

## A FAMILY BUDGET – A SAMPLE CASE STUDY

### POINT OF LESSON

We aim to answer three common questions: “**How do I give if I can’t pay my bills?**” and, “**I want to save money but there’s nothing left to save!**” “**I want to live by faith but how do I begin.**”

Principle without application often leads to frustration. Let’s look at a real life family and look behind the curtain and study the needs and agree to solutions. The class may see themselves in this study motivating them to address problem areas.

### BACKDROP

God’s word says that we are different than the unsaved world. We have been redeemed and have been rendered supernatural. Just think about it, you are indwelt by deity!

Now we must begin to have the mind of Christ and wisely manage what God has entrusted to us. During our life we often fail to recognize our role as a steward. One who will be held accountable. We often make financial decisions without consideration for taxes, inflation, risk, probate or death taxes. Through proper planning we can often save thousands of dollars both now and later when the Lord calls us home. We can stay out of debt and have a stronger marriage and happy children.

**ICEBREAKER** – What does financial planning mean to you? Is this something for the wealthy? Is there anyone who doesn’t need to plan his finances? Why do many people simply think of budgeting? Many people ask, “If we have adequate cash flow do we even need to plan?” What else should be planned? Proverbs 21:5 “The plans of the diligent lead to profit.”

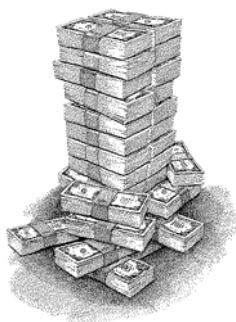


Study this case study and see if they can identify the problem areas. Next, let’s work as a group and consider ways to make the needed adjustments. There are at least 10 areas that should be addressed. Can you help identify them?

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Part of all proper financial planning sessions begins with collecting data. A good advisor asks probing questions and reviews your legal documents (wills, trusts, and power-of-attorney forms), tax returns, liquid and invested assets, insurance, debt, and many times deals with marital communication issues. Financial Planning is a process not a product therefore most financial advisors charge a fee for ongoing counsel and investment oversight. The Bible says in Proverbs 21:5 that planning leads to profit. Without planning there are often painful consequences. A wise man plans his course Proverbs 22:3.



J. DOUGLASS FLORO

For various financial calculators and financial information  
Visit our web site at [www.TheLIFEGroup.org](http://www.TheLIFEGroup.org)

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ROY L. RUSSELL



What Problem?



**Bill and Mary Smith**

mid 40s with three children (ages:12, 15, 17)  
 Bill – advertising manager, Mary – part-time at Christian bookstore

**Legal docs (Christian's Will & Power of Attorney):** None

**Tax return:**

AGI: \$57,900 - \$5,926 taxes = \$51,974 net or **\$4,331 per month**  
 Regular Tax refund: \$ 3,000 per year

**IRAs:** None

**Giving:** \$ 1,320 per year

**Savings Account:** \$750 (*their back is against the wall!*) **Checking Account:** \$500 (*they're living on cash flow*)

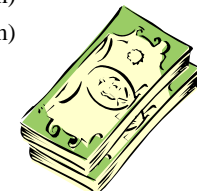
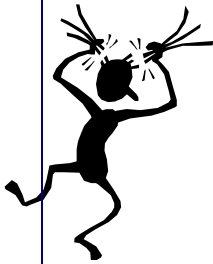
**401(k):** \$25,000 4% contribution with 50% matching (up to 6% of pay)

**Life Insurance:**

\$ 50,000 Group term policy w/ employer  
 \$100,000 Universal life policy on husband paying \$ 972 a year. Cash value \$8,200  
 \$ 25,000 rider on wife from Universal life policy

**Debts:**

	<u>APR</u>	<u>Monthly payment</u>	
\$50,000 mortgage (PITI)	6.75%	paying \$ 790	(12 years left)
\$15,000 home equity loan	9.15%	paying \$ 340	( 6 years left)
\$17,000 car loan	15.25%	paying \$ 407	(41 mo left)
\$ 3,400 car loan	10.00%	paying \$ 220	(10 mo left)
\$ 6,000 VISA	17.00%	paying \$ 180	
\$ 1,200 VISA	22.50%	paying \$ 24 (minimum)	
\$ 1,200 Master Card	21.50%	paying \$ 24 (minimum)	
\$ 310 Home Depot	23.00%	paying \$ 15	
		<b>\$2,000 debt service</b>	



Groceries: \$ 736 / month = \$170 / week  
 Electric: \$ 155 / month  
 Phone: \$ 70 / month  
 Heating (oil) \$ 95 / month = \$1,140 / year  
 Cell Phone: \$ 60 / month  
 Cable TV: \$ 48 / month  
 Car (gas): \$ 151 / month = \$35 / week  
 Car Insurance: \$ 258 / month = \$3,100 / year  
 Life Ins: \$ 81 / month = \$972 / year  
 Education: \$ 370 / month = \$4,400  
 Eating Out: \$ 186 / month = \$43 once a week  
 Saving: \$ 0 (we try to save what's left over)  
 Tithing: \$ 110 / month = 46 +/- weekly  
 Misc: \$ 250 / month (clothing, repairs, license, inspection, medical/dental, kids, etc)



\$2,470/month + \$2,000 debt service = **\$4,459 total monthly expenses**

< **\$128 per month deficit spending** >

**What should be the order of their priorities? 1,2,3**

Spending?

Giving?

Saving?

**How much should they give?** \_\_\_\_\_

**How much should they save?** \_\_\_\_\_

**How can they save more each month?** \_\_\_\_\_  
\_\_\_\_\_

**What can they do to make their budget work?** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**What do they need for life insurance?**

How much on him? \_\_\_\_\_

On her? \_\_\_\_\_

On the kids? \_\_\_\_\_

**What about their tax refund?** \_\_\_\_\_  
\_\_\_\_\_

**Where are they spending money they can't afford?** \_\_\_\_\_  
\_\_\_\_\_

**How many credit cards should they carry?** \_\_\_\_\_

Which ones? \_\_\_\_\_

**Are their priorities out of alignment?** \_\_\_\_\_

**What should they do about it?** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**What do you expect will be the end result of these adjustments?** \_\_\_\_\_  
\_\_\_\_\_

**With any savings**, should he increase his contribution to the 401(k) or  
add to his money market fund? \_\_\_\_\_

**With any savings**, should he pay down his mortgage debt or  
add to his money market fund? \_\_\_\_\_

**With any savings**, should he pay down his credit card debt or  
add to his money market savings? \_\_\_\_\_



**What's the Key?** \_\_\_\_\_



## My Action List:

### 1. Write a Christian Will, a Power of Attorney and Advanced Directive (Living Will).

Things to include in the will:

- My testimony and a challenge to my children
- Charitable giving clause – 15% to ministry (missions and education?)
- Minor's trust with assets given out at varying ages: 21, 25 and 27
- Is Christian schooling a conviction? Yes
- What type of college? How much will we pay: 50%, 75% or all of it?
- Make sure the will contains a Self-Proving Affidavit and is notarized.

### 2. Check Mom's will to see that it's notarized (a self-proving affidavit). Does she have a POA?

### 3. Income taxes: increase exemptions by 4 in order to receive \$125 more in each paycheck. That's roughly \$250 a month.

### 4. Set up a high interest savings account or money market to replace your bank savings. Have the bank automatically transfer that extra \$190 into the money market fund **each month**.

Determine what bills come due two, three or four times a year. Add them up and divide by twelve months.

Take this figure and have it also direct deposit into your money market fund.

Heating oil	\$1,140 divided by 12 =	\$ 95 a month
Car insurance	\$3,100 or	\$258 a month
Life insurance - new	\$ 480 or	\$ 40 a month
Christmas & gifts	\$1,080 or	\$ 90 a month
Vacations	\$1,200 or	<u>\$100</u> a month
Total amount to set aside every month =		\$583

### 5. Life insurance – I'm under insured.

Income needed = \$40,000 (surviving spouse)

Social security = \$16,800 stops when children turn 18, nothing for spouse until age 60

Actual needed = \$23,300 divided by 5% = \$330,000 (lump sum)

Less group term insurance - \$ 50,000  
\$280,000

Total needed to replace income until investments have grown = \$280,000

Note: when children turn age 18 Mom could work part-time to make up the loss of social security income. Consider bumping up the insurance to \$350,000 or more to help with college bills.

New term insurance policy: \$350,000 policy for a twenty year period = \$40 mo.

(This saves \$41 a month for insurance on wife and kids or to invest)

### 6. Existing life insurance – cash it in. Use money - \$8,200 to \_\_\_\_\_.

### 7. Credit cards: carry only one card (Master card) and eliminate the rest! Contact each card issuer and request the account be closed so new cards will not be issued. **Don't carry a balance!**

### 8. Mortgage – Refinance, add the home equity loan balance: \$50K + \$15K = \$65K.

Current rate for 15 years: 5.50%

New monthly payment: \$650 (save \$340 monthly)

### 9. Adjust spending and develop priorities! Necessities ahead of luxuries.

Give, then "Save" before I spend, then give sacrificially and buy my toys. Teach the kids!

Save monthly in addition to the money market above. Use a Roth IRA.

(IRA = a "bumper sticker", any type of investment or account can be made into an IRA)

Grocery bill is too high! It should be around \$125 a week. Make a menu and shop to fill it rather than the pantry. Use cash if needed. Also take a cash allowance to limit the mad money we blow. Manage the little before we manage the big. Cell phone, cable TV, and eating out: Luxuries or necessities? Remember that giving and savings are necessities not luxuries!



### 10. Increase giving and move to top as a priority.

# The Problem Resolved

## The Problem Resolved

**Proverbs 21:20**  
The wise man saves!



### Bill and Mary Smith

mid 40s with three children (ages:12, 15, 17)

Bill – advertising manager, Mary – part-time at Christian bookstore

**Legal docs:** Christian's Will and Power of Attorney document

**Tax return:** AGI: \$57,900 - \$3,100 taxes = \$54,800 net or **\$4,567 per month**  
Regular Tax refund: \$ 172 per year

**IRAs:** \$ 4,800 per year

**Giving:** \$ 6,000 per year

**Savings:** \$750 and growing in a money market mutual fund **Checking Account:** \$500

**401(k):** \$25,000 4% contribution with 50% matching (up to 6% of pay)

### Life Insurance:

\$ 50,000 Group term policy w/ employer

\$350,000 Twenty-year level term w/ guaranteed rates of \$480 a year



### Debts:

	<u>APR</u>	<u>Monthly payment</u>	
\$65,000 mortgage	5.50%	paying \$ 650	(15 years left)
\$17,000 car loan	15.25%	paying \$ 407 + \$94 extra	(41 mo left)
\$ 3,400 car loan	10.00%	paying \$ 220	(10 mo left)
		<b><u>\$1,277 + \$94 = \$1,371</u></b>	

**Tithing:** \$ 483 / month x 12 months = \$5,796

**Saving S-T:** \$ 290 / month - money market for vacation, gifts and \$100 for the unexpected

**L-T:** \$ 400 / month – 2 Roth IRAs (Increase when Money Market cushion is \$5,000)

Food: \$ 541 / month =125 week

Electric: \$ 135 / month

Phone: \$ 50 / month

Heating (oil) \$ 95 / month (\$1,140 per year to money market fund)

Cell Phone: \$ 40 / month

Cable: \$ 48 / month

Car Gas: \$ 151 / month = \$35 week

Car Insurance: \$ 258 / month (to money market fund)

Life Ins: \$ 40 / month (to money market fund)

Education: \$ 370 / month = \$4,400

Eating Out: \$ 45 / month

Misc: \$ 250 / month (clothing, repairs, license, inspection, medical/dental, kids, etc)

**\$3,196/ month + \$1,371 debt service = \$4,567 and a balanced budget!!!**



**End Results:** Peace on earth and good will to all men!

Saving every month to avoid debt

Adequate life insurance

Reduced unnecessary spending and focused on priorities

Planning for the future and helped children greatly!

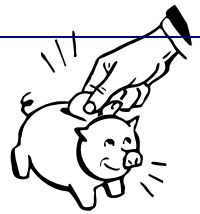




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**CASH FLOW WORK-SHEET**

**Give first, then Save, Pay your Bills, Sacrificial Giving and then Luxuries**



TARGET BUDGET	EXPENSE CATEGORY	TRACKING Month 1	TRACKING Month 2	TRACKING Month 3	TRACKING Month 4
\$	MONTHLY INCOME	\$	\$	\$	\$
\$	MONTHLY INCOME – SPOUSE	\$	\$	\$	\$
\$	Regular Overtime	\$	\$	\$	\$
\$	Other Income (averaged monthly)	\$	\$	\$	\$
\$	<b>TOTAL BEFORE-TAX (gross) INCOME:</b>	\$	\$	\$	\$
\$	<b>GIVING:</b> Local Church (goal: 10% gross)	\$	\$	\$	\$
\$	TAXES WITHHELD (federal, state, local)	\$	\$	\$	\$
\$	<b>SAVINGS:</b> Short-term (5%+ Money Mkt.)	\$	\$	\$	\$
\$	Long-term (5%+ Invested)	\$	\$	\$	\$
\$	<b>HOUSING COSTS:</b> Mortgage / Rent	\$	\$	\$	\$
\$	Home Owners / Renters Insurance	\$	\$	\$	\$
\$	Real Estate and School Taxes	\$	\$	\$	\$
\$	Heating (type: )	\$	\$	\$	\$
\$	Electric	\$	\$	\$	\$
\$	Telephone - (Regular, not cell phone)	\$	\$	\$	\$
\$	Trash, Water, Sewer	\$	\$	\$	\$
\$	Planned Housing Maintenance	\$	\$	\$	\$
\$	House Envelope (Misc. cash)	\$	\$	\$	\$
\$	<b>FOOD &amp; BEVERAGE</b> (weekly x 4.33)	\$	\$	\$	\$
\$	<b>EDUCATION</b>	\$	\$	\$	\$
\$	<b>AUTO:</b> Loan / Lease Payment	\$	\$	\$	\$
\$	Auto Repairs - estimated	\$	\$	\$	\$
\$	<b>WEEKLY CASH ALLOWANCES:</b> Personal	\$	\$	\$	\$
\$	Children (Four Quarter Method)	\$	\$	\$	\$
\$	<b>INSURANCE PREMIUMS:</b> Life Insurance	\$	\$	\$	\$
\$	Medical and Dental Insurance	\$	\$	\$	\$
\$	Auto Insurance	\$	\$	\$	\$
\$	<b>GIFTS:</b> (Birthday, Christmas, Weddings)	\$	\$	\$	\$
\$	<b>CHILD CARE:</b> Averaged monthly	\$	\$	\$	\$
\$	<b>CLOTHING:</b> Averaged monthly	\$	\$	\$	\$
\$	<b>DEBT: REPAYMENT:</b> Credit Cards	\$	\$	\$	\$
\$	Personal Loans - (list detail on side)	\$	\$	\$	\$
\$	Back Taxes - (list details on side)	\$	\$	\$	\$
\$	Bank Loans - (list detail on side)	\$	\$	\$	\$
\$	Doctor, Hospital, Dental Bills	\$	\$	\$	\$
\$	<b>SACRIFICIAL GIVING</b> (above tithe)	\$	\$	\$	\$
\$	<b>LUXURIES:</b> Cable TV	\$	\$	\$	\$
\$	Cell Phone, Pager, Computer Internet	\$	\$	\$	\$
\$	Braces, other	\$	\$	\$	\$
\$	Eating Out and Subscriptions	\$	\$	\$	\$
\$	Vacations, hunting, hobbies, etc.	\$	\$	\$	\$
\$	<b>TOTAL MONTHLY EXPENSES:</b>	\$	\$	\$	\$
\$	SURPLUS or <DEFICIT>	\$	\$	\$	\$



Note: The target column is **monthly**. Any figure that is paid other than monthly should be placed into the short-term money market fund automatically each month.



## CREATING A WORKABLE SPENDING PLAN



The first step in financial planning is to get a clear picture of where you now stand. Take time to gather all paid receipts and/or their corresponding checks. List the money spent over the past several months (extending over at least 2 seasons). Take the average of the expenses and use it as your starting place or target budget. A study of expected income and expenses projected on both a monthly and an annual basis will allow you to create a workable budget going forward. A budget helps to keep expenses within the boundary. Remember a budget is not a straight jacket or a taskmaster but rather a guideline.

Copy these averages to the budget work sheet where you can track the actual monthly expenses against the target budget. Don't allow your spending to exceed your target. There are several "*budget busters*" you need to avoid. They are the Personal Allowance, Auto Repairs, Home Improvements, and Children's Activities at school and church. These areas are responsible for many people giving up on a budget. If you take the time to make a budget work your life will be greatly enriched. The careless use of money has destroyed many marriages. It seems to be a tool of Satan to ruin families, the church and the community.

**There are four steps to take in getting out of debt.** They're easy to list, hard to do. But there's no other moral way. The four steps are:

**1. Determine where you are.**

On a separate sheet of paper list: all credit card balances, [also list the terms of all repayment for each loan], installment loans, all mortgage balances all term note balances.

**2. Stop going into debt.**

This step is extraordinarily difficult to take. It requires a decision that there will be no additional borrowing for any purpose.

**3. Develop a repayment Plan.**

In addition to knowing your current debt level, you need to learn what your cash flow and living expenses are per year. Complete a Living Expense Summary and a Cash Flow summary. Take the following steps to get out of debt.

- a.) Sell assets.
- b.) Use surplus cash in your savings accounts. Do not use emergency funds. This money (usually 3 months worth of living expenses) is your families' protection against unexpected bills.
- c.) Double up on payments.
- d.) Keep payments consistent. Never commit to more than you know you can handle. Never break a promise!
- e.) Reduce living expenses. Change your life styles.
- f.) Reduce Tax Withholdings. **"A regular tax refund is sign of poor stewardship."**
- g.) Try never to reduce giving to your local church. This must always come first.
- h.) If self-employed, do not use payroll tax money.
- i.) Try to avoid using debt consolidation loans unless you can change your old financial habits. These loans give you 'financial breathing room' but do not solve the problem. If a debt counselor recommends a consolidation loan the counselor should work with you to set up a realistic budget, while holding you accountable.
- j.) Do not seek a second full-time income. Most debt problems are spending problems, not income problems. Therefore, after solving the spending problems (over use of credit cards) try to avoid a second job unless it is your only option. If it is necessary, take a temporary part-time job to pay off a specific debt. Given human nature, extra income tends only to raise the level of discontent, increasing the desire for more and more 'things' that won't meet real needs.

**4. Establish accountability.**

Ask someone to hold you accountable, not in a general sense, but specifically to make certain payments on designated dates. Set up a schedule of reporting times and establish the length of the accountability period. An old axiom in business says, **don't expect what you don't inspect.**



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