Getting ready for the future: retirement, serving, reinvesting life….

by Bob and Jan Young[1]

Introduction

Recently, Bob read a brief article written by a career military man. The article, based on personal experiences, provided some helpful principles for sound money management. It included advice such as start saving early and let your savings alone. When we shared the article and discussed it, it motivated us to think about our own experiences in finances and money management.

As a minister, Bob has spent his fair share of time counseling individuals, couples, and families with financial problems. In fact, because of the number of ministers he encountered through the years that faced financial hardships and money problems, he focused on minister's finances, presenting workshops and providing personal counseling. He often said (tongue in cheek) that he could fix anyone's financial problems but that they may not be willing to accept the "fix".

Money management is a part of life that follows certain rules. A good summary is in the memorable saying, "If your outgo exceeds your income your upkeep will be your downfall." Some rules are obvious: don't spend more than you make, don't borrow more than you can repay. Other rules are not so obvious: always keep the end in mind. For most people with money management problem, unmanageable debt is the number one problem.

Most unmanageable debt comes from breaking the rules. (Debt as a result of unforeseen circumstances such as extended unemployment or extended illness may be an exception.) When one breaks the rules, consequences follow. Unfortunately, many of those consequences are not immediate, and not knowing what is happening causes many persons to compound and worsen the problem by breaking the rules again and again in hope of "righting the ship." This generally leads to what one author called "stupid debt."

Unmanageable debt has several negative consequences. Not only does it make life miserable emotionally, it may make difficult or impossible "normal" financial transactions such as house

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[1] For those of you who do not know us, here are a few explanatory bio bullets. We share this brief history to let readers to know that what we are outlining is real, possible, and within the grasp of almost anyone. (1) Bob began his college career as a mathematics major and switched to biblical studies later. (2) Numbers have always fascinated him and he enjoys playing with them. (3) Bob spent almost all of his working years in ministry with small-to-medium sized churches. Along the way we spent a little over a decade in Christian higher education, working with two different Christian universities. This third point should make you aware that high incomes have never been part of our experience. (4) Jan has seldom worked outside the home. She has mostly worked as church secretary or secretary in the university when she was employed. (5) This summer Bob is ceasing his "day job" (employment for remuneration). We are choosing rather to do the things that are really important to us whether we are paid or not.

mortgages, car loans, and credit cards. It generally makes life more expensive due to higher borrowing costs and more interest paid. Further, it takes a toll on life's relationships, especially in the family and within a marriage. One of ways financial stresses cause marital problems is that the time spent talking about debt, balancing payments, and arguing about purchases takes time away from healthy relationships. Stresses cause arguments when a couple should be dreaming, laughing, enjoying one another, and celebrating life.

With the above in mind, we sat down together to develop a list of the most important rules or principles that have guided our own financial decisions and successes. Our hope in developing the points in this article is that you will find these rules or principles helpful in your own life. These are tools that can help individuals or couples manage their money effectively, within the possibilities of the current situation and with the end results in mind. The fact that we have been able to avoid financial stresses through most of our marriage has had two effects: we have been able to do what we needed to do for our family, and the love we share together has not been challenged by "rocky times."

It is not necessary to read the rules in order, except that we think it is very important that you begin with the item immediately below titled "Rule number one…." Some of the principles interact with one another and may become clearer with the whole picture in view, but the principles can be of help in any order. We have put the principles in some categories we hope will we helpful, but the principles are also generally listed in the order in which they were applied in our lives.

Thus, the principles that are listed first were adopted in the early years of our marriage, or even before. Principles were added as needed. For example, the need to learn about investments did not apply to us until we had something to invest. That means our financial house was in order with personal discipline and generosity toward others, we were committed to saving, we had been saving regularly, we had a savings cushion of over a year's income, we were paying our living expenses on an "as you go" basis with all payments and credit cards paid off each month, and we had also been saving for the future so that we had funds to invest.

Because principles were added as needed, the reader will note that there are related principles that were adjusted or substituted. For example, in the realm of debt management, there are at least four progressive principles. The first principle was to avoid unnecessary debt, and to borrow for a limited number of items and for a short a time as possible. The next step was learning to borrow from ourselves, a principle we applied to car purchases. Then we learned the value of prepaying and accelerating payments, a principle we applied to home mortgages. Finally, we adopted the principle which makes it our goal to be debt-free in our pre-retirement and retirement years.

Some readers may choose to use most, but not all, of the principles. These are not a magic formula—they are the principles that have guided our financial lives and brought us to a place of satisfaction and appreciation with the ability to move ahead in life with confidence and joy, even during a time when there will be no regular paycheck.

Section One: Six Basics Principles

- **Develop Financial Discipline**
- **Know where your money goes**
- **Be generous**
- **Commit to saving**
- **Don't be afraid of information**
- **Distinguish needs and wants**

Rule number one is the most important: Develop financial discipline

What I am going to suggest will not work if you continually (or even periodically) make exceptions and fail to maintain fiscal discipline. Discipline is an all of nothing concept. A person who eats in a healthy way six days a week but splurges every weekend is not disciplined. Financial discipline is "always"—no exceptions.

If you are married, the method and level of financial discipline must be a topic of shared discussion, because it will not matter how committed one party in the marriage may be if the other is not willing to participate with the same level of financial discipline, the result of mutually agreed to decisions. Many couples reach agreement concerning such differences by including "his" and "hers" allowances in their financial planning.

One way to develop financial discipline is to put as much of your life as possible on "automatic pilot." In today's technological world, this often includes automatic payments which are systematically withdrawn for a banking account. Hint: automatic payments work best if the amount withdrawn is the same each time, something which can be accomplished for most utilities with account averaging.

Forty years ago, automatic payments were not an option, so we had to devise another way to put our expenses on automatic. We used two checking accounts. When our weekly salary check was deposited in our "regular" bank account, the first check we wrote was to an account in another bank—"our payments" account. (The check to the payments account often equaled 80% of our weekly paycheck.) Each pay period, we sent a check sufficient to cover our quarterly tax estimates, utilities and housing expenses, car payment, contribution, insurance payments, and savings. We calculated the amount required each week for those expenses and sent a check to cover all of those expenses. We did not use our payments account for anything except the payments that were (in effect) being escrowed in that account. That way, when a payment came due, the money was always there. We could spend the money in the "regular" account without worry, because all of our expenses were handled. (The time I am describing was "pre-credit-card". Later, our use of credit cards would require some additional maneuvering.) Since I like playing with number, we also maintained a ledger which listed the various "subaccounts" within the payments bank account, so that we knew how much money was available in each category. Since the savings category was not used, it provided a cushion if a certain other subaccount ran a deficit. If the deficit was temporary, there was no problem. If

the deficit was due to our failing to deposit enough money to cover the expense, then the amount of the weekly check sent to the expenses account had to be adjusted. By the way, we still use this procedure today with the basic categories unchanged. I can tell you right now how much of the funds in the expenses account are designated for each expense area.

We need also to mention that financial discipline includes the commitment to get rid of the unwise debt you may have already incurred. Most consumer debt that falls into the "unwise" category is accompanied by a very high interest rate. While the importance or saving, as outlined below, cannot be overstated, there is little value and no progress in putting savings in a low interest account (currently 1-2% maximum) while one is paying 18% or more on credit card debt. In the process of getting rid of unwise debt, get rid of the most expensive debt first.

Know where your money goes

Bob's mother recorded virtually every penny she spent. The habit "took" with him, and thus with us. We still records expenditures religiously. We typically "lose track of" less than $10 per year. It is very difficult to get financial matters under control if one does not know what the expenses are, where the money is going, where the problems may be, and which items have the most potential for helping correct any problems. We are not saying you have to record every expense, but you need to know what you are spending your money on. This is a first step to deciding if you are willing to spend a certain amount of money on a certain reward or pleasure. Is $1500 per year too much for your daily latte fix ($6 per day, $30 per week, 50 weeks per year)? How much does smoking costs each year? ($5/day x 365=???)[2] Of course, that number does not include other expenses such as increases in the cost of health and life insurance, lower values when selling "smoked" cars and houses, and increased health and medical costs, to name the larger and more obvious related costs.

Knowing where your money goes will also help you identify and avoid "impulse buying"—items purchased on the spur of the moment, many of which are not all that important, are quickly discarded or are never used. Impulse buying, especially for big-ticket items, must be avoided. Little purchases made impulsively can add up quickly as well. Much of the enjoyment of major purchases is in the search, not in the buying. Do not short-circuit the search process. Ask yourself hard questions about why you are buying certain items, how often they will be used, and how important they are to your quality of life. When you decide that an item is essential, determine how is the best way to have that item—purchase new, price comparisons, purchase used, garage sales….there are often various options.

Computer programs which help track expenses have made getting this area of financial management under control much easier. While one must still have the discipline to make the entries, the hours required at the end of the year to get every expense category separated have been greatly reduced. (We are thinking about the time that was required to do income taxes in past years.) In fact, what used to take me a couple of days, or at least a very full Saturday, can

[2] $1825! A pretty sizeable sum.

now be done in a matter of minutes. There are multiple advantages to knowing where your money goes and having an easily accessible record of it!

Be generous

The principle. Because of our faith commitments and background in ministry and the church, this has always been a primary principle for us. We have returned to God, to good causes, to those with special needs, and to mission efforts at least 10% of our income and financial growth, and generally much more. Bob gave $5 out of the $50 he received each week during a regular early preaching appointment. One church he went to as a guest speaker gave him the entire contribution after the service. He figured out that had he given more he would have received more!

We have never doubted that God would bless us in our generosity and that whatever more we received was a gift from God. On one occasion things were especially tight and we had a conversation about our options. Since we were giving over 10%, one option was to decrease our contribution to 10%. We decided to wait and pray about it. The next week, Bob got a raise. God has fulfilled his promise: he has used a generous "scoop" with us to the extent that we have been generous toward others.[3]

The benefit. You may not share our commitment to God, the church, and mission work, but we believe the principle of generosity is an important one in sound money management. Several blessings come from being generous: the ability to establish priorities, to understand clearly what matters and what things are most important, the ability to be grateful for blessings received, and the awareness that many others are not as blessed as are we. When you are generous, you not only reaching toward being the best you can be humanly, you are becoming more like God.

Commit to saving

The principle. Always save some of what you earn, regardless of how little that may be. Become a saver. If you cannot save 10%, save 5%. If you cannot save 5%, pick a certain amount like $10 per week. That is over $500 per year. A year of saving $20 per week equals over $1000. The rule in our life has been "give 10% to God, save 10% for the future, and spend the rest with joy." In our first job after college graduation, we earned $100 per week. We saved $10 each week. When we moved two years later, we had over $1000 which we had saved during that first job.

We have often given more than 10% and have saved more than 10%. We have never saved less than 10%. Every person <u>can</u> save some of what is earned or received. Bob saved from his allowance when he was a boy. Saving is possible for everyone. A little bit of saving goes a long

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[3] Luke 6:38

way. Saving 10% of your income for a year will give you a month (5.2 weeks) of income in the bank. Continuing that process for a few years will provide you a cushion of several months. Someone who does this for ten years will have a year's salary in the bank—no small accomplishment. This kind of saving must be for the sake of saving—to have the satisfaction of money in the bank, security, and self-discipline. Saving for retirement or for special needs or wants must be "on top of" this basic savings plan which becomes a habit that you never lose.[4] When you commit to saving and begin to save in earnest, within a short time you will have the recommended cushion of several months' income. Remember, when you save, you are paying yourself!

One way that we committed to saving is that we always lived on one income, even when Jan was working outside the home. We limited our normal living expenses to what could be paid with Bob's income. We diligently avoided increases in the living standard that required more than one income. We always saved the second income, sometimes as special savings for special purchases, but more often as general savings for a "rainy day" or for retirement. Because Jan is older than Bob, she already receives Social Security, but as you might expect, we are currently saving it while Bob has been earning an income.

A reminder. Saving must be preceded by getting rid of unwise debt. This does not mean that one must pay off all debt before starting a savings plan, but if your current financial house is in disarray due to a large amount of unwise debt, the first step is to get rid of the unmanageable debt so that the financial house functions correctly with debt and savings in balance.

Don't be afraid to get the information you need

After we moved to Michigan, we found out that Jan was pregnant with our third son. The health insurance we previously had included a small maternity benefit. It was a small amount ($350) but it had been sufficient to pay most of the medical costs associated with the births of our first two sons. We were fearful, however, that it would be insufficient in an urban area like Detroit. As a result of our new employment, we were to be enrolled in the church health plan which was paid by the church. The next entry date was October 1. We feared that the pregnancy would not be covered because Jan had become pregnant before we were enrolled in the health program. Instead of seeking the information we needed concerning maternity benefits and what would happen in a few short months, we made three more monthly premium payments on our previous health insurance policy, fearing the worst. Finally, we got bold enough to obtain the information we needed. The new policy would cover the pregnancy at 100% and we did not need the previous policy. We had been throwing money down the drain—because we were afraid of what we would find out. Despite what the adage says, ignorance is seldom bliss!

[4] I mention later on that you can benefit from lending yourself money—but this is for that time when the money you lend yourself does not put the "cushion" in jeopardy.

Distinguish needs and wants

This is a difficult thing to do, and the answers are very personal and differ from person to person, couple to couple, and persons with a couple. We graduated from college and moved to our first ministry work with a charcoal gray sectional which Bob's mother had given us. It was the typical late-50s or early-60s sectional, for those of you who remember. We soon decided that we needed a different couch with a different color. We purchased a fairly expensive, high quality sleeper sofa. Bob remembers that it cost about three weeks pay. It was pretty—typically early 70s in avocado and gold. We bought two small matching swivel rockers. The new sofa was prettier than the old sectional, but it did not sit a whole lot better. The big difference was that we had another payment. We must say, however, that the sofa was of such high quality that it endured our three sons as they were growing up and that our middle son now has it and continues to use it.

Each person has his or her own "luxuries." That is understandable and no problem. The problem comes when our wants are determined by what others have, so that we want for the sake of possessing, not for the sake of using. Remember, needs are use-oriented (I will use that), wants are possession-oriented (I would like to have that). One time when our sons were young and in primary school, the Sears catalog arrived, I thumbed through it, and observed that Jan and I were very fortunate because we had everything we needed and could have anything we wanted. Our sons immediately jumped on the possibility with a list of their "wants", asking why we didn't buy this and that and the other. The answer we gave was simple: we don't want it!

Section Two: Five things to learn about

- **Learn about retirement funding**
- **Learn about the power of compounding**
- **Learn about taxes**
- **Learn about insurance**
- **Learn about investing**

Learn about retirement funding—Start to think about retirement and your future early in your life

When Bob was 23, we accepted a position with an urban church in Tulsa, Oklahoma. We were blessed to work with an eldership that insisted on the importance of retirement. There were two CPAs among the six elders. As part of our working agreement, they put money aside ($5 each week) with the stipulation that we could not touch it, that it had to be invested for retirement. That got us started on the right path. Since that time we have almost always funded both personal savings and retirement savings. Incidentally, money was put into that original retirement fund for only about seven years, but today that fund represents about 15 percent of our total retirement funds. The original investment was not all that much, but the amount has multiplied many times over through the years. (See the next item—the impact of compounding.) If an employer does not insist that you save for retirement, do it yourself.

Learn about and take advantage of the impact of compounding

Because we started saving early in our marriage (and Bob was a "saver" even before we married), we saw the impact of compounding earlier than some couples. The "Rule of 72" says that money doubles when the time and the interest rate equal 72 (at 8% return money doubles in 9 years; at 6% return it takes 12 years, etc.). The magic of compounding is that the original amount progressively becomes worth twice, four times, eight times, sixteen times (and so on) as much. Over a 40 year period, a sum of money can grow 32-fold (at an average return of 9%). To illustrate how important this can be, if a person has a choice of buying a $20,000 car at age 25 or investing the same $20000, choosing the investment will yield $640,000 at age 65. Quite an expensive vehicle!

This principle explains an interaction Bob had with a young minister who had gotten his first job out of college and had almost immediately purchased a fancy new pickup truck. That occurred several years ago, but the truck still cost $15000. Bob's question to the 22-year-old youth minister was, "How are you enjoying your half-million-dollar truck?" (Yes, $15000 invested for 40 years yields $480000, almost half million dollars!)

It does not matter whether you are young or old or where you are in life's journey, the mathematical principle of compounding will work. Any money you can save, or funds you already have, appropriately invested can grow to provide needed funds for the future.

Learn about taxes

Taxes are inevitable, but one can make wise or unwise tax decisions. Tax evasion is a crime; tax avoidance is built into the national tax system. Consider the tax consequences as you make decisions in the area of money management. If you have a choice between contributing to an IRA and contributing to a qualified retirement plan, choose the retirement plan. Why? Because you and your employer will pay social security taxes on the IRA funds, but the qualified retirement plan contribution will be made in pre-tax dollars which avoids the social security tax. Always participate in a qualified retirement plan (if one is available) before funding IRAs. (Your employer may also contribute to or match your contribution to a qualified retirement plan!) Life is filled with many decisions that have tax consequences, and making the best decisions will have a big impact on the bottom line later on.

An example for our experience is that ministers (who are church employees but self-employed for social security purposes) can receive a significant tax advantage by using qualified reimbursable expense accounts, even if funding the expense account means less weekly "salary". Keeping the records required for such an account is not easy, but the result is well worth it.

As you plan life with taxes in view, you may want to consider ways you can enjoy life and make life rewarding with expenditures that are tax-advantaged. For example, can you take your family on a church-sponsored mission effort instead of a vacation, and have a rewarding away-from-home experience, see the world, provide a variety of experiences for your children, and possibly make a charitable contribution at the same time?

Learn about insurance

Insurance is simply a way to handle a risk that you are either incapable or unwilling to assume by yourself. Primary kinds of insurance are life, medical, disability, home, auto, and liability. Various people have various needs in these areas. Some insurance is mandatory. Liability auto insurance is an example. Not only is it required by law, for most people it is a risk you do not want to assume. Some risks are age-sensitive. Young parents need more life insurance on the life of the bread-winner than does a retired couple. In determining how to meet this need, young families and young parents need to learn the difference between pure (term) insurance which can fund the risk at minimal cost, and the more expensive, more complex insurance instruments that combine insurance and savings (policies in this latter category have cash value). Combining insurance and savings is mostly necessary for those who fail regarding rule number one above! (One advantage of the combination policies is that they often have riders available which guarantee future insurability regardless of contraindicating health or medical conditions. Those who need insurance should get the facts and be aware of all of the factors.)

As one's life situation changes, the insurance needs for life insurance will change. The retired couple who had adequately planned for life in retirement may not need any life insurance at all. However, the same couple nearing retirement will face the possibility of devastating health care costs in the event of a medical problem, and will want to insure against catastrophic losses.

Having the right insurance for the life situation is not an option. It is an essential part of wise money management and financial planning.

Learn about investing

Our savings habits did not have an immediate impact (at least not one that was obvious to us), but by the time we reached age 30, we were able to borrow money from ourselves for major purchases including cars (see section below, Borrowing from yourself). Because of our experience with the retirement funds, we knew that there were better options that socking money away in the bank, so we sought investment counselors and advice. As inexperienced kids, we were fortunate in our first encounter. We met Sue in the Merrill Lynch office in Lansing, Michigan. She helped us with some instruments that proved effective and we were on our way.

Across the years, however, we have learned that not all investment advisers are created equal. We have learned that one of the most important factors is what we ourselves learn and understand about investments and the investment process. A major factor in investment is risk. The wise investor always knows what the risk is of any particular investment. What goes up rapidly can go down just as rapidly, or even faster. When it comes to investments and returns, we play the part of the tortoise, not the hare. We are not very risk tolerant when it comes to investing.   We have watched our investments lag when it seemed everyone else was rising out of sight. We have watched our investments decline slightly when the bottom was falling out for many. We have invested according to our own tolerance of risk. As Will Rogers said, "I am more interested in the return of my money than the return on my money."

Section Three: Six Debt Principles

- **Unwise debt—one more reminder**
- **Avoid unnecessary debt—limited items, as short as possible**
- **Consider borrowing from yourself**
- **Pay it back quick—the power of prepayments**
- **Pay off loans for financial health**
- **Make being debt-free a goal**

Unwise Debt—One More Reminder

If you have read to this point in a more or less orderly fashion, you probably don't need or want another reminder, but as we introduce a section that is devoted to the subject of debt and the principles that have guided our money management, the first principle, however obvious, must be mentioned. Avoid unwise debt.

Unmanageable debt is almost without exception the number one financial problem facing most individuals, couples, and families. Unwise debt normally compares the item purchased with the monthly payment rather than the total outlay. Unwise debt is often based on the desire to have more than genuine needs. Unwise debt has as one of its primary characteristics that it is beyond the capacity of the individual or couple to repay, or that it puts undue strain on the budget.

As you read various stories from our own experience in the principles that follow, you may find yourself thinking that we were also the victims of unwise debt. Perhaps so. The good news is that those situations involved relatively small loans and were not frequent. Thus we were able to pay our way out and become wiser. Little positive can be said of unwise debt except that it should make us wiser!

Avoid unnecessary debt—borrowing money is for a very limited number of items and for as short a time as possible

We have already written about unwise borrowing or "stupid debt". This principle outlined in this section says "avoid unnecessary debt." For ease of reference and reading, we have included three basic "debt principles" in this series consecutively. We should make clear that we had borrowed money before this point in our lives. In fact, our first purchase as a couple was an upright freezer (which cost us an extra $3.50 per month for the utilities in our "utilities-paid" apartment). We bought the freezer because both sets of our parents were ranchers and promised to keep us supplied with beef. We bought the freezer on credit, and made monthly payments (partly, we thought, to help establish our credit). We were very excited that Sears would let us borrow money as at exorbitant rate! In fact, we were so pleased that we went to the car dealer and traded in Bob's old baby blue Rambler for a used Buick Special—cosigning a second loan before we married.

From day one, borrowing and debt were not strangers to our marriage. In fact, Bob inherited another debt in the marriage because Jan had bought a set of cookware on credit. The payment was very, very small; the contract was very, very long; and that made the cookware very, very expensive! When we figured up the true cost of financing that cookware, we paid it off immediately.

That is when we learned about the Rule of 78. We could not believe that Jan had paid as long as she had (about two years) and made almost no dent at all in the balance due. The Rule of 78 says that the amount of interest paid on a one-year loan is 12/78 the first month, 11/78 the second month, etc. The number 78 is obtained by adding the numbers from 1 to 12. You may have already figured out that almost half of the interest on the loan is paid in the first three to four months. The process is the same for longer loans except that you have to add up the appropriate number of months. Fortunately, today the same basic information is available online through loan amortization schedules.

The principle. Avoid unnecessary debt. Do not borrow money for consumer items that are not essential, could be deferred, and are quickly used up or depreciate rapidly. Borrowing money should be for a limited number of items (necessary items which could not otherwise be obtained) and should be for a short a time as possible. Over the years, I have borrowed money for very few things—education, house, and car.

The second part of the principle—for a short a time as possible—makes the answer to refinancing easy. Not long ago, I was asked about the wisdom of refinancing a vehicle with one year left on the original loan. Refinancing to a new five-year loan would lower the payment by over $200 each month. We did the math, and figured out that the refinancing would increase the finance costs on the $3600 balance by almost $700. No reason to pay off a $3600 loan with $4500 if you can pay it off with $3800!

Many people wonder why financial management gurus spend so much time harping on debt. The basic reason can be seen the above paragraph. <u>Debt almost always involves interest or finance charges which represent an expense that is added to every purchase that is financed</u>. (The exception would appear to be 0% loans, but in most cases the advertisements make clear that one could buy the vehicle for less if one paid cash. Option: 0% financing or $5000 off. Thus, even the 0% financing is costing money.) In the above example, the value of the vehicle does not change. In fact, the vehicle is probably depreciating faster than the loan can pay it off—especially in the early years of the loan. The balance due on the vehicle in the above illustration is $3600—the question is whether to spend $200 for the privilege of paying the $3600 in one year, or to spend $900 for the privilege of paying the $3600 over five years.

Credit card purchases that are not paid off each month also represent borrowing, and most credit cards have tremendously high interest rates. The recent changes in credit card regulations have required credit card companies to reveal how long it would take to pay off a balance if one made only the minimum payment.) Credit card purchases mean that you have

borrowed money (like a loan) and are paying it back over time. Paying only the minimum balance breaks the rule that says "for as short a time as possible." Even for purchases that qualify as "loan worthy", borrowing via a credit card is never the best approach. Incidentally, the amount of finance or carrying charges (interest) we have paid on credit cards during our lifetime is currently $0.

You may be able to borrow from yourself

We almost hesitate to mention this possibility, because it could be a significant bump in the road for the undisciplined person. Nonetheless, our purpose is to set forth the principles that have guided our financial endeavors and successes, and this is an important principle with great possibilities for advancing a person's financial well-being.

A little discipline and saving early on will make it possible for you to borrow money from yourself. We signed our last auto loan papers when Bob was 31. Every car purchase we have made since was made by borrowing the money from ourselves and paying ourselves back. Borrowing money from yourself requires a lot of discipline—primarily because you <u>have to</u> pay yourself back. You can choose to charge yourself interest or not—we think it is a good idea and keeps your money working and growing. But if making self-funded loans a reality for you depends on a 0% interest rate, so be it. Without any interest charges, you will be able to pay the loan back more quickly and will get the satisfaction of having done so, and even more satisfaction from not having paid someone else interest.

When you borrow money, pay off the loan as quickly as possible—the power of prepayments

Borrowing money wisely involves one thing—paying the loan back as quickly as possible. When you learn how interest works (the Rule of 78, explained in section titled "avoid unnecessary debt"), you realize that a large percentage of the total interest on a loan is paid in the early years of the loan. For your house (and other loans), you should get an amortization schedule (don't pay for this—you can get one online, or with many money management software programs). As we mentioned earlier, our principles for debt-management have changed progressively to meet the needs of our lives at certain stages. These appear consecutively here. To summarize, the first principle was to avoid unnecessary debt, and to borrow for a limited number of items and for a short a time as possible. The second principle was learning to borrow from ourselves, a principle we applied to car purchases. Finally, we learned the value of prepaying and accelerating payments, the principle explained in this section, one we applied to our home mortgages.

The one kind of loan which we were not able to fund by borrowing from ourselves with repayments to ourselves was housing. From the time we bought our first house for almost 29 years, we had a house payment. In fact, we have owned six houses, two of which we built. We have had six mortgages. We learned and appreciated the power of prepayments.

When many people think of prepayments, they think of double payments and almost immediately conclude that such is impossible. When the house payment is already $500, who has an extra $500 per month? The principle and question remain the same, regardless of the size of the house payment. What many do not realize is this. Especially in the early years, you do not have to make a "double payment" to accelerate the payment of the loan. You can actually make a "double principal payment" with a small amount of money and with little sacrifice. This is true because in the early years your loan payment is a combination of a little toward the principal, some toward taxes and insurance, and a lot toward interest.

Consider this example. A typical 30-year loan pays less than .001 (1/10 or 1%) toward the principal each month during the first few years of the loan. That means less than $100 on a $100000 loan. Put another way, the amount involved in this example is less than $3 per day to "pre-pay" on the $100000 loan. The amounts were so negligible that our customary practice was to make an annual prepayment, which gave us the satisfaction of marking off a section of the amortization schedule. (Yes, we keep an amortization schedule and track our progress.) Sometimes we were able to make a prepayment that would advance the loan several years. This had the effect of making it possible to pay off a 30-year loan in 29, 27, 25, or even fewer years. Little by little, especially in the early years when it is affordable, one can easily make a 30-year loan into what is in effect a 20-year loan, or a 15-year loan into a 10-year loan. Trust us. Many people can make an extra month's principal payment on a house mortgage with little difficulty during the early years of the loan. You owe it to yourself to check it out if it applies in your situation.

Maintaining financial health—the importance of paying off loans as quickly as possible

Forgive us if this sounds like a broken record and a restatement of a previous point. This is important. Ultimately, your financial health, along with your physical, emotional, and marital health depends on handling debt effectively. We have seen firsthand the importance of the principles we are sharing. We know the satisfaction of not having to borrow money from someone else to buy a car. We know how good it feels to pay the entire credit card balance each month. We know the satisfaction of paying off loans. We did not buy our first home until we were 30. (We had lived in church parsonages previously.) We made the decision to buy that home with no raise from the church we were working with. We "absorbed" the house payment in the salary we were receiving. In our work with churches (and with two universities), we have owned several homes. When we purchased the home where we currently live, we were finally able to purchase without a mortgage. That was two years ago when Bob was 59.

Make being debt-free a goal

Reaching the idealism of this last principle concerning debt will probably not be possible in your early years. It was not possible for us. Our situation was quite average, perhaps below average with regard to income. Our challenges and needs were typical for a couple raising three sons.

But in the back of our minds, there was always this goal. We will one day be debt free. We do not reach those things that are not our goals. Make this your goal.

You do not want to go into retirement heavily in debt. You would prefer to go into retirement with minimal or no debt. Ideally, even the mortgage has been paid off. It is possible!

Section Four: Only three more

- **Take what people will give you**
- **Track your net worth**
- **It takes time**

When people want to give you money, take it

When one puts this principle down on paper, it seems so obvious that no one would miss it. Yet, in our observation, thousands fail in applying this principle. The most obvious example occurs when employers will match an employee's retirement contribution. You should save and contribute at least enough to take full advantage of the "free money." Otherwise, you are turning your back on money that is being given to you.

Track your net worth

Tracking net worth honestly and religiously will help you identify the expenditures that do not help make your financial house more secure. For example, this will help you see that the car you are making that big payment on is losing value more quickly than you are paying it off. Or that the replacement furniture you bought (which probably had a net worth of $0 the day it found a place in your home) did not help your financial health.

Be consistent, and don't worry if the results take time

We tried to do what we thought were the right things for the first 25 years of our marriage, and once the kids were raised, educated and gone from home, we looked to see how we were doing. Looking back, we discovered that raising kids was expensive. Earning two post-baccalaureate degrees was expensive. When we were age 45, what we had accumulated didn't look like much. But compounding has allowed the amount we had at age 45 to quadruple. In addition, we have continued to do the right things, adding to our retirement reserve and paying off our home mortgage.

Financial health is a journey, and usually a destination reached only after an appropriately long time. Do not despair if the results are not immediate. Track your progress, do the best you can, and you will experience financial freedom.

Conclusion

There you have it—twenty guidelines. Along the way we have made mistakes—we have our share of horror stories. Purchasing cars that we did not need or double paying health insurance premiums….these are only the hem of the garment. Even in our setbacks, we have kept at it. We have returned again and again to these basic principles that have guided our life.

Ours is an average story—average income, average financial circumstances, but extraordinary tenacity in sticking to the basic rules. God gives the increase!