

# Study Group

## March 2020 Listening Guide

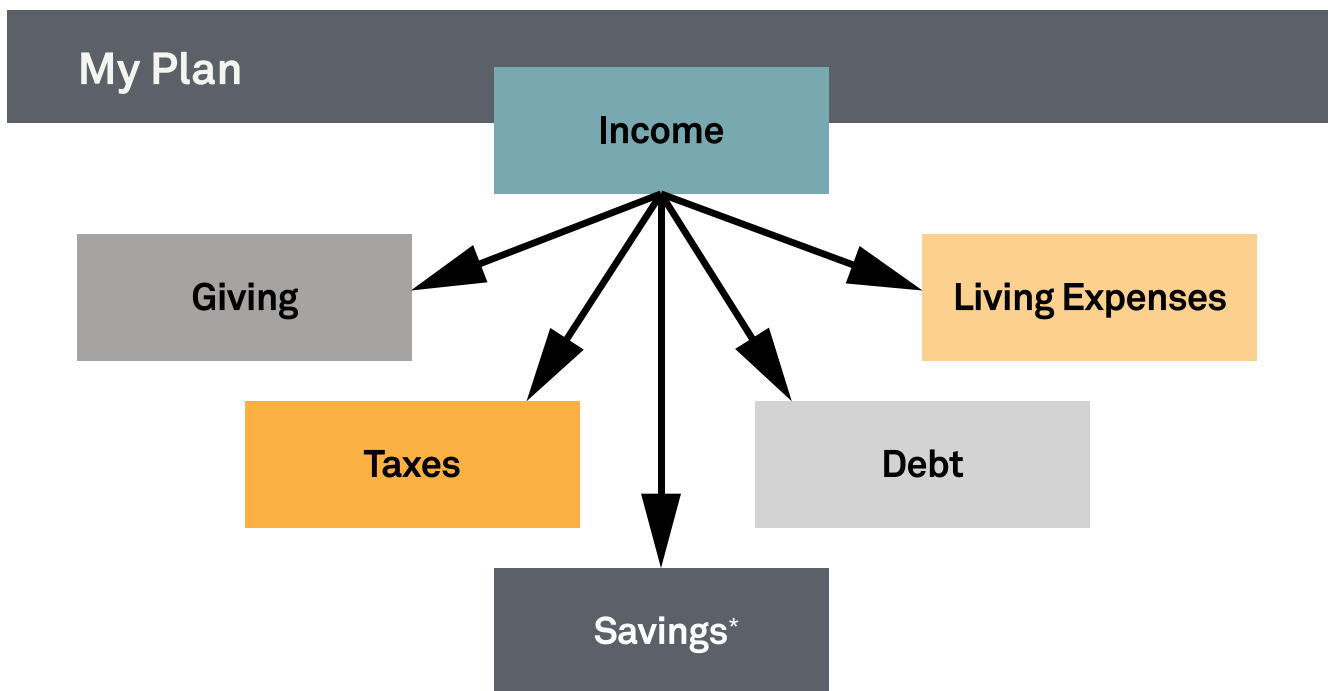


Generational distinctives mean that we can't counsel emerging generations in the same way we advised their parents and grandparents. We need to adapt our presentation, and even some content, to address the needs of today's younger clients. How do we begin to teach them about money in a way that is memorable and clear? In this Study Group, Kingdom Advisors considers how to present key money truths to our youngest clients, to our clients' children, and to our own children in a clear and helpful way.

### Basic Truths of Money Management

- The longer term your perspective, the better your decisions today.
- Direction determines destination.

### Five Uses of Money



\*The key to financial freedom is having a positive Savings number.

### Non-Discretionary Categories

- Giving (Box 1)
- Taxes (Box 2)
- Debt (Box 3)
  - Consumer debt = student loans, credit cards, auto loans (not mortgage)

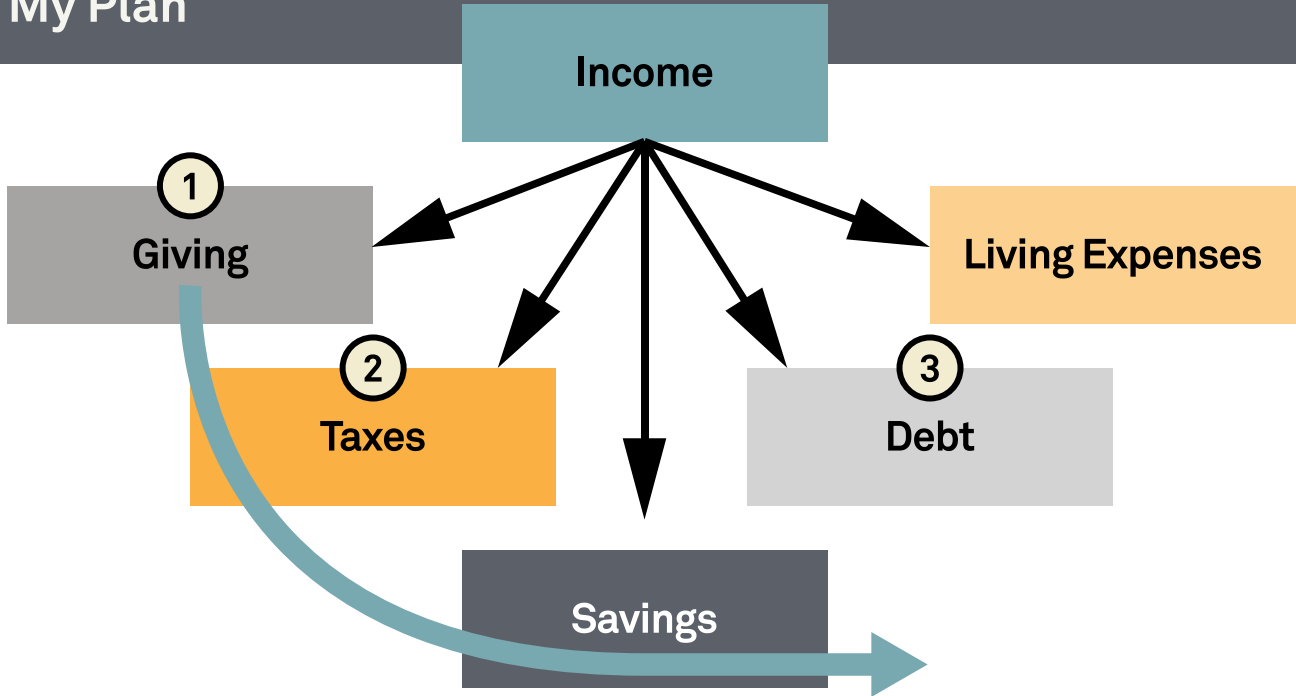
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## My Plan



## Formula

$$\text{Gross Income} - (\text{Giving} + \text{Taxes} + \text{Debt}) = \text{Maximum available to spend on living expenses}$$

### Income

Gross income = Earnings + Income from investments

### Most people's priorities:

1. Live
2. Debt
3. Taxes
4. Give

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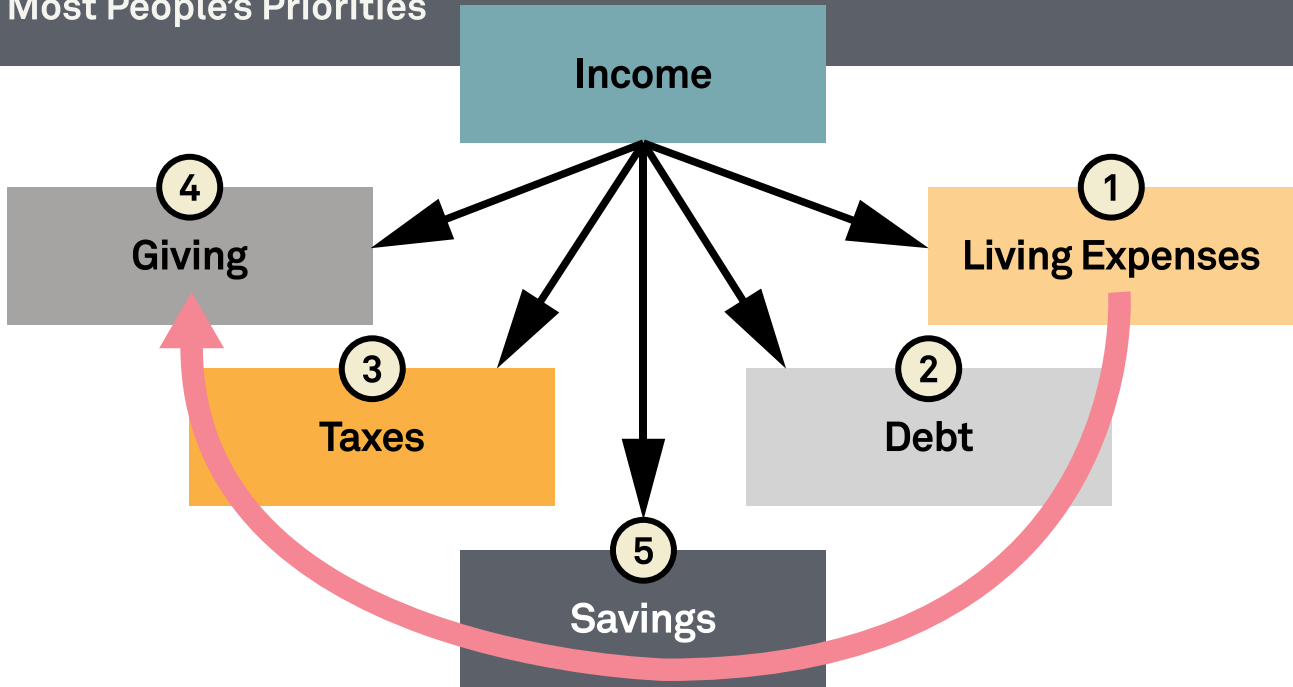


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Most People's Priorities



**Giving**

According to your ability or according to how you've been blessed

**Taxes**

Effective tax rate percentage = (Federal + State + Social Security + Medicare) ÷ Income

Young adults need to understand that they can't spend their entire gross income.

**Debt**

Percentage of income to debt = (Minimum monthly debt payments x 12) ÷ Income

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	Amount Paid Monthly	Non-Monthly	Total Annual Monthly		Amount Paid Monthly	Non-Monthly	Total Annual Monthly
<b>HOUSING</b>				<b>MEDICAL EXPENSES*</b>			
Mortgage/Rent	_____	_____	_____	Insurance	_____	_____	_____
Insurance	_____	_____	_____	Doctors	_____	_____	_____
Property taxes	_____	_____	_____	Dentists	_____	_____	_____
Electricity	_____	_____	_____	Medicine	_____	_____	_____
Gas/Heating	_____	_____	_____	<b>TOTAL</b>	_____	_____	_____
Water	_____	_____	_____	<b>INSURANCE</b>			
Sanitation	_____	_____	_____	Life	_____	_____	_____
Phone/Cable/Internet	_____	_____	_____	Disability	_____	_____	_____
Cleaning	_____	_____	_____	Other	_____	_____	_____
Repairs/Maintenance*	_____	_____	_____	<b>TOTAL</b>	_____	_____	_____
Supplies	_____	_____	_____	<b>CHILDREN</b>			
Other	_____	_____	_____	School lunches	_____	_____	_____
<b>TOTAL</b>	_____	_____	_____	Allowances	_____	_____	_____
<b>FOOD/EATING OUT</b>	_____	_____	_____	Tuition/Supplies	_____	_____	_____
<b>CLOTHING*</b>	_____	_____	_____	Activities/Lessons	_____	_____	_____
<b>TRANSPORTATION</b>				Other	_____	_____	_____
Insurance	_____	_____	_____	<b>TOTAL</b>	_____	_____	_____
Gas	_____	_____	_____	<b>GIFTS*</b>			
Maintenance/Repairs*	_____	_____	_____	Christmas	_____	_____	_____
Parking	_____	_____	_____	Birthdays	_____	_____	_____
Other	_____	_____	_____	Anniversary	_____	_____	_____
<b>TOTAL</b>	_____	_____	_____	Other	_____	_____	_____
<b>ENTERTAINMENT RECREATION</b>				<b>TOTAL</b>	_____	_____	_____
Babysitters	_____	_____	_____	<b>MISCELLANEOUS</b>			
Subscriptions	_____	_____	_____	Toiletries/Cosmetics	_____	_____	_____
Vacation*	_____	_____	_____	Husband misc.	_____	_____	_____
Sports/Hobbies	_____	_____	_____	Wife misc.	_____	_____	_____
Other	_____	_____	_____	Laundry	_____	_____	_____
Other	_____	_____	_____	Pet care	_____	_____	_____
<b>TOTAL</b>	_____	_____	_____	Haircuts	_____	_____	_____
				Other	_____	_____	_____
				Other	_____	_____	_____
				<b>TOTAL</b>	_____	_____	_____
				<b>TOTAL LIVING EXPENSES</b>	=====	=====	=====

\* denotes a non-monthly expense

## Living Expenses

- Be realistic with the numbers.
- Don't leave anything out.
  - Consider medical deductibles
  - 1% of the value of your home for repairs
  - Auto repair: \$1,000/car/year for repairs and maintenance
  - Insurance

Do not include savings, children's education, and retirement.

Living expenses are not the same as cash flow.

## Five Choices for Allocating Positive Savings

- Retirement - If you max out your retirement savings but still incur debt, you're essentially borrowing to fund retirement. When you have positive savings, you can begin to save for retirement.
- Personal savings/cash
- Debt (extra payments) - The goal is to eliminate debt as soon as possible.
- Additional giving
- Increased living expenses

## Minimum Income Need Formula

### The Minimum Income Need Formula

$$\frac{\text{Living Expenses} + \text{Debt}}{1 - \left( \text{Giving Percentage} + \text{Effective Tax Rate} \right)} = \text{Minimum Income Needed}$$

#### Decisions Affecting Living Expenses:

Where to live  
 What car to drive  
 Which vacations to take

High debt for recent students means that the income needed becomes higher in order to have a positive margin, making it harder to get on a good path with money. The minimum income needed to break even is driven by lifestyle and debt.

### How Debt Impacts the Financial Future

\$25,000 (Actual annual spending)
\$24,000 (Budgeted spending)
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\$1,000 (Annual overspending)
X 10 years
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\$10,000 x 10% interest rate on the debt

How much is needed in lifestyle reduction to repay the debt in 10 years?

\$1,000/year in principal

\$1,000/year in interest

AND you must stop overspending (\$1,000/year) before you can effectively reduce the debt.

People forget to stop overspending when they have debt to repay.

### Summary

Spend less than you make every year.

Use savings, over time, to pay off all of your debt.

Don't overfund retirement.

Live on a budget or spending plan.

Diversify your investments.

Be generous.

Enjoy the trip!

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**Discussion Questions**

- 1. Do you regularly discuss cash flow with clients? If so, what is the greatest challenge in that conversation?
- 2. How could the approach Russ taught be useful in helping clients counsel their children?
- 3. How would you share the formula for minimum income need calculation with a client?

**Personal Reflection**

- 1. Who are the children in my life that I need to equip with the “Your Money Made Simple” conversation?
- 2. Have we examined our own family’s cash flow recently? Are there any adjustments we need to make?
- 3. What Scripture references would I use with clients in a cash flow conversation?

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**This Month’s Focus**

**Families and Money**

Money can be a source of conflict—or a source of blessing—in every family. But few parents know how to share income management basics with their young adult children. In March, Kingdom Advisors focuses on helping our clients give their families clear principles and practices to start out strong in their financial lives.

**Member Tools and Resources**

*Your Money Made Simple*

This clear, engaging book explains the basics of managing income in a way that is practical and helpful. An excellent resource to share with young adults as they establish their financial lives, it’s a great gift for your clients’ children (or your own young adult children).

Kingdom Advisors members can order Russ Crosson’s book *Your Money Made Simple* by sending an email to orders@ronblue.com, specifying the quantity and shipping address. Bulk pricing is \$5.00 each (1-100 books), \$4.50 each (101-500 books), and \$4.00 each (501+ books).

If you would like to become a member of Kingdom Advisors, please see your Study Group leader for an application. For more information about Kingdom Advisors, please visit [www.kingdomadvisors.com](http://www.kingdomadvisors.com).

Monthly Focus Resources Available at: [kingdomadvisors.com/members](http://kingdomadvisors.com/members)

Join us for our April 2020 Study Group