look to employment income to provide for the household, adding to the tensions between work and parenting.

Regardless of your personal circumstances, there are always trade-offs: personal and family time versus the time needed for work or career advancement; more income versus higher child-care or nanny expenses; and more financial elbow room versus paying more income tax. In the end, you have to decide what's important to you and what's realistic in your circumstances.

To help you clarify your personal situation, rank the following on a scale of 1 to 5, with 1 being very important and 5 not important. Spouses should do this independently of each other. Compare and discuss the rankings with a view to clarifying and establishing common values. Hopefully this process will help you make sense of your unique circumstances.

**Person X**

*Very important* *Not important*

1 |.....|.....|.....|.....|.....| 5

Making more money to pay off loans more quickly

1 |.....|.....|.....|.....|.....| 5

Maintaining and advancing my career

1 |.....|.....|.....|.....|.....| 5

Providing more opportunities for children growing up

1 |.....|.....|.....|.....|.....| 5

Having one parent home with the children

1 |.....|.....|.....|.....|.....| 5

Having adequate income to meet basic needs

1 |.....|.....|.....|.....|.....| 5

Acquiring better house, vehicles, etc.

1 |.....|.....|.....|.....|.....| 5

Retiring early

1 |.....|.....|.....|.....|.....| 5

Having home-cooked meals

1 |.....|.....|.....|.....|.....| 5

Having more money for charity

1 |.....|.....|.....|.....|.....| 5

Funding post-secondary education for children

Make time as a household to explore the issues. Who knows what creative solutions you may come up with?

**Person Y**

*Very important* *Not important*

1 |.....|.....|.....|.....|.....| 5

Making more money to pay off loans more quickly

1 |.....|.....|.....|.....|.....| 5

Maintaining and advancing my career

1 |.....|.....|.....|.....|.....| 5

Providing more opportunities for children growing up

1 |.....|.....|.....|.....|.....| 5

Having one parent home with the children

1 |.....|.....|.....|.....|.....| 5

Having adequate income to meet basic needs

1 |.....|.....|.....|.....|.....| 5

Acquiring better house, vehicles, etc.

1 |.....|.....|.....|.....|.....| 5

Retiring early

1 |.....|.....|.....|.....|.....| 5

Having home-cooked meals

1 |.....|.....|.....|.....|.....| 5

Having more money for charity

1 |.....|.....|.....|.....|.....| 5

Funding post-secondary education for children

Which of the issues you rated as very important are related to the quality of your family life? Which ones are related to income?

Talk with parents who have chosen to carry on with careers alongside child-rearing as well as with those who have chosen to be stay-at-home parents. Listen to the pros and cons. There will always be trade-offs. You can't have it all. Learn from other people's experiences, and then decide what makes sense in your situation.

If you could manage with one income but choose to continue with the second income through your child-rearing years, consider using the second income for such things as additional loan payments, additional gifts to charity, retirement savings, and post-secondary education funds, rather than for month-to-month living expenses. That way, if you choose to live on one income, your lifestyle will not be greatly affected.

## B. Children and Money

*"Teach your children to choose the right path, and when they are older, they will remain upon it"* (Proverbs 22:6).

Children learn by watching and imitating. Parents with good financial habits and practices are in an excellent position to pass these positive values on to their children. Though young children may not yet understand money, and in particular "plastic" money (credit or debit cards), they will pick up on values and attitudes around money. In keeping with their level of understanding, explain to your children how money is earned and how it works (e.g., work done is rewarded with money, which in turn can be traded for items such as food, clothing and toys).

> Children are sponges—they are going to absorb whatever is around them, so we need to be intentional about what surrounds them. DAVE RAMSEY

Opinions are divided as to whether allowances should be given without expectations or be payment for household chores. Some argue that we do chores because we are part of a household and everyone participates. Other parents feel that allowances are a reward for doing household chores and tying the allowance to performance can be a good motivator, particularly as children move into their early teens. It also helps them to make the connection between work performed and income, something they will face as soon as they have their first job.

### Guidelines for Giving Allowances

- *Be consistent. Try to give the money on the same day every week.*
- *Allow children to make mistakes and to learn from them. Better to make mistakes now, when the stakes are still small.*
- *Offer an additional allowance (beyond a set base amount) that children can earn for doing extra work around the house or yard.*
- *Keep in mind your goal is to prepare your children to manage money well after they leave home.*

There are at least three important concepts that our children need to learn about money: sharing, saving, and spending. With some planning, allowances can help parents teach those concepts. Outline the allowance system clearly to your children. Keep the system simple, straightforward, and consistent.

Whether you decide that an allowance is only a tool to teach children to manage money or it should be tied to household chores, consider giving an allowance as soon as your child understands something about the value of money—around the age of six. You can link the

amount of the allowance to the age of the child (e.g., $1 a week per year of the child's age or $7 per week for a seven-year-old). Amounts will vary depending on the family situation and what a child is expected to buy with his or her own money (e.g., school lunches, gifts, fees for optional after-school activities).

Once an allowance is introduced, some parents use a three-jar system or another way to make it clear that the money is to be allocated for different purposes. For example:

- **Sharing**—10 percent (or more) is set aside immediately for giving to the church and/or other charitable causes of the child's choosing. This act of giving should be connected to the teaching of first fruits giving/worship and our need to share. Sharing doesn't come naturally to all children. Therefore, it needs to be modelled and deliberately taught during the early childhood years.

- **Saving**—40 percent is placed into longer-term savings to be used for larger purchases. This fund will not only provide money for those purchases (computer games, music players, trips, car, education, etc.), it will also help children understand that sometimes we need to wait (save) to get what we want—a very important life lesson for children as well as adults. While children will need help in planning for the future and waiting to get things, eventually, as they get older, they will begin to understand.

  Opening an account for your child at a local financial institution and then depositing the savings portion of the child's allowance regularly, perhaps once a month, is a good practice. Having your child physically make the deposit will help him or her connect deposits and withdrawals from the account. Some institutions have special accounts that pay a premium rate of interest for children's accounts and are exempt from service charges to encourage young savers.

- **Spending**—50 percent is given to the children to spend (mostly) as they wish. Spending comes fairly easily to most children; however, they will need guidance. They see things they want, and they know that money is the tool to get them. Teach children that they will have to make choices and trade-offs. Instead of unduly criticizing poor choices, reinforce good decisions.

  As a child gets older and the allowance increases or once the child has a part-time job, you should add age-appropriate categories (e.g., gifts, clothes, school lunches, outings) that the child is expected to pay with his or her own money. This teaches the child to plan, to make choices, and to live with the consequences.

## C. Teens and Money

As a parent, your goal is to teach your teens how to handle money responsibly on their own by the time they are adults. They should be able to distinguish needs and wants. They should be able to keep their spending within their income. They should understand loans, including interest on loans. Some might even understand the basics of investments and returns on investments.

The way to move your teens toward being financially responsible is to gradually let them manage more of the money you would normally spend on their needs. You could eventually have your children handle all the money related to their needs (clothing, outings, charitable giving, etc.), except for basic room and board. You may be able to begin a serious shift of responsibility when children reach 11 or 12, with the goal of completing the process by the time they finish high school.

You may need to help your teens visualize the implications of this transfer of money and responsibility by tracking and reviewing actual expenditures currently made on their behalf. Use that information to help your teens list the purchases and expenditures they will need to plan for each month. Teach them to keep track of what they receive/earn and what they spend it on—another good financial management tool.

Some families find it difficult to give regular allowances because of circumstances such as unemployment or underemployment of the primary income earner. Maybe the household is barely making ends meet as it is. Parents need to be careful not to overwhelm their children with concerns about money while at the same time involving them in the decision-making processes as appropriate for their age.

As your children mature, keep nurturing fiscal responsibility and generosity. When they are old enough to understand, introduce them to different investment concepts (see Chapter 4 for more details), which is another way of preparing them for the future.

### Loans to Children

*Although delayed gratification is one of the first spending lessons that you want to teach, there may be times when your children want a legitimate item before they have enough money on hand to make the purchase and want to borrow the balance from you, the parent. What should you do?*

*Depending on the circumstances, this could be an opportunity for you to help your child understand how loans work by clearly outlining how you expect the loan to be repaid and by what date. If the child is developing a habit of using tomorrow's money for today's wants, discourage the practice and help the child focus on saving rather than borrowing for the purchase.*

## D. Saving For Your Children's Education

Registered Education Savings Plans (RESPs) are an attractive way to save for your children's education. While there are no tax deductions available for contributing to an RESP, the money inside a plan is sheltered from tax until it is withdrawn. Once the child draws on the money, the child pays tax at his or her marginal rate, which for most students is the lowest tax bracket, if not entirely tax-free. The lifetime contribution limit per child is $50,000.

> When your children are young, you have no way of knowing if they will pursue postsecondary education, and yet that is exactly the time to plan for it.

An added incentive to save through an RESP is the matching grant provided by the Canadian government. For every dollar you put into the plan, the government will add 20 cents, up to a maximum grant of $500 per child per year, provided an initial RESP contribution is made by the time the child turns 15. This arrangement lasts until the end of the year in which the beneficiary child is 17 (a maximum of $7,200 per child). An additional income dependent grant is available on the first $500 contributed in a year. This is up to $100 for families with a net income of $45,282 or less and up to $50 for net income between $45,282 and $90,563 (numbers are adjusted annually. See Appendix 6, page 69 for details). Should you have missed contributing in some years, there is provision for making catch-up contributions.

Do your research. Not all RESPs are the same. Compare the features of several different plans to ensure you get one that best suits your family's needs. You may have to check with more than one financial institution.

Should none of your children pursue post-secondary studies, the government grants must be repaid. If that happens, the parents' or grandparents' contributions and related earnings in the RESP can be rolled into their own Registered Retirement Savings Plan (RRSP), provided they have unused RRSP contribution room.

Some parents choose to save for their children's education by setting up a trust account for each child. If the trust is funded from the respective child's Canada Child Tax Benefit, any income tax is attributed to the child (who likely doesn't have enough income to be taxable). Likewise, if any investments in the trust account had a capital gain, the capital gain is attributed to the child rather than to the contributor when the asset is sold. If a parent or grandparent contributes money into the trust account, interest income or dividends from such investments are attributed to the parent or grandparent, who must report the income on their own tax returns until the child reaches the age of 18.

## Recap

This chapter provided a framework for making informed household decisions. You were also offered practical suggestions on how to develop good money sense in your children and some ideas on saving for your children's post-secondary education.

# Notes:

## CHAPTER 4

# Planning Long Term

*"Look here, you people who say, 'Today or tomorrow we are going to a certain town and will stay there a year. We will do business there and make a profit.' How do you know what will happen tomorrow? For your life is like the morning fog—it's here a little while, then it's gone. What you ought to say is, 'If the Lord wants us to, we will live and do this or that'"* (James 4:13-15).

> Plans are nothing; planning is everything.
> DWIGHT D. EISENHOWER

Much of what happens in life is beyond our control. Even the best-laid financial plans can go awry. That shouldn't stop you from planning, but you shouldn't be surprised if things turn out quite differently.

### Seek Advice

*If you are looking for help planning for your future, you may want to seek out the advice of a well-qualified financial planner who understands your values and can help you shape your goals. Financial planners are trained to provide investment advice as well as tax planning advice, both important considerations in any financial plan.*

## A. Investing

1. **Align your investments with your values.** When looking for investment options, there is more to consider than simply chasing the highest rates of return. Followers of Christ should also consider how their investments align with their faith convictions and personal values.

   An investment option gaining respect in the investment markets is Socially Responsible Investing (SRI) or Mission Based Investing (MBI). These terms refer to investment products that are screened according to various social, employment, and environmental criteria. While there may be no market investment that is completely clean, it is still important to seek out investments that are consistent with your social and spiritual values.

2. **Invest early.** If you are able to make investments early in life, you will benefit from the power of time and compounding interest. While the following examples do not take into account the effects of inflation or income tax implications, they do graphically illustrate the power that time and compound interest have on long-term investments.

**Option 1**

| | |
|---|---|
| Age | 25 |
| Annual investment | $2,000 |
| Average annual return | 8% |
| No. of contributing years | 10 |
| Total investment | $20,000 |
| Total value at age 65 | $334,996 |

**Option 2**

| | |
|---|---|
| Age | 35 |
| Annual investment | $2,000 |
| Average annual return | 8% |
| No. of contributing years | 30 |
| Total investment | $60,000 |
| Total value at age 65 | $246,692 |

### Rule of 72

*A quick way to calculate how long it will take to double your money at a particular interest rate is to use the Rule of 72 (72 ÷ rate of return = number of years to double). If your investments earn 2 percent, it will take 36 years to double your money; if they earn 4 percent, it will take 18 years; if they earn 6 percent, it will take 12 years; and if they earn 7.2 percent, it will take 10 years.*

3. **Diversify your investments.** *Don't put all your eggs in one basket* is wise investment advice. Consider a variety of investment types (e.g., property, guaranteed investment certificates, bonds, mutual funds, shares) with percentages in each that reflect your investment goals and risk tolerance. Rather than trying to out-guess the market when buying stocks or mutual fund units, consider buying regular amounts at regular time intervals (e.g., monthly or quarterly) in order to average out the highs and lows in market value fluctuations.

To invest is to send your assets out to work for you, hoping for a positive return.

Too many people look for the highest return on their investment without considering the increased risks often associated with particular investments. People who don't sleep well at night when their financial portfolio moves up and down in value may want to stick to more predictable investments such as fixed-term deposits and bonds that have guaranteed returns. Investors should bear in mind that there is a trade-off between risk and reward and that inflation can erode or even wipe out the value of fixed income holdings.

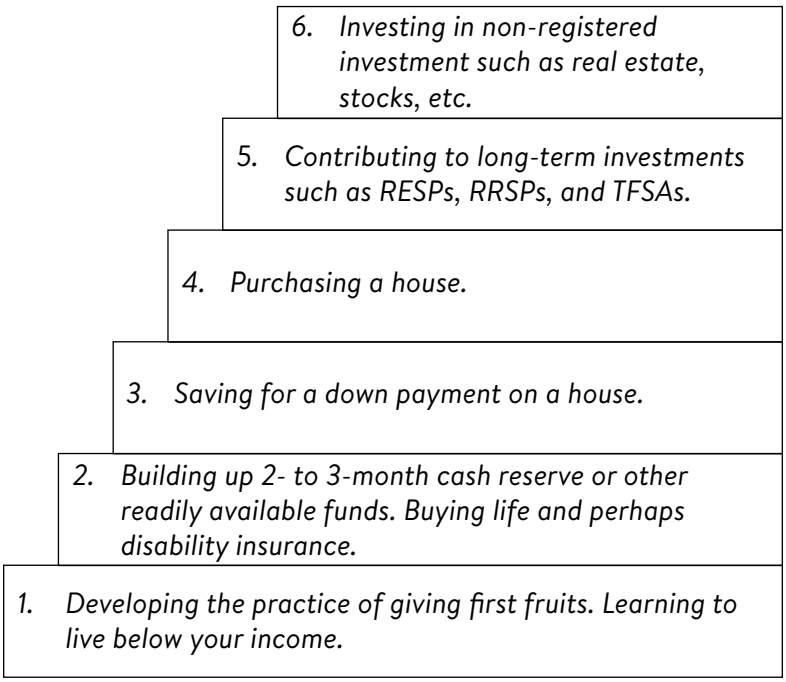
4. **Tax considerations.** Not all income is taxed equally. Taking this into account when you plan your investments makes good financial sense. Dividends and capital gains are taxed at a more favourable rate than interest income. There is no tax on the increased value of your primary residence, making it one of the most tax-efficient investments around. Taxes on RRSPs are deferred until the money is withdrawn.

   In a family farm or business, there may be opportunities to split the income among family members, thus reducing taxes. Consult with your tax advisor as to what makes sense in your circumstance. Gifts to eligible charities, as well as any charitable bequests, are eligible for a charitable tax credit that may further reduce taxes owing.

There is no tax on the increased value of your primary residence, making it one of the most tax efficient investments around.

*Even the most brilliant investment strategy is of no value if you make a practice of spending more than you earn.*

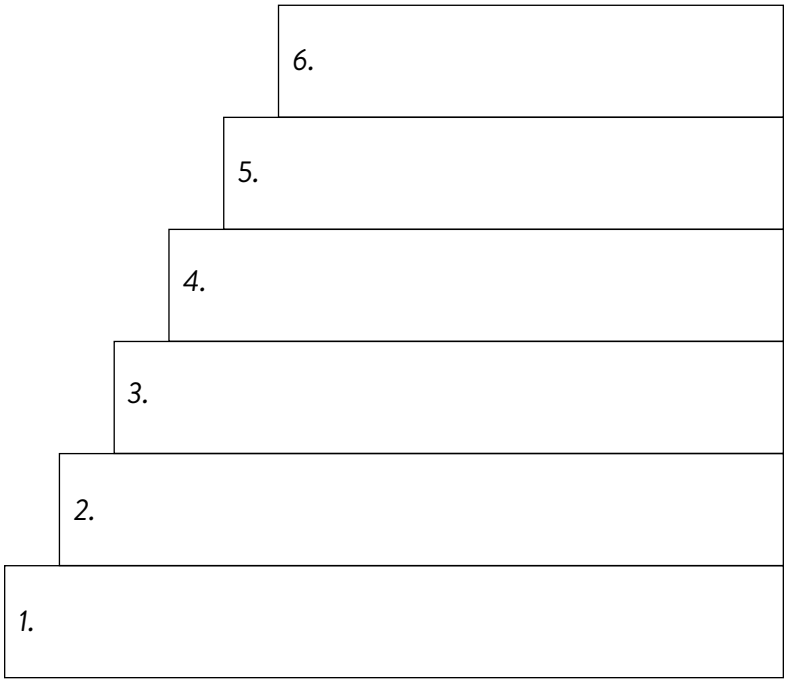
5. **Start with the basics.** Though one size doesn't fit all, particularly in investment planning, the following chart may help you to picture the various financial issues and stages you may come across at some point in your life.



6. **Develop your own priorities chart.** Given your values and stage in life, create your own priorities chart. To get started, look at the example above and then develop your own *First Things First* chart. While some of the suggested steps won't apply to you, others will. Take that information and complete your own ladder of priorities on the following blank chart, starting with the most important in step one, and so on as you proceed up the ladder. Your priorities may change over the years as you move through life's stages, but certain foundational priorities will likely remain.

> To seek the wisdom of others is good advice.

   Rather than feeling overwhelmed by all that needs doing, this will help you visualize your priorities and what you should address first. Use this chart when you meet with your investment planner. Your advisor can help you tailor this into a plan that reflects your specific life circumstances and values.




Some of the steps you have outlined above will need to be formalized into specific, measurable goals. To get a handle on developing financial goals, read Financial Planning Process in *Buying a House*, Appendix 2, page 64.

### A Moving Target

*To some extent, financial goals are fluid targets as you move through life. This means that financial planning is always a work in progress. Circumstances that may affect your financial plan include age, marital status, risk tolerance, charitable giving, debt, family obligations, values, health, and investment climate.*

## B. Tax-Free Savings Account (TFSA)

The TFSA is a tax-sheltered savings vehicle that was introduced in 2009. It can be a great way to save for the future without paying tax on the growth in your savings.

- Any Canadian resident 18 years of age or older who has a valid Social Insurance Number (SIN) will earn TFSA contribution room every year. In the territories and some provinces, people can't enter into contracts until they turn 19 (see Appendix 7, page 70). In those cases, a person can make a double contribution in the year he or she turns 19.
- Check the current contribution limit at www.cra-arc.gc.ca/tx/ndvdls/tpcs/tfsa-celi. Unused contribution room can be carried forward. For example, the limit is $5,500 and Jane Doe has $20,000 in unused contribution room. If she contributes $2,000 to her TFSA this year, she can contribute up to $23,500 (the regular $5,500 plus the $18,000 in unused room) the following year.
- While you do not get a tax deduction for contributions, you do not have to declare TFSA earnings as income, nor is the money taxed when it is withdrawn.
- Young people saving for a home or for education may, in some circumstances, want to use a TFSA instead of an RRSP for this purpose, as there is no requirement to pay back the funds from a TFSA.
- A TFSA is a good way to build a fund for emergencies or to save for larger purchases, such as for a vehicle.
- A TFSA can be used as collateral for a loan.
- A TFSA can be used for income splitting within a family. The higher-income spouse can give the lower-income spouse money to put into the TFSA.
- TFSA investments do not affect eligibility for the federal Old Age Security (OAS), Guaranteed Income Supplement (GIS), or other government benefits.

  Unlike RRSPs, which must eventually be converted to a RRIF (or annuity) and withdrawn, a TFSA doesn't expire. For some lower-income people, a TFSA can be a better choice for retirement savings than an RRSP.

- Money that is withdrawn from a TFSA can be recontributed in the following calendar year, which is not the case with an RRSP.

TFSAs can be a useful estate planning tool. Most Canadian provinces allow a TFSA to be passed on tax-free—outside of an estate to a surviving spouse or charity—provided the owner of the plan completes a beneficiary designation form. Donating a TFSA to charity will result in your estate receiving a charitable receipt for the value of the gift. That receipt can be used to offset or eliminate other taxes.

> Many speak the truth when they say they despise riches, but they mean the riches possessed by other men.
>
> CHARLES CALEB COLTON

Cash, GICs, stocks, mutual funds, bonds, real estate investment trusts (REITs) and a wide range of other financial instruments can all be invested in TFSAs. Check the fine print before opening an account. Some organizations charge higher fees than others for opening or maintaining a TFSA or for withdrawals from your account.

## C. Retirement Income

While many people assume that the government will take care of them when they retire, government-sponsored retirement benefits were never meant to provide full retirement income. Following are the most common retirement income sources. Most people will need to combine several of these sources for their own retirement.

> Though government pensions are a significant help, most people will need to supplement their income from other sources to live comfortably in retirement.

- **Old Age Security (OAS).** All Canadian citizens age 65 and over qualify for OAS benefits, provided they meet the residency requirement. Spouses of seniors, and in some cases dependent children, may also be eligible for benefits. The government pays for this benefit from general tax revenues. If your income rises above certain levels, OAS benefits will be partially, or completely, clawed back by the government. Clawback begins at $72,809 as of 2016 and is complete once household income reaches $118,005. These levels are indexed to inflation.

- **Canada Pension Plan (CPP).** CPP is an employer/employee-funded retirement program managed by the Canadian government. Generally, CPP benefits are paid in direct proportion to the contributions made by the employer/employee during employment years. Disability and survivor benefits are also available in certain circumstances.

  The CPP pension benefit amount is based on the applicant having reached the age of 65. However, a reduced pension benefit (reduced by 0.6 percent for every month it is drawn before age 65) is available as early as age 60, at which time the applicant receives 64 percent of what he or she would be eligible for at age 65. Alternatively, people who wait to draw after age 65 will see their benefits rise by 0.7 percent a month for each month they delay

collecting CPP until age 70, then reaching to a maximum of 142 percent of what their base amount would have been at age 65.

- **Registered Pension Plan (RPP).** If you work for a company that has a group pension plan, you will likely be enrolled in the company's RPP. Usually, both the employer and employee contribute to the plan. In some cases employees are allowed to choose from several predetermined options as to how their funds will be invested. Check with the human resources department of your company to find out details and options.

- **Registered Retirement Savings Plan (RRSP).** In addition to OAS or RPP, there is a government program called Registered Retirement Savings Plan (RRSP). Deposits can be made in your name or in the name of your spouse. To encourage people to put money aside for their own retirement income, annual taxable income is reduced by the amount of the deposit, and taxes are deferred until the funds are withdrawn. RRSPs can be withdrawn from at any time with taxes payable on the amount withdrawn.

  You can use your RRSP funds to make a down payment on your first house. No taxes are payable on the amount withdrawn provided the loan is repaid as outlined in your loan agreement. If you fail to repay the borrowed funds, taxes are due on the funds withdrawn. (For more details on using RRSPs for a house purchase, see *Buying a House*, Appendix 2, page 64.)

> Pay off credit card debt **before** making RRSP deposits. Some would advocate paying off all non-deductible debt before contributing to RRSPs.

- **Registered Retirement Income Fund (RRIF).** An RRSP must be converted to a RRIF by the end of the year in which you turn 71. You have to begin withdrawing these funds as an income the following year. There is a prescribed minimum withdrawal amount (which increases each year), but no prescribed maximum (unless your funds are locked in, as would normally be the case with a Registered Pension Plan—see above). Starting at age 65, you may take advantage of the Pension Income Tax Credit. The first $2,000 of pension income is tax-free. If you have no company pension, this can come out of your RRIF.

- **Non-registered investments.** Investments such as rental properties, savings, business investments, and shares can also provide income in retirement, as can the sale of assets no longer needed or desired.

It's never too early to think about saving for retirement, especially in light of increasing life expectancies. Though government pensions are a significant help, most people will need to supplement their income from other sources to live comfortably.

Work through the *Retirement Planning Worksheet* (Appendix 9, page 73) to project your retirement income needs. Remember, even if the amount invested is modest, starting

> To get a perspective on your own retirement planning, see *Living on Your Investments*, page 67, and *Retirement Planning Worksheet*, page 73.

early will give you the benefit of compound interest and capital appreciation over time. At the same time, do not become obsessed with or stressed out about having enough.

### A Retirement Income Example

| | |
|---|---|
| *$ 570.52* | *OAS (x 2 if married)* |
| *629.33* | *CPP ($0-1092 range, depending on contributions)* |
| *1,500* | *RRSPs/RPPs* |
| *500* | *Drawing on other investments* |
| *$3199.85* | *monthly income* |

*See the chart in Appendix 4, page 67, to see how long your investments will last as you draw them down in retirement.*

## D. Insurance

Insurance involves many people (policyholders) paying for the loss suffered by a few policyholders. The primary reason people buy insurance is to provide compensation to an individual, a family, an organization, or a company when a loss occurs for reasons named in the insurance policy. Insurance can also be used to make a charitable gift.

Following are some of the most common types of insurance:

- **Asset insurance.** This type of insurance pays you when an insured asset (e.g., house, furniture, tools) that belongs to you is damaged or destroyed by fire, storm, or other named perils. You may also have asset insurance on your car, farm machinery, or your business interests.
- **Liability insurance.** Liability insurance covers your legal liability in case of injury to other persons or damage to their property while they are on your property or using property that belongs to you.
- **Disability / income replacement insurance.** Disability insurance provides compensation for your loss of income due to an accident and/or illness. It can be purchased privately or may be provided through your employer in a group insurance package, which generally costs less than a private policy.
- **Life insurance.** Life insurance normally provides for the payment of a sum of money to a stated beneficiary when the insured person dies. Reasons for buying life insurance include: replacement of lost family income, paying the mortgage on a house or business, buying out the shares of a company partner in the event of death, covering taxes in an estate, paying for the funeral, burial or cremation costs, leaving more for your heirs, and ensuring a gift (or gifts) to charity.

  The main types of life insurance are whole life, universal life, and term. Each serves a particular purpose.

1. **Whole life.** Whole life insurance is an insurance contract with level premiums that has both an insurance and an investment component. The former pays a fixed amount upon the death of the insured. The investment portion accumulates a cash value that the policyholder can use to pay premiums, withdraw, or borrow against.

2. **Universal life.** Universal life insurance, like whole life, includes both a death benefit and a savings component. However, with a universal policy, the policyholder can determine how the savings portion is invested. The owner may also decide to increase the regular premium in order to add more money to the savings portion of the policy. Currently, death benefits paid out from these policies are exempt from tax on the savings portion within certain limits. As with whole life, universal life policies can be paid up.

Life insurance can be used to make a charitable gift. Ask an Abundance Canada gift planning consultant for details.

3. **Term.** Term insurance is used mainly for coverage of a specific situation over a certain period. In a sense, it's like renting insurance coverage for a period of time. Most term policies do not contain a savings feature. They provide compensation only while they are in force. Common terms include 5-, 10-, and 20-year policies.

   Term to 100 insurance is also available and will pay out a stated amount upon the death of the insured or the insured reaching the age of 100. Whereas term insurance premiums will increase with each new term, premiums for term to 100 insurance remain level over the life of the policy.

   Young couples often buy term insurance so that upon the death of one spouse, the proceeds of the policy provide sufficient funds to enable the surviving spouse to stay at home while the children are young and need more care. A homeowner might buy a 20-year term policy to insure a 20-year mortgage.

Have you arranged for insurance or other replacement income that would provide income for your family (if needed) in the event of your death?

**The cost of insurance.** The premium (cost of life insurance) is determined by a number of factors, including the age of the insured, lifestyle, health, amount and length of coverage, type of insurance, provincial tax rates, and life expectancy. Verification of good health is normally required before an insurance policy will be approved.

## Recap

In this chapter you were introduced to long-term financial planning concepts such as investment considerations, retirement income, and insurance options. You were encouraged to develop your own set of long-term goals based on your priorities and your current life circumstances.

# Notes:

## CHAPTER 5

# Planning Ahead

### A. Will and Estate Planning

It is no secret that someday, sooner or later, we will all die. Making estate plans will do nothing to cause or delay the inevitable. When we die, we will leave behind all our carefully accumulated possessions for others to enjoy. Solomon captured the irony of this in the following statement: "*For though I do my work with wisdom, knowledge, and skill, I must leave everything I gain to people who haven't worked to earn it. This is not only foolish but highly unfair*" (Ecclesiastes 2:21).

Everyone who has reached the age of majority (18 or 19, depending on where you live) should have a properly drafted personal will. Even if you have only a few assets, it is essential that you have a will to ensure a smooth transfer of your estate to your beneficiaries and to prevent unnecessary worries for your loved ones at a time when they are dealing with the stress of your death.

> Without a valid will, you have no input regarding who your executors will be, who will be appointed as guardians for your minor children, or how your estate will be distributed.

If you die without leaving a valid will, you die *intestate*. In that case, rather than leaving the estate settlement to the whims of your family and friends, most provincial governments impose default provisions. Provincial wills distribute assets in a prescribed order, giving preference to spouse, children, parents, siblings, and then extended family.

Though the provincial will is well intentioned, there is no input from you as to who your executors will be. Your estate will be distributed according to the law of your province of residence without provision for unique family situations, friends, in-laws, or business partners, and without opportunity to make a charitable gift from your estate.

If you have children you have an added reason to make your own will. A will gives you the opportunity to appoint the guardians who will look after your children in the event that both you and your spouse die prematurely. Parents of minor children should make sure their guardians have resources to provide for the children's care as they grow up.

Without a personal will, dealing with an estate is usually more complicated and more expensive. Take the initiative and get a proper will drawn up, one that expresses your wishes. This is not only good planning, but also good stewardship.

> A life lived for God is the best inheritance we can leave our children.

Will planning also creates an opportunity for you as a Christian to designate a portion of your estate to charitable causes. Abundance Canada can help with this planning. While the needs of daily living may have tapped much of your available cash during your lifetime, you

may be able to make a larger gift to charity through your estate as your last expression of worship and service, especially if your surviving spouse and children have been provided for financially.

Although some (not all) provinces recognize a holographic will (i.e., a will written out by hand and signed by the testator or testatrix but not witnessed), it is generally not recommended. Most litigation dealing with wills involves poor drafting—and holographic wills are rarely well drafted.

### All personal wills contain a number of basic components:

- name of person making the will (testator if male, testatrix if female)
- statement confirming that this is the last will of the person named
- appointment of executor(s) and trustee(s)
- granting of powers and direction for executors
- names of beneficiaries and amount or portion each is to receive from the estate
- nomination of guardians (if applicable)
- date the will was signed
- signature of person making the will
- signatures of two witnesses to the will

### Generosity From Different Pockets

- ***Giving from income.*** *Giving as you earn your income is a way of declaring God first in your finances and encourages an ongoing lifestyle of gratitude and generosity. (Abundance Canada offers gifting accounts that allow you to make a donation, receive a charitable receipt, and distribute the gift to charities over the time period of your choosing.)*

- ***Giving from accumulated assets****. If you have accumulated assets that are no longer needed for provision or enterprise, this may be an excellent opportunity for you to help fund a significant project, establish a long-term charitable fund such as a student bursary, or to establish a family foundation that will keep on supporting your favourite charitable causes long after you are gone.*

- ***Giving from your estate (a bequest).*** *After providing for your family, making a gift to charity in your will is an excellent way of extending your legacy of faith to those who follow. It is a way of saying a final thank you to God for a lifetime of provision. It is also a reminder to your family that generosity is an integral part of life as well as death.*

*Contact Abundance Canada to discuss options such as gifting life insurance; RRSPs, TFSAs, or RRIFs; or establishing a family foundation or other long-term charitable fund.*

The act of marriage (and, in some cases, common-law cohabitation) invalidates an existing will made by anyone who is single, divorced, or widowed unless the will was written specifically with marriage in mind and names the intended. Wills for blended families need special attention (see section C). In some situations, it may be wise for the couple to draw up a prenuptial/postnuptial marriage agreement in addition to the will to address the special concerns related to a blended family.

## B. Planning for Incapacity

You should seriously consider also preparing paperwork giving someone (or several people) the legal right to look after decisions regarding your health and your finances if you are alive but can no longer look after yourself. Giving someone this important power also carries the risk that the power might be misused. Choose someone you trust implicitly, who understands you, and who is willing to serve as your legal representative. It can be a spouse, family member, or friend. While anyone over the age of majority can be named, make sure the person you choose has the life experience and emotional maturity to make the decisions and deal with the tasks he or she may have to perform in this role.

Choose someone you trust implicitly, who understands you, and who is willing to serve as your legal representative.

1. **Health care and personal care issues.** It is wise to have documents in place should the time come when you are not able to make health care decisions for yourself.

   All Canadian provinces and territories allow a person to put his or her wishes about treatment in writing, ahead of time. This usually allows a person to appoint someone else (a third party) to receive medical information and to make treatment decisions, since no one knows all the various treatment possibilities that he or she may be exposed to in the future. The name of the document in which these issues are addressed varies from region to region.

   You can use your health care document to give specific instructions about daily living needs, serious health situations, or types of treatment.

2. **Property issues.** A power of attorney for property (known as "mandate in anticipation of incapacity" in Quebec) is a formal document by which you give authority in advance to someone else to make decisions for you regarding your property or finances when you are absent or become mentally or physically incapable of handling your own affairs. It is in effect only while you are living—these powers do not extend to your estate. Since provincial laws differ, make sure you get advice applicable to your area.

## C. Blended Family Issues

Children who find their lives changed by the introduction of a stepparent are often concerned that their new stepmother or stepfather may take financial advantage of their mother or father while that parent is alive. Additionally, the children may be concerned about their inheritance when their biological mother or father dies. In particular, they might wonder if the inheritance

that would normally have been theirs is now going to go to the stepparent or be shared with stepsiblings. The issues are magnified when one of the parties brings significantly more assets into the marriage than the other or one has a large family and the other has few or no children.

> If yours is a blended family, have you made the special arrangements needed to ensure that all the heirs will receive what you intended?

While money can be a leading cause of marital discord at the best of times, the potential is heightened with remarriage. People who remarry often bring significant financial responsibilities and assets to the union. Often there are issues such as property, alimony, child support payments, insurance policies, investments, and retirement funds that need to be worked through to achieve a fair and common goal.

To prevent spouses from taking financial advantage of each other, every province and territory has rules that outline spousal entitlements when a marriage fails. For people entering a second marriage, these ground rules may not always make sense in their circumstance, and that is where a prenuptial/postnuptial marriage agreement can help.

A marriage agreement is not intended to discourage couples from sharing their resources and using them for their mutual enjoyment. After all, marriage is all about sharing. Rather, a marriage agreement sets out the ground rules for such mutuality.

In a marriage agreement, a spouse voluntarily gives up his or her rights under normal spousal entitlement and agrees to a different division of assets—one that reflects the unique situation of the couple. As well, arrangements formalized in a marriage agreement are usually binding upon the surviving spouse and will ensure that all the heirs get their intended inheritance.

As part of a marriage agreement, both parties to the marriage list their individual assets and then together determine which assets will be held jointly and which will be held in their respective individual names. This lets each spouse determine how his or her assets will be managed during life and lays the foundation for their new wills, outlining distribution at death. A marriage agreement, along with new wills that dovetail with the agreement, can help safeguard everyone's interests and set the stage for trust and openness for all concerned.

*Note: Similar considerations apply in most provinces and territories with respect to common-law cohabitation.*

## D. Death and Taxes

Although Canada does not have succession or estate taxes as such, there are taxes that can come due at death. As in other years, income earned in the year of death must be declared and appropriate taxes paid. Other taxes, which have been deferred, may be triggered by death. The two most common areas of deferred taxes are capital gains and registered pension funds.

A capital gain is the increase in value of capital property, which is an asset that can fluctuate in value. In general, capital gain is the difference between the purchase price and the selling price less the cost of any improvements. At the death of the owner, most capital property is deemed to have been sold at fair market value, with any increase considered taxable income. This might

include shares of a private or public company, real estate (other than a principal residence), and other non-cash assets.

Capital gains on the primary residence of the owner are exempt from tax. Although subject to restrictions, there are also exceptions for farms and small businesses when rolled over to eligible family members.

The other main area of deferred taxes is contributions to an RRSP. Contributions to such plans are allowed to appreciate tax-deferred until withdrawn or until the death of the plan holder. At that time, unless there is a tax-deferred rollover to a spouse or financially dependent child, any remaining RRSPs or RRIFs must be included as income in the final tax return. The tax rate could be over 55.5 percent. Good estate planning, including bequests to charities, can help to reduce or eliminate taxes.

## E. Probate

Probate is the process whereby the executor presents the will of the deceased to a provincial probate court for validation. If the will submitted for probate is declared valid, it is registered and validated as the last will and testament of the deceased. Probate is then granted, verifying to all concerned that the named executor has the official authority to carry out the terms of the will. This validation also provides a measure of protection for the executor. If a more recent will is later discovered, the executor will not be held liable for having acted on the earlier probated will.

> Probate validates the will and authorizes the executor to act for the estate.

Probate fees can take a considerable bite out of estate assets, causing some people to structure their assets so these fees will be reduced or eliminated. Though that is understandable, care must be taken not to make foolish arrangements to save a few dollars on probate fees. With the exception of Quebec, which does not require probate for notarized wills, each province and territory sets its own fee schedule which is applied to all the assets of the estate.

Not all wills need to be probated. If the estate is small and the executor is able to carry out the terms of the will, (access funds held in financial institutions, deal with property issues, and so forth) it may be possible to avoid probate. If the assets are more significant, most financial institutions, in an attempt to avoid potential liabilities, refuse to release funds to an executor without probate.

Even if a will needs to be probated, some assets may bypass probate. Life insurance and retirement funds where a beneficiary has been named, properties held in joint tenancy or in a trust, and joint bank accounts with right of survivorship are passed on outside the will. If a person dies without leaving a valid will, the provincial will applies and all assets of the estate will need to be probated.

Though joint tenancy is a popular way for assets to transfer by right of survivorship, having another name or names on the title can leave all owners vulnerable to future complications.

Think carefully before doing this. In effect, the original owner loses exclusive control of the asset. If, for example, the other person(s) named on your title files for bankruptcy, creditors could force the sale of the asset, including your share, to pay off the debt.

Abundance Canada gift planning consultants are available to guide you through the estate planning process to ensure that you end up with a will that expresses your wishes.

> It's not what you gather but what you scatter that tells what kind of life you have lived.

Though there are many do-it-yourself will kits available, Abundance Canada strongly encourages you to work with professionals to formalize your will. Sometimes a poorly drafted will is no better than having no will at all.

The cost of having a lawyer draft your will is minimal compared with the expense and problems that may be incurred by your estate if you die without a will or with a poorly drafted one. This is not the time to take chances to save a few dollars. Remember, good planning can reduce the hassles and expenses of dealing with your estate and leave more for the people and charities you value.

## Recap

While estate planning is often difficult, this chapter should help. You were offered guidance in will and incapacity planning. Guidance was also offered on blended family issues. For more in-depth information on these and other estate planning topics, see Abundance Canada's *Your Will and Estate Planning Guide*.

### Estate Planning Checklist

..... *have a family meeting to discuss your estate plans (if applicable)*

..... *current will in place*

..... *incapacity documents for property in place*

..... *incapacity documents for health care in place*

..... *inform executor(s) of location of documents (See Abundance Canada's Personal Information Directory online at abundance.ca/pid)*

..... *inform those you have asked to make decisions if you are incapacitated about location of documents*

..... *give appropriate consideration to the needs of your blended family (if applicable)*

*If you need help with any of the above, call Abundance Canada or your lawyer for guidance.*

# Appendices

# APPENDIX 1

# *First Things First* Money Allocation Plan

In most budget programs, all the monthly allocations appear to be equally important. In real life, however, we often have to make financial choices and trade-offs. Less important expenditures will have to wait or be cut while we direct our resources to our most important needs. The *First Things First* money allocation plan will help you do just that. It is based on your priorities and cash flow. This method will work best for people whose income and expenses are fairly predictable. People with irregular income, such as self-employed entrepreneurs, will need to make modifications to make this plan work. See Lines 1 and 2 in the following detailed notes on page 61.

The basic idea of the *First Things First* approach is really quite simple. Upon receiving your paycheque, declare God first in your finances by giving generously to your church or charities of your choice. Next, make your most important monthly allocations, such as rent, mortgage payment, groceries, utilities, and savings, and then live on what is left until the next paycheque.

A good way to get started is to collect all financial transaction slips throughout the month (pay slips, deposit slips, purchase receipts, bills paid, etc.). Place them into one of four envelopes labelled income, *First Things First* allocations, lifestyle allocations, and discretionary allocations. You may need to put notations on some of the slips in case you forget what the transaction was about.

At the end of each month, fill in the monthly column on the chart on page 60. Begin by filling in the income amount(s) and then the itemized ***First Things First* allocations**. Any *First Things First* allocation bills not included in the itemized list should be totalled and the amount entered as Other.

Repeat the same process for the **Lifestyle allocations** section. Again, begin this section by filling in the amounts for any itemized lifestyle allocations. Any lifestyle allocation bills not included in the itemized list should be totalled and the amount entered as Other.

Group all remaining bills and enter the total in the **Discretionary allocations** line. Total the amount and you're finished. Once you have done this for several months, patterns will emerge, making the process fairly simple and efficient. Feel free to fine-tune the system to reflect your needs. Remember, the bottom line is to pay for priority items first and then to live on the remaining balance.

**Note:** For a fuller discussion on charitable gifting, see the notes on Line 3, as well as *Offerings and Worship* on page 14.

The following chart has a set of numbers in the left-hand columns for the different allocation categories. This is a generic example and will not likely match your personal circumstances. You will need to personalize the numbers, keeping in mind factors like income, number of people in your family unit, their ages, where you live, lifestyle preferences, and transportation needs.

## *First Things First* Money Allocation Plan

| | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Plan** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** | **Actual** |
| 1. Net income | | | | | | | | | | | | | |
| 2. Net income | | | | | | | | | | | | | |
| **Total income** | | | | | | | | | | | | | |
| ***First Things First* allocations** | | | | | | | | | | | | | |
| 3. Offerings | | | | | | | | | | | | | |
| 4. Occasional expenses | | | | | | | | | | | | | |
| 5. Rent/Mortgage | | | | | | | | | | | | | |
| 6. Life Insurance | | | | | | | | | | | | | |
| 7. Loan A (car) | | | | | | | | | | | | | |
| 8. Loan B | | | | | | | | | | | | | |
| 9. Groceries | | | | | | | | | | | | | |
| 10. Utilities | | | | | | | | | | | | | |
| 11. Heating | | | | | | | | | | | | | |
| 12. Other | | | | | | | | | | | | | |
| **Total** | | | | | | | | | | | | | |
| **Lifestyle allocations (flexible)** | | | | | | | | | | | | | |
| 13. Personal allocation | | | | | | | | | | | | | |
| 14. Savings/RRSP | | | | | | | | | | | | | |
| 15. Car (gas, etc.) | | | | | | | | | | | | | |
| 16. Kids' allowance | | | | | | | | | | | | | |
| 17. Other | | | | | | | | | | | | | |
| **Total** | | | | | | | | | | | | | |
| **Discretionary allocations (eating out, clothing, travel, furniture, gifts, cable, health club, sports equipment, etc.)** | | | | | | | | | | | | | |
| 18. Total | | | | | | | | | | | | | |
| **Grand Total** | | | | | | | | | | | | | |

## Notes to the *First Things First* Money Allocation Plan Chart

**Lines 1 and 2: Income.** List all regular, net monthly income including salary, child tax credit, pension, investments, and so forth. Since you do not receive the portion of your salary that is deducted at source (CPP, income tax, group insurance, etc.), do not include these amounts in your income figures. List only the income you actually receive.

If your income is sporadic or seasonal, take a reasonable annual amount and divide by 12 for the monthly amounts. If your monthly income fluctuates significantly, you may need to arrange for a line of credit to cover your needs during months of lower income or higher expenses. Be careful not to use the line of credit to raise your lifestyle above your realistically expected income for the year.

**Lines 3-12: *First Things First* allocations**. Pay the *First Things First* allocations. Your financial institution will be happy to make most of these payments for you through pre-authorized withdrawals from your account. If you find yourself financially squeezed, you may need to revisit these (even if they are priority allocations) to see if you can find cheaper housing or temporarily reduce the amount going into the Account for Occasional Expenses.

- **Line 3: Offerings.** Offerings are listed as the first allocation for good reason. Giving to God from the top is an act of worship, a way of declaring God first in your life, including your finances. It is a way of acknowledging that even though you manage money, all you have comes from and belongs to God. Through giving, you break the powers of greed and selfishness—temptations that afflict us all.

  Though it might defy logic, many Christians will testify that once they developed the discipline of giving to God from the top, the rest of their money seemed to go farther. Others add that the practice of giving to God from the top has reduced tensions around money issues in their household. Sharing also leads to gratitude since it shifts the focus from *What do I need?* to *What do I have that I can give?*

- **Line 4: Account for Occasional Expenses.** Every household has occasional expenses that are hard to plan for because they happen at random. Instead of having many contingency accounts for things like eyewear, tires, dental, trips, house repairs, and gifts, arrange for the bank to withdraw a fixed amount from your chequing account each month and place it into a monthly savings account to cover these occasional expenses. In a period of low or no income you might also draw on these funds to help tide you over. In essence, the Account for Occasional Expenses is a self-funded line of credit for random expenses.

  Periodically review the amount you are setting aside each month to ensure that the fund is adequate for the purposes outlined above. Make adjustments as needed to ensure that the fund remains relevant. If you are collecting more funds than needed, use the excess to do some extra charitable gifting, make an additional loan payment, or move the excess funds into your long-term savings, Tax-Free Savings Account or RRSP account.

It will take discipline to develop this fund, but once established you will wonder how you ever managed without it.

- **Line 5: Rent or mortgage.** For a fuller discussion regarding purchasing a house, see *Buying a House*, Appendix 2, page 64.
- **Line 6: Life insurance.** For a fuller discussion on insurance options, see Chapter 4, page 48.
- **Lines 7 and 8: Loans.** For a fuller discussion on loans, see Chapter 2, page 24.
- **Line 12: Other.** Total any other fixed priority monthly obligations.

**Lines 13-17: Lifestyle allocations.** Once *First Things First* allocations have been made, move on to lifestyle allocations. Normally, these would also be monthly allocations but with more flexibility than *First Things First* allocations.

- **Line 13: Personal allowances.** To give each other a measure of financial freedom, couples sometimes agree to give each partner an amount of monthly discretionary money for which no accounting is required other than to record the monthly amount on the chart.
- **Line 14: Savings/RRSP.** This category is different from line 4, which serves as a personally funded line of credit for occasional, short-term needs. The savings/RRSP allocation is long-term investing and retirement funding. For a fuller discussion on savings, investments, and RRSPs, see Chapter 4.
- **Line 15: Vehicles.** For a fuller discussion on vehicle costs, see *Purchasing a Vehicle*, Appendix 3, page 66.
- **Line 16: Kids' allowance.** For a fuller discussion on structuring kids' allowance see Chapter 3, page 36.
- **Line 17: Other.** Total any other flexible monthly allocations.

**Line 18: Discretionary allocations.** These include eating out, travel, furniture, internet, gifts, etc. Total any remaining allocations made during the month. Should money be in short supply, these are allocations that you can delay or cancel altogether, at least in the short term.

For people who prefer to track their spending on a daily basis, the next page provides a sample daily spending record worksheet. Simply enter your monthly allocation amounts from the plan column of your *First Things First Money Allocation Plan* (page 60) at the top of the corresponding columns on the daily spending record.

On a daily basis, enter your expenditures in the appropriate column of the daily spending record and cross off the date in the bottom row. At the end of the month, add up each column and enter the amount in the total for the column. Transfer these amounts to the actual column for the appropriate month on your money allocation plan. Calculate the amount you are over or under your plan. Add this month's total to Last month YTD to arrive at your new Total YTD.

# Daily Spending Record

Month: .....

| Coordinates with Appendix 1 *First Things First* | ***First Things First* Allocations** | | | | | | | | | | **Lifestyle Allocations (Flexible)** | | | | | **Disc. All.** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3. Offerings | 4. Occasional expenses | 5. Rent/ Mortgage | 6. Life insurance | 7. Loan A (car) | 8. Loan B | 9. Groceries | 10. Utilities | 11. Heating | 12. Other | 13. Personal allowance | 14. Savings/ RRSP | 15. Car (gas, etc.) | 16. Kids' allowance | 17. Other | 18. Total discretionary spending |
| **Plan** | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
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| **Total** | | | | | | | | | | | | | | | | |
| **Over / Under** | | | | | | | | | | | | | | | | |
| **Last month YTD** | | | | | | | | | | | | | | | | |
| **Total YTD** | | | | | | | | | | | | | | | | |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

# APPENDIX 2
# Buying a House

Most people dream of owning a home even if they can't afford it at the time. Financial institutions have aggressively marketed their services to make this dream possible by offering after-hours service, longer-term mortgages, and low or even no down payment loan options.

Historically, home ownership has proven to be one of the best long-term investments people can make. Inflation has pushed house values up, in some cases way up. Since there is no capital gains tax on the increased value of a primary residence, any rise in value is tax-free. Instead of paying rent to someone else, people are adding to their home equity.

At the same time, home ownership is not for everyone. Some people do not wish to be responsible for the ongoing maintenance that is required of homeowners, while some believe they will not stay in one place long enough to make buying a home worth their while. Still others want to keep their assets more liquid, available for investment or business opportunities, or as retirement income. Home ownership is a choice that has huge implications for many other areas of your life. You have to decide what makes sense in your particular circumstances.

In general, home mortgage payments (principal and interest) should not exceed 30 percent of gross household income. Total household debt payments should not exceed 35 to 40 percent of gross household income. You will reduce your financial stress significantly if you stay well within those limits.

Before you go shopping for the house of your dreams, seek the advice of a financial planning professional to review your loan capacity in the context of your present financial circumstances, taking into account your income, existing debts, and any other anticipated expenses.

In addition to cash, you can also borrow from your RRSPs for your down payment.

Under the Home Buyers Plan, first-time Canadian homebuyers (where neither spouse has owned a home that they have occupied as a principal residence during the last five years) can withdraw up to $25,000 of their RRSP funds, per spouse, to help them purchase a home. Under this arrangement, funds withdrawn and applied to the purchase and related expenses are not considered cashed in and no income taxes are payable on the withdrawn funds. You must pay back the loan, without interest, over a maximum of 15 years.

## Financial Planning Process

When making major financial decisions, you may find the following planning process helpful:

1. **Determine your objective.** E.g., buy a $300,000 home.
2. **Decide what's important to you, collect data, and consider your options.** You have $60,000 in savings at present but realize that it would take considerable discipline to save much more for a house while still paying the monthly rent. You know that your mortgage costs (principal, interest, and taxes) should not exceed 30 percent of gross household income.

**And so the choices are**

- continue renting
- buy now with a low down payment
- as a first-time homebuyer, use the $25,000 you have in your RRSP to increase the down payment
- wait to buy until you have significantly more in savings for a larger down payment

Carefully consider the implications of each of the choices. Don't forget to factor in closing costs, as well as the need to furnish, and possibly make some renovations, when figuring out what you can afford. Depending on where you live, land transfer tax, legal fees, and mortgage registration, among other items, may add two to four percent to your purchase price. That's another $6,000 to $12,000 based on this example.

3. **Develop a plan.** After considering your options, you decide to use $35,000 from your savings and $25,000 from your RRSPs to increase your down payment to the 20 percent level required to avoid a high-ratio loan that will require expensive Canada Mortgage and Housing Corporation (CMHC) insurance. (The remaining $25,000 of your savings will be used to cover closing costs, buying furniture, and doing some minor renovations.)

4. **Implement your plan.** After getting pre-approval for a $240,000 mortgage, you begin to shop. When you find the right house you close the deal, formalize the mortgage, give notice, and begin packing. Congratulations! You are now a homeowner with all the pride and challenges connected with ownership.

5. **Monitor your plan.** As the months roll by, you realize that occasionally you have several hundred dollars left at the end of the month. You decide to use that to make additional payments on the loan, significantly shortening the amortization period.

**Mortgage Payment Comparisons**

Interest costs can be reduced significantly with a shorter amortization period. Note the comparative figures in the following table. The figures are based on a $100,000 mortgage.

| Amort. period | Rate of interest | Monthly payment | Total |
|---|---|---|---|
| 25 years | 5% | $581.60 | $177,482.96 |
| 25 years | 3% | $473.25 | $141,972.92 |
| 20 years | 5% | $657.13 | $157,709.10 |
| 20 years | 3% | $553.67 | $132,880.15 |
| 15 years | 5% | $788.12 | $141,972.92 |
| 15 years | 3% | $689.69 | $124,143.83 |

# APPENDIX 3
# Purchasing a Vehicle

To get a handle on what makes sense for you when buying a vehicle, take note of how many kilometres you typically drive in a year and how many people you normally need to transport. Since the main function of a vehicle is to provide safe, economical transportation for your needs, choose the vehicle category (e.g., compact, mid-size, van, truck), that makes the most sense in your situation.

The Canadian Automobile Association (CAA) provides information about the costs involved in driving your own vehicle. Costs can be broken down into two main categories:

- **Operating costs:** these vary and depend on where you live, how you drive, how much you drive, and what you spend on service and repairs. They include fuel, maintenance, and tires.
- **Ownership costs:** these also vary greatly and depend on what type of vehicle you choose; however, they change very little with the amount and type of driving. When calculating the costs of owning a vehicle, in addition to the purchase price, you must consider insurance, licence fees, registration fees, taxes, finance costs, and depreciation. Generally, the longer you own a vehicle, the lower the average annual cost of ownership.

CAA provides annual operating costs per kilometre of various types of vehicles through an online calculator, which can be found at: www.caa.ca/car_costs.

## APPENDIX 4

# Living On Your Investments

| Total Invested | Indexed Monthly Draw | Interest Rate | Time to depletion at 2% inflation | Time to depletion at 3% inflation |
|---|---|---|---|---|
| 50,000 | 500 | 5% | 9 yr 8 mo | 9 yr 3 mo |
| 50,000 | 500 | 7% | 10 yr 10 mo | 10 yr 3 mo |
| 50,000 | 500 | 9% | 12 yr 5 mo | 11 yr 7 mo |
| 100,000 | 500 | 5% | 23 yr 2 mo | 20 yr 6 mo |
| 100,000 | 500 | 7% | 34 yr 6 mo | 27 yr 4 mo |
| 100,000 | 500 | 9% | Indefinite | Indefinite |
| 100,000 | 750 | 5% | 13 yr 7 mo | 12 yr 9 mo |
| 100,000 | 750 | 7% | 16 yr 2 mo | 14 yr 10 mo |
| 100,000 | 750 | 9% | 20 yr 9 mo | 18 yr 1 mo |
| 150,000 | 750 | 5% | 23 yr 2 mo | 20 yr 6 mo |
| 150,000 | 750 | 7% | 34 yr 6 mo | 27 yr 4 mo |
| 150,000 | 750 | 9% | Indefinite | Indefinite |
| 150,000 | 1,000 | 5% | 15 yr 9 mo | 14 yr 7 mo |
| 150,000 | 1,000 | 7% | 19 yr 6 mo | 17 yr 5 mo |
| 150,000 | 1,000 | 9% | 27 yr 8 mo | 22 yr 7 mo |
| 200,000 | 1,000 | 5% | 23 yr 2 mo | 20 yr 6 mo |
| 200,000 | 1,000 | 7% | 34 yr 6 mo | 27 yr 4 mo |
| 200,000 | 1,000 | 9% | Indefinite | Indefinite |
| 200,000 | 1,500 | 5% | 13 yr 7 mo | 12 yr 9 mo |
| 200,000 | 1,500 | 7% | 16 yr 2 mo | 14 yr 10 mo |
| 200,000 | 1,500 | 9% | 20 yr 9 mo | 18 yr 1 mo |
| 200,000 | 2,000 | 5% | 9 yr 8 mo | 9 yr 3 mo |
| 200,000 | 2,000 | 7% | 10 yr 7 mo | 10 yr 3 mo |
| 200,000 | 2,000 | 9% | 12 yr 5 mo | 11 yr 7 mo |
| 300,000 | 2,000 | 5% | 15 yr 9 mo | 14 yr 7 mo |
| 300,000 | 2,000 | 7% | 19 yr 6 mo | 17 yr 5 mo |
| 300,000 | 2,000 | 9% | 27 yr 9 mo | 22 yr 7 mo |

## APPENDIX 5

# Monthly Income and Expenses Analysis

DATE: .....

INCOME PER MONTH

| | | | |
|---|---|---|---|
| Gross wage/salary | | ..... | |
| Investment | | ..... | |
| Pension | - CPP | ..... | |
| | - OAS | ..... | |
| | - Other | ..... | |
| Family allowance | | ..... | |
| Child tax credit | | ..... | |
| Other | | ..... | |
| TOTAL GROSS INCOME | | | ..... |

EXPENSES PER MONTH

| | | | |
|---|---|---|---|
| 1. | **Tithe and charitable gifts** | | ..... |
| 2. | **Income tax** | | |
| | Payroll ded. | ..... | |
| | Instalments | ..... | |
| | TOTAL | | ..... |
| 3. | **Savings** | | ..... |
| 4. | **Food** | | ..... |
| 5. | **Household items** | | ..... |
| 6. | **Housing** | | |
| | Mortgage/rent | ..... | |
| | Insurance | ..... | |
| | Taxes | ..... | |
| | Hydro | ..... | |
| | Heating | ..... | |
| | Water | ..... | |
| | Telephone | ..... | |
| | Cable TV | ..... | |
| | Maintenance | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 7. | **Education** | | |
| | Subscriptions | ..... | |
| | Tuition | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 8. | **Insurance** | | |
| | Life | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 9. | **Clothing** | ..... | |
| 10. | **Transportation** | | |
| | Car loan | ..... | |
| | Gas | ..... | |
| | Insurance | ..... | |
| | Licence | ..... | |
| | Maint/repairs | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 11. | **Recreation / entertainment** | | |
| | Food | ..... | |
| | Fees | ..... | |
| | Activities | ..... | |
| | Vacation | ..... | |
| | Babysitting | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 12. | **Discretionary allowances** | | |
| | Parents | ..... | |
| | Children | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 13. | **Gifts** | | |
| | Christmas | ..... | |
| | Birthdays | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 14. | **Miscellaneous** | | |
| | Toiletry | ..... | |
| | Hair care | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 15. | **Debt** | | |
| | Credit cards | ..... | |
| | Loans/notes | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| 16. | **Medical / dental** | | |
| | Treatment | ..... | |
| | Drugs | ..... | |
| | Other | ..... | |
| | TOTAL | | ..... |
| | TOTAL EXPENSES | | ..... |
| | **TOTAL GROSS INCOME** | | ..... |
| Less | **TOTAL EXPENSES** | | ..... |
| | **SURPLUS** | | ..... |

## APPENDIX 6

# Saving for Your Children's Education

Tuition at universities and other post-secondary educational institutions has increased much faster than inflation in the last several years. Analysts predict this trend will continue. It is wise, therefore, to plan ahead for your children's future educational needs and expenses. There are several different strategies that can be used to set aside money for this purpose. This chart summarizes the advantages and disadvantages of four strategies.

| Strategy | Advantages | Disadvantages |
|---|---|---|
| Conventional savings account (in trust for the child) | • maximum flexibility (funds may be used for any purpose at any time) | • any interest income earned is taxable to you<br>• no CESG* |
| Investing child tax credit payments (in trust for the child) | • maximum flexibility (funds may be used for any purpose at any time)<br>• investment income is taxable to the child (as the child tax credit payments are considered to be the child's income) | • no CESG<br>• investment income is taxable in the year it is earned |
| Stock or equity mutual funds (in trust for the child) | • maximum flexibility (funds may be used for any purpose at any time)<br>• capital gains are taxable to the child | • no CESG<br>• investment income is taxable in the year it is earned |
| Registered Education Savings Plan (RESP) | • eligible for the CESG<br>• investment income is tax-deferred until withdrawn when the child is a student<br>• investment income is taxed in the hands of the student | • no flexibility (funds may be used only for education for that child)<br>• limitations on rolling income into your RRSP if the child does not pursue further education |

*CESG stands for Canada Education Savings Grant. On the first $2,500 you save every year in your child's Registered Education Savings Program (RESP), the CESG will give you:

- an additional CESG grant based on family income available for the first $500 contributed per child per calendar year until the end of the year when the child turns 17. This amounts to an additional: $100, if net family income is $45,282 or less ($500 x 20% = $100), or
- $50, if net family income is between $45,282 and $90,563 ($500 x 10% = $50)

*Check out www.esdc.gc.ca/en/student_grants/cesg.page for current information.*

## APPENDIX 7

# Age of Majority

The age of majority varies from province to province and territory across Canada.

| Province or Territory | Age of Majority |
|---|---|
| British Columbia | 19 |
| Alberta | 18 |
| Saskatchewan | 18 |
| Manitoba | 18 |
| Ontario | 18 |
| Quebec | 18 |
| New Brunswick | 19 |
| Nova Scotia | 19 |
| Prince Edward Island | 18 |
| Newfoundland & Labrador | 19 |
| Yukon | 19 |
| Northwest Territories | 19 |
| Nunavut | 19 |

Because of the constantly evolving nature of the law, please ensure you verify this information with an Abundance Canada gift planning consultant or a local lawyer.

# APPENDIX 8
# Life Insurance Worksheet

**STEP 1: How much do you need to pay off your debts and cover ongoing expenses?**

1. Current bills, outstanding balance on your mortgage and other loans or debts +$.....
2. Children's education +$.....
3. Expenses on death (e.g., funeral costs, legal and probate fees) +$.....
   *(If unsure, use an estimate of between $10,000 and $20,000.)*
4. Emergency fund (equivalent of 3-6 months of expenses) +$.....

Add lines 1 through 4 **(A)$**.....

**STEP 2: How much income would your family need?**

1. Annual income **(B)$**.....
   *(As an estimate, use 80 percent of your current annual income, since some expenses will be reduced with one less family member.)*
2. From the table below, select the factor that corresponds to the number of years you wish to provide an income for your family. **(C)$**.....

| No. of Years Income Needed | 10 | 15 | 20 | 25 | 30 | 35 | 40 |
|---|---|---|---|---|---|---|---|
| Factor* | 8.47 | 11.64 | 14.26 | 16.43 | 18.22 | 19.70 | 20.92 |

**Assumes a 7 percent rate of return, a 3 percent annual inflation rate, and that the funds will be depleted at the end of the period.*

3. Multiply line (B) by line (C). This is the amount required to provide an income for your family for the number of years selected. **(D)$**.....

**STEP 3: Total amount needed to pay off debt and provide an income**

1. Add lines (A) and (D). This is the total amount your family will require to pay off debts and maintain its standard of living. **(E)$**.....

**STEP 4: Determine the value of your existing assets and life insurance coverage**

1. Group life insurance +$.....
   *(If you are a member of an employer-sponsored or professional association life insurance plan, enter the amount of coverage you currently have.)*

2. Personal life insurance +$.....
   *(Enter the total amount of any existing life insurance coverage. This includes all term, whole life, and universal life policies.)*

3. Mortgage insurance +$.....
   *(If your mortgage is currently life-insured, enter the current outstanding balance on your mortgage.)*

4. Liquid assets (non-RRSP) +$.....
   *(Enter the total amount you have invested in GICs, Canada Savings Bonds, treasury bills, money market mutual funds, TFSAs, and bank accounts.)*

5. Long-term assets +$.....
   *(Enter the total amount you have invested in stocks, bonds, real estate, and non-money market mutual funds.)*

6. Current value of your RRSPs +$.....
   *(Many people prefer to leave the value of their RRSPs out of the calculation of life insurance needs. This way, the funds can be left to grow and form part of a spouse's retirement income. If you include the value of RRSP assets, reduce the current value by 40 percent to allow for the fact that these funds are fully taxable on withdrawal.)*

Total funds available from existing assets (add lines 1 through 6) **(F)$** .....

**STEP 5: Determine how much insurance you need**

Subtract line (F) from line (E). This is the amount of life insurance required to meet your needs. $ .....

If the number on this line is negative and your estimates are realistic, you may already be adequately insured. Be sure to review your insurance needs any time there is a significant change in the balance of your assets or a change in your life circumstances.

# APPENDIX 9

# Retirement Planning Worksheet

**STEP 1: Determine your annual retirement income**

Think about the lifestyle you want in retirement. Do you have any expenses that may be reduced (e.g., mortgage, dependants, work-related expenses)? Will you have any new expenses (e.g., medical coverage, travel, hobbies)? Do you want to continue to give generously in retirement? A general guideline is that you may need 60 to 80 percent of your pre-retirement gross income to maintain your standard of living in retirement.

1. Based on these considerations, estimate your annual retirement income needs. (A)$.....

2. You will need to adjust your annual retirement income needs for future inflation. From the table below, select the number of years until you retire. Enter the corresponding inflation factor on line (B). (B) .....

| Years to Retirement | 5 | 10 | 15 | 20 | 25 | 30 | 35 |
|---|---|---|---|---|---|---|---|
| Inflation Factor (3%) | 1.16 | 1.34 | 1.56 | 1.81 | 2.09 | 2.43 | 2.81 |

3. Multiply line (A) by line (B). This is your annual retirement income requirement, adjusted for inflation. (C)$.....

**STEP 2: Determine your sources of retirement income**

1. Estimate the annual amount of income you expect to receive from sources other than your personal savings (e.g., CPP, OAS). *(As an estimate, if you have a company pension plan, multiply line (C) by 60 percent. If you do not have a company pension plan, multiply line (C) by 30 percent. Use an even lower percentage if you are uncertain about the future availability of government benefits.)* (D)$.....

2. Subtract line (D) from line (C). This is the amount of annual retirement income you will need to fund from your personal savings, such as your RRSPs or TFSAs. (E)$ .....

**STEP 3: Determine your personal savings goal**

1. From the table below, select the number of years you expect your retirement income to last and enter the corresponding factor on line (F). (F) .....

| No. of Years Income Needed | 15 | 20 | 25 | 30 | 35 |
|---|---|---|---|---|---|
| Factor* | 12.36 | 15.44 | 18.10 | 20.40 | 22.40 |

**Assumes a 6% pre-tax annual rate of return, 3 percent annual inflation, and that the funds will be depleted by the end of the period selected.*

2. Multiply line (E) by line (F). This is the amount you need to save before retiring in order to produce your annual retirement income. (G)$.....

3. Enter the total amount you already have saved in RRSPs and/or TFSAs. (H)$ .....

4. From the table below, select the number of years until you retire and match it with the return you expect your savings to earn. Enter the corresponding factor on line (I). (I) .....

| Years to Retirement | 5 | 10 | 15 | 20 | 25 | 30 | 35 |
|---|---|---|---|---|---|---|---|
| Annual Rate 4% | 1.22 | 1.48 | 1.80 | 2.19 | 2.67 | 3.24 | 3.95 |
| 6% | 1.34 | 1.79 | 2.40 | 3.21 | 4.29 | 5.74 | 7.69 |
| 8% | 1.47 | 2.16 | 3.17 | 4.66 | 6.85 | 10.06 | 14.79 |
| 10% | 1.61 | 2.59 | 4.18 | 6.73 | 10.83 | 17.45 | 28.10 |

5. Multiply line (H) by line (I). This is the amount your current RRSPs and/or TFSAs will be worth at retirement. (J)$.....

6. Subtract line (J) from line (G). This is the additional amount you must save by the time you retire to meet your retirement income goal. *(If this number is less than zero, you're ahead of your retirement savings goal! Consider other goals you may have and put a strategy in place to achieve them.)* (K)$ .....

**STEP 4: Determine your monthly savings goal**

1. From the table below, select the number of years until you retire and match it with the return you expect your savings to earn in the meantime. Enter the corresponding factor on line (L). (L) .....

| Years to Retirement | 5 | 10 | 15 | 20 | 25 | 30 | 35 |
|---|---|---|---|---|---|---|---|
| Annual Rate 4% | 66.18 | 146.70 | 244.66 | 363.84 | 508.85 | 685.27 | 899.92 |
| 6% | 69.49 | 162.47 | 286.91 | 453.44 | 676.29 | 974.51 | 1373.60 |
| 8% | 72.94 | 180.12 | 337.61 | 569.00 | 908.99 | 1408.55 | 2142.57 |
| 10% | 76.56 | 199.86 | 398.44 | 718.26 | 1233.32 | 2062.84 | 3398.79 |

2. Divide line (K) by line (L). This is how much you need to save each month to reach your retirement savings goal. $.....

# APPENDIX 10
# Choosing a Professional Advisor

## Self-Help Resources

The number of self-help resources—such as will kits, financial publications, and related software—are growing rapidly. From writing your own will to managing your investments, information and fill-in-the-blank forms are only a mouse click away. Yet in the midst of all this information, it is more important than ever that you get sound advice and learn from the wisdom of others.

Self-help material can be very educational, but it does not replace professional counsel. For example, a will kit might be inexpensive to purchase and may contain some helpful information about making a will but may not address your unique circumstances. An improperly designed will could end up costing your estate a great deal more than what you saved on legal fees if the wording is not precise or other details have been omitted or not properly outlined.

## Abundance Canada Gift Planning Consultants

Abundance Canada (AC) gift planning consultants are generalists, trained to assist you with charitable, estate, and financial planning. Their role is to provide objective information and counsel in cooperation with other professionals. With their broadly based training and experience, AC consultants can help you determine the expertise needed, where to get the products, refer you to qualified professionals, and walk with you through the steps you need to take.

While not every action requires the advice of a professional, activities such as developing and implementing a financial or estate plan, making wills, granting powers of attorney, or making substantial charitable gifts should be discussed with the appropriate professionals. For those who are already aligned with planning professionals, involving an AC consultant in the discussions alongside your other professionals adds another skill set.

AC consultants will meet with you to help you plan your will, outline your options, and inform you of factors to consider. Abundance Canada does not write wills or incapacity documents, but will provide you with a written summary of the discussions and decisions you have made.

Abundance Canada offers a broad range of charitable gifting options and will help you choose the ones best suited to your circumstances. When making charitable gifts through Abundance Canada, donors have input regarding how a gift is managed and how it is distributed. If desired, AC can forward your gift anonymously.

Abundance Canada has no commissions or hidden fees . AC consultants are available to meet with you in your home or at one of its offices across Canada.

## Other Advisors

In addition to Abundance Canada consultants, you may wish or need to include other professionals (lawyer, accountant, life insurance agent, or investment advisor) to finalize and activate your plan. One of the most important aspects to consider is compatibility—how well you and your advisors communicate and work together. Finding advisors with whom you feel comfortable and confident is an important step toward developing and implementing a sound financial and estate plan.

Choosing the right advisor is too important to be left to chance. Consider the following when making your choice:

- **Qualifications.** Does the person have the expertise and qualifications in the appropriate fields? If required, is she appropriately licensed? Does she have a recognized designation in her area of expertise and training?
- **Objectivity.** Is the person an independent advisor or is he an agent for a particular product or company? Will he be able to provide you with the best service or product available?
- **References.** Is the person endorsed by someone you know and trust? You can usually avoid unpleasant experiences by using a professional who is highly recommended and has a proven track record.
- **Compatibility.** Is the person interested in your goals and sensitive to your values, or is she mostly intent on her own perspective and agenda?
- **Approach.** Does the advisor do detailed, all-encompassing financial plans or is his focus on a specific area of planning (e.g., taxation, insurance, investments, estate)? If the latter, is he open to working with other professionals that you may already be using or wish to bring in?
- **Compensation.** What costs will there be for the services of a professional advisor? In what form is remuneration requested? Most professionals will provide a free preliminary consultation. After that, costs can be charged on a commission basis, a combination of fees and commissions, or on a fee-only basis. Determine the costs and how they are charged at the beginning, before the meter starts running.

  Most financial advisors are paid from commissions based on the products they sell you. These fees are often not transparent, making it hard for investors to know what they are paying. Given that costs vary widely, it is important to ask advisors how they are being paid, and what fees, such as management expense ratios (MERS) on a mutual fund, are involved in the products you buy.

# Glossary

**Age of majority**—The age at which a person is considered to be an adult for legal purposes. This varies by province or territory (see Appendix 7, page 70).

**Assets**—Everything of value that a person owns, including money, investments and business interests, equipment, personal effects, land, and buildings.

**Beneficiary**—The person or organization that is entitled to receive a gift or benefit from someone else, usually under a will, life insurance policy, or trust.

**CESG**—Canada Education Savings Grant. The CESG is a grant offered by the federal government to encourage, parents, family, and friends to save for a child's post-secondary education. The CESG is a matching grant of 20 percent of contributions to a child's Registered Education Savings Plan (RESP) to a maximum of $7,200. Depending on family income, a higher grant may be available on the first $500 contributed in a given year (see Appendix 6, *Saving For Your Children's Education*, page 69).

**Creditor**—A person (or a business or institution) to whom money is owed.

**Debtor**—A person (or a business or institution) who owes money.

**Depreciating**—Declining or diminishing in value. Businesses often write off what they have spent on a tangible asset, such as a piece of equipment, over a period of time, usually the estimated useful life of the asset.

**Dividend**—An amount of money distributed out of a company's profits to its shareholders in proportion to the number of shares held in a particular class.

**Estate planning**—The process of planning during your lifetime for the ownership and responsible use of your assets after you die.

**Executor (Executrix, if female)**—A person named in a will to administer the estate of a deceased person. This person is also referred to as an estate trustee in some provinces.

**Fair market value (FMV)**—The fair market value is the fair dollar value of an asset that is purchased by a willing buyer from a willing seller, under normal conditions, as determined by a third party. This may differ from the amount that is actually paid for the asset.

**First fruits giving**—First fruits giving is a biblical concept that relates to the ancient practice of gratefully offering to God the first gathered fruits of a harvest. In modern times, first fruits giving means giving back to God from our first and best, not as an afterthought.

**GIC**—Guaranteed Investment Certificate. A GIC is an investment product that offers a guaranteed rate of return over a fixed period of time. GICs are most commonly issued by financial institutions such as credit unions, banks, and trust companies.

**Guarantee**—Something that is given or pledged as security against a loan.

**Guardian**—A person who has the legal authority to oversee the affairs of a minor and the legal responsibility to care for that minor until he or she attains the age of majority.

**Joint tenancy**—Property owned together by two or more persons in which the surviving joint tenant(s) becomes the owner of the entire property upon the death of another joint tenant, usually without reference to the will of the deceased joint tenant.

**Liabilities**—The debts or other financial obligations and responsibilities of a person.

**Life interest**—A benefit given to a person, often but not necessarily in a will, which permits that person (also known as the beneficiary) to have the use of some property or the investment proceeds of some amount of money for the balance of that person's lifetime only. When that person dies or waives the benefit, a secondary beneficiary, often a charity, receives the property or money outright.

**Litigation**—Litigation refers to legal proceedings, also known as a lawsuit.

**Minor**—A person under the age of majority in the province or territory in which he or she resides.

**Mission based investing**—see Socially responsible investing.

**Money market**—A money market fund is a mutual fund that invests solely in money market instruments, such as federal government treasury bills, short-term Government of Canada bonds, commercial paper, bankers' acceptances, and guaranteed investment certificates.

**Mutual fund**—A mutual fund is a portfolio of investment securities (typically stocks and bonds) held in the name of the fund, which is owned by people who have bought shares in the fund itself. Mutual funds do not trade on stock exchanges. Mutual funds sell their own new shares to investors and buy back their old shares as they are sold or redeemed.

**Net worth**—The difference between a person's assets and liabilities, or what a person would have after subtracting what he or she owes from what he or she owns.

**Next of kin**—The closest relative of a person, defined in accordance with the law of the province or territory in which he or she lives.

**Notarize**—To notarize a document means to certify it legally; to certify something such as a signature on a legal document as authentic or legitimate by affixing a notary's stamp and signature.

**Notary public**—A person who is authorized to witness signatures, to administer oaths, and to perform similar tasks, including the swearing to the genuineness of various documents. In some provinces, notaries public are also authorized to prepare wills and real estate transfers.

**Null**—Not binding; invalid or having no effect.

**Oath**—An affirmation to the truth of what is stated.

**Personal property**—All property with the exception of real property.

**Present value**—The current worth of a sum of money that will be received at some time in the future.

**Promissory note**—A written instrument containing an unconditional promise by a party who signs the instrument to pay to another a definite sum of money either on demand or at a specified future date. The note may be made payable to the bearer or to a third party named in the note. A promissory note differs from an IOU in that the former is a promise to pay and the latter is a mere acknowledgment of a debt.

**Real property**—Also known as real estate or realty, refers to land, fixtures, and buildings.

**Remuneration**—A payment or reward for goods or services provided. Sometimes this word is used as a synonym for wages.

**RESP**—Registered Education Savings Plan is a tax-sheltered education savings account that can help you, your family, or friends save for a child's post-secondary education. Matching government grants make it the most attractive way to save (see Appendix 6, *Saving For Your Children's Education*, page 69).

**Right of survivorship**—The right of a surviving joint tenant(s) to ownership of jointly held property upon the death of another joint tenant. See Joint tenancy.

**RRIF**—A Registered Retirement Income Fund is a tax-deferred investment vehicle available to Registered Retirement Savings Plan (RRSP) holders who convert their plans, typically on reaching age 71—when they are required to do so by federal regulations. The plan holder invests the withdrawn RRSP funds in the RRIF and each year must withdraw a minimum set percentage and pay income tax on the funds withdrawn.

**RRSP**—A Registered Retirement Savings Plan is an investment vehicle available to individuals to defer tax on a specified amount of money intended to be used for retirement. Income tax is deferred until the money (the amount originally deposited plus any interest, dividends, or capital gain) is withdrawn, whether at retirement or earlier.

**Securities**—Transferable certificates of ownership of investment products, such as notes, bonds, stocks, futures contracts, and options.

**Socially responsible investing (SRI)**—Investing that takes a person's values and beliefs into account. Some companies sell investment products that are screened according to various social, environmental, and employment criteria. See Chapter 4, *Planning Long Term*, for an example of an SRI mutual fund company.

**Sole proprietorship**—A sole proprietorship is an unincorporated business with one owner who pays personal income tax on profits from the business.

**Spouse**—In law, marriage is recognized as between two persons, regardless of gender. Additionally, most provinces give spousal rights to partners in a common-law relationship. The laws vary from province to province.

**Succession**—The transfer of ownership in property to a person who has the right to own that property.

**Tenancy in common**—Property owned jointly by two or more people. Upon the death of one of the tenants in common, ownership of the deceased's share is transferred to that person's estate, not to the other joint owner(s). There is no right of survivorship. Again, a legal term that has less to do with tenancy than with ownership.

**TFSA**—Tax-Free Savings Account. A TFSA allows Canadians to shelter money tax-free, with no tax payable when it is withdrawn. See page 45 for a discussion of TFSAs.

**Tithing**—A disciplined offering to God as an act of worship.

**Transfer**—The act of conveying property to another person.

**Treasury bills**—Treasury bills are non-interest-bearing discount securities issued by the Canadian Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**Void**—Not legally binding. A document or a term in a contract that is void is useless and worthless, as if it did not exist.

**Will kit**—A will kit is a fill-in-the-blanks form, often sold at book or office supplies stores, or online. These general documents may not cover the specifics of the law in your province or territory. Since estate law is complex and varies depending on where you live, these documents are open to misinterpretation and often lead to lawsuits. Abundance Canada recommends that you have a will prepared by the appropriate legal professional in your province or territory.

# Leader's Guide

Congratulations! You are about to guide your group through an exciting and important study. The issues around money permeate our lives. How we manage money speaks volumes about our faith and values.

All participants in the study should have a book in hand before the study begins so that they can familiarize themselves with the material. In particular, encourage all participants to read the biblical teachings sections on pages 2, 3, 14, and 31 so these concepts get embedded in their minds and hearts.

Although this study guide is divided into five chapters, feel free to spend more time with some sections and less with others, depending on what is most relevant for your specific group. At the same time, you will increase the impact if you follow through on all the chapters in sequence.

While the Bible has a lot of specific advice, it does not try to answer all the day-to-day money questions we face. For example, it doesn't address questions related to retirement income, life insurance, or children's allowance, yet these are issues many of us need to deal with. Appeal to the wisdom of the group to help guide the process.

As noted in several places in the book, there are different approaches to managing money. Don't push to have everyone conform to one method. It won't work. At the same time, by the end of the study everyone in the group should become much more deliberate about how they make money decisions, guided by their values and the principles outlined in the book.

There are a number of places in the material that invite participants to check off or write in their reflections. Please allow class time to do these. These exercises are important steps toward self-understanding as well as for intentionally affirming new directions. In some situations, it may be appropriate to ask the participants to share their reflections, while at other times doing so may make some hesitant to be honest in their responses for fear of having to reveal what they consider private information.

Everyone has made some good and some not so good financial decisions in his or her lifetime. As the group gets more comfortable, invite participants to share stories of what they now see as good decisions as well as ones where, given the chance to do things over, they would make different choices.

In general, it is great to have people share about financial decisions from their own experiences. For example, when discussing the section *Decisions for Household Income* in Chapter 3, invite people to share their experiences. Was there an option for one parent to stay home with children? How was childcare outside the home addressed?

If you have agreed to teach or coordinate the series but find there are chapters you feel ill equipped to teach, look for someone else in your church that has the life experience and professional training to do those sections. Abundance Canada gift planning consultants are also available to do any or all of the chapters, as time permits.

**Disclaimer**

This book is published by Abundance Canada for the benefit of people who seek to establish their financial affairs in a manner that is consistent with their Christian faith. The content is intended as information only and should not be construed as legal or financial advice for any specific situation. For further information, or to follow up on the contents of this book, talk to a gift planning consultant from Abundance Canada. Additional legal and financial advice should be sought from professionals in those fields.

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As each has received a gift, employ it for one another
as good stewards of God's varied grace. *I Peter 4:10*

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