

FLR WORKSHOP: SAVINGS SESSION OUTLINE

1. Start...Small changes

- How much can you really save?
- Why should you save?
 - Protection (Emergency, Loss Wages, Insurance Deductible)
 - Recurring (Annual, Semi-Annual)
 - Reserves (Maintenance, Repair, Replace)
 - Well Being (Vacations, Christmas Fund, Trips, and Events)
 - Spending Less
 - Wealth Building
- Saving Priorities:
 - Pay Yourself First
 - Give
 - Save
 - Pay Bills

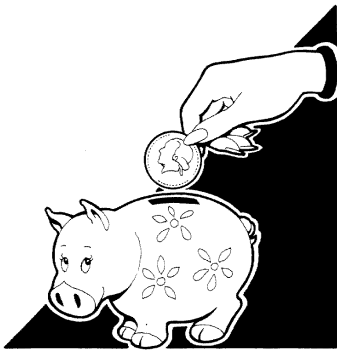
2. Set...Financial Goals

- Formalize Budget (Monthly Income and Expense Sheet)
- What makes a Good Budget (Top Ten Features of a Successful Budget)
- Budgeting Can Improve Your Life (Got Budget?)
- Steps to Your Goals

3. Plan ... Investments

- Principles of Investing
 - Liquidity, Safety, and Total Return
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 - Timing and Diversification
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1. START...*SMALL CHANGES*



Start off with small changes! You can begin by changing your *spending* and *saving* habits. For some of us it may seem difficult at first. If you start with small steps, eventually you will take big strides by simply changing your old habits.

Experts recommend that you should save at least *10% of your income*. If you cannot start off with this amount, save a smaller amount. Creating a saving habit and making monthly contributions will prove to be a better approach than to try to save a large sum all at once.

Ask yourself how much you can really save. Then make a promise to set that amount aside. You can always make an adjustment if your circumstances change.

- **How much can you really save?**

Since you have made this promise to save, now you need to know where this money is going to come from. You must now track how you are spending your money on a *daily* basis. Try keeping a daily record of your *small* cash purchases for at least a couple of weeks. Next, it is important to review your *big* expenses that occur on a monthly basis.

Now, you are ready to separate the small and large expenses into two lists. One list is your “needs list”, while the other list is your “wants list”. Your “needs list” includes your *basic necessities*, things you cannot live without. Your “wants list” includes things you *desire* but are not things you need.

Review each list and decide what items you can live without or that you can find a different approach. For example:

Needs List – Are there hidden savings in the things you buy, if you look at them in a different way? Food expenses can be a challenge and need to be checked daily. Sales, coupons, bulk purchases and preparing meals rather than eating out are among a few suggestions to gain savings.



Wants List - Are there a few items you could try to live without? Technical gadgets are generally considered a must in our daily activities. Perhaps, shopping for an unknown brand, or shopping at a less expensive store will provide immediate savings.

Note: When you know where your money is going, you will spend much less and save a great deal more.

- **Why should you save?**

Basic Reasons for Saving: Although most people can think of many reasons why they *cannot* save more money, there are basic reasons why you should save money. Everyone needs to save money for future security and financial independence.

Protection

Emergency Fund

Most of you have experienced an *unexpected* car repair, or a family medical emergency that required an immediate sum of money. It is important for you to plan for the *unexpected* demands. You should have three to six months' of your living expenses in a short-term emergency fund.



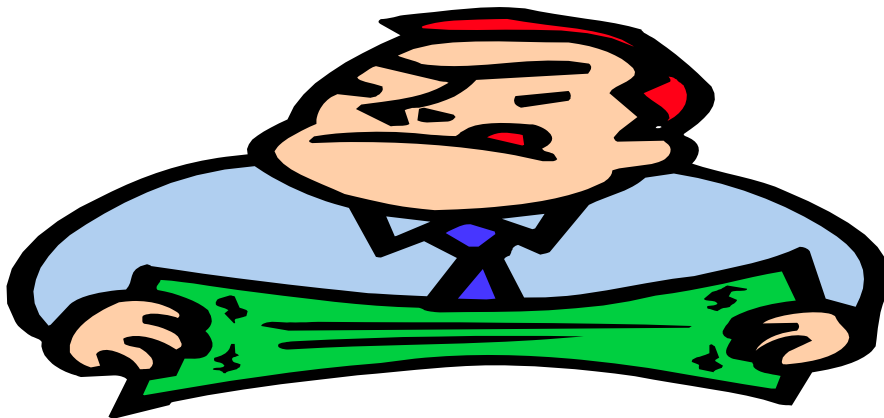
How much you need to save will depend on your personal responsibilities.

For example:

- You may be self-employed with irregular income
- You may need cash to repair equipment
- You care for a disabled family member and need extra medical supplies

Loss of Wages

You may need even more than the 3-6 months just in case you lose your job and need extra time to find a similar one. No matter how you do it, it is critical that you stretch and save what you can.



It is important to set up an emergency fund that allows you to withdraw money without fees and withdrawal fines. Since you will need to withdraw money quickly and easily, the most popular ways to build your emergency funds are:

- Regular Savings Account
- Credit Union Account
- Money Market Account
- Certificate of Deposit (CD – Short-term)
- U. S. Government Bills or Notes

Insurance Deductible

Generally, homeowner's policies offer several choices of deductible. The deductible is the amount you are required to pay for losses before the insurance company begins to pay.

Deductibles can range from \$250 to \$1,000; the higher the deductible the less you will pay for your policy. By taking a high deductible, your savings will be substantial.

Therefore, it would be wise for you to take the amount you *saved* by taking the high deductible and deposit it in the bank. This assures that in case of a loss you will have the amount for this expense.

Likewise, automobile insurance (collision) is always limited by the deductible. Again, the deductible is the amount you pay before the coverage kicks in. Commonly, automobile deductibles are between \$100 and \$500, but can be as high as \$1,000 or more. Whatever the amount of deductible you should choose, this amount needs to be set aside as a form of *self-insurance*.

Recurring (Annual, Semi-Annual)

Saving means setting aside funds regularly and, ideally, covering enough so that your money will be there during a period of disruption. Aspects of saving should include insurance coverages that are paid on an annual or semi-annual basis.

Examples of these coverages are:



- Homeowner's Insurance
- Automobile Insurance
- Medical and Life Insurance
- College Program Insurance
- Property Taxes

Since no one can know what the future holds, the individual that buys insurance is agreeing that a loss may occur. If a loss does occur, the insured person is protected. If a loss never occurs, the years of knowing there was protection provided continuous peace of mind.

The need for *homeowner's and automobile insurance* is clear and practical. Choosing the best coverage for your needs, however, can take a little work. Ultimately, you have to determine the right amount of coverage, to avoid gaps in your coverage that might cause significant risk.

Having good health and the means to maintain it is a protection that needs careful consideration. Obtaining *health insurance* is one of the first recommendations made by most financial planners.

Adequate *life insurance* is also another area for some consideration. Not everyone needs life insurance. Deciding whether or not to buy life insurance is based on who would suffer financially if you died?

For those who have dependents, a reason to consider life insurance coverage could be to include providing a sum of money for their *college education*.

To conclude, we must address the *property taxes* that always come up to haunt you at the most inconvenient time. O.K., are you ready to pay them or will you have to use convenient credit? Before giving that thought any further consideration, just figure on saving that amount each month and be ahead of the game!

Finally, it is a fact that you need these *protections in life*. The main thing is to look carefully at the small details of what you are buying so that you get the most *value* for your dollar.

Reserves (Maintenance, Repair, Replace)

For most of us, the area of maintenance, repair, or replacement of essential items is not given much thought, unless the items are business related. Do you really think about when a lawn mower or automobile tires may need to be replaced? Probably, not ever.

To determine the amount of what we should reserve for these areas depends upon:

- How old are the items?
- Are the items covered by a warranty?
- How often are the items used?
- Have they been regularly maintained?

Let's start, by looking at some typical items:

- Appliances
- Lawn Equipment, fertilizer, seed
- Auto Repair, tires, and oil changes
- Painting, caulking
- Pool maintenance
- Screening

It is reasonable to assume, that you already know the maintenance schedule, the life expectancy, and the cost of replacement for most items. If not, then investigate and get information of what it will cost you to keep these items going. Please, don't wait until these items are so far gone that replacement becomes absolute due to the lack of funds for maintenance. The key here is that you have addressed these expenses and have *reserved adequate funds*.

Well Being (Vacations, Christmas Fund, Trips, and Events)

Decide what you need to change in your budget to allow for things that are valued and bring lasting memories to your family and friends. When you start to prepare a saving program, ask yourself the following question:



“Do you consider money set aside for family events and gift giving as, “money well saved”?”

Many of you are “givers from the heart”, but are you able to pay for your generosity without going into debt? Consider how you and your family expect to:

- Take an annual vacation
- Take weekend trips and attend local events
- Take part in Christmas parties and give gifts

These activities can bring great meaning and purpose into your lives. Generally, they are considered a “must”. If these activities are a high priority for you and your family, try to achieve a balance between these areas and those areas of necessity when you are creating your saving plan.

How can you Save?



Spending less

A great rule to live by is simply: Spend less than you earn. This rule is so basic, yet it is commonly overlooked by most people. The reason is probably that it is difficult to change the lifestyle we cannot afford. Spending less money on entertainment, hobbies, impulse shopping, etc. will increase the amount of money left over at the end of the month.

Additionally, you may need to look at how your free time is spent particularly, on the weekend. Perhaps, you could use the time you spend at games, concerts, movies, etc. to earn some extra money. Someone in your neighborhood may need your help to keep up the lawn work and service the pool.



You have just saved money by not going out and earned money by doing extra work. Instead of spending this extra money, you need to set these funds aside for future investment.

Wealth Building

You too, can look forward to being financially independent. This freedom requires that:

- You continue to save money, and
- You make your money work for you

Make your money work for you!

Many people argue that they will never get to the point where they can save money for investment. If you make the right decisions and stick to your plan of investing, you will soon see how your money becomes a powerful tool. Make it a habit to check out opportunities to increase your available cash.

Paying down your credit card debt is a way to start on the path to building financial freedom. An example:



A person charges \$2,000 on a credit card, at 19.8% interest and a \$40 annual fee. If this person pays only the minimum monthly payments, it will take over 30 years to pay off the debt.

The sad news is, most things you charge on your credit card, will not last as long as the time required to pay off your debt. The good news is, if you double your efforts to pay off the debt sooner, you will save thousands of dollars.

Note: Instead of paying the minimum monthly payment, pay half every two weeks. If you do this consistently, by the end of the year you have made one extra payment.

Saving Priorities:

Begin by setting priorities that are right for you. Ask yourself, “What’s the most important thing I must do first, in order to save a few dollars?” You need to consider the following:

Pay Yourself First

This means setting aside money for your future in an account before you pay any bills. Most people pay their bills first and then if there is anything left over, they can save a few dollars. You must turn this around. First, you put aside a few dollars for yourself, then pay all your bills.

How can you pay yourself first?

Here’s how! Your employer makes paycheck deductions for Social Security, federal and perhaps state income taxes. Surely, you could have your employer direct-deposit part of your paycheck to a specific account, such as, an emergency fund. The reason this method is successful, it is all done automatically. The money is taken out before you have a chance to see it or use it.

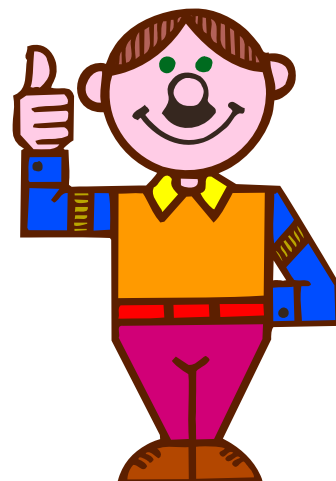
Remember: If you don’t see it, you won’t spend it.

Note: Check what your company offers as a retirement savings plan. These funds can be taken out of your paycheck automatically. Another method is to arrange for automatic monthly or weekly withdrawals from your checking to your investment account.

Give

What is tithing?

Tithing is a biblical principle that states that those who are blessed by God with abundance have a spiritual duty to help others who are less fortunate. Their spiritual duty is to give back a portion of their earnings in a gladly manner.



The exciting part of tithing is that, when you give with gladness, *you truly feel great!*

The word *tithe* means “*tenth*” and the original idea was that you were supposed to donate 10% of what you harvested from the land each year. Tithing is not about what we should do, or to feel better about ourselves, but is about simply giving, for the sake of giving.

The miraculous part of tithing is that the more you give, an abundance tends to return to those who give. Since tithing is a personal decision, you could start by giving a certain *percentage* of your income or, you could simply determine a *set amount* you can give automatically.

Start small, in the same manner as you started by *paying yourself first*. Then allow the amount you give time to grow to a greater amount.

Save

Before making a major purchase, try to save up the necessary cash to buy it and you will save a large amount of interest. It also eliminates the problem of having to come up with the money each month, especially if you suddenly lose your job or become ill.



Basically, most people have a hard time saving and need a plan that works without much thought. You might find it easier to use this method of saving, which forces you to have the cash *prior* to your purchase.

Another thing to consider, is to learn to anticipate up-coming expenses. For example, if you have been advised to repair your transmission, set aside some money before the work is done.

Sometimes we know or receive fair warning that a demand for cash is soon due, such as our taxes. Taxes are a given and you must set aside funds months in advance or pay the consequences. This habit of saving keeps you from depending upon credit to cover what you can do with cash reserves.

Are you finding it hard to save for those large expenses?

Well, it can be easier than you think. Add up all the large expenses (taxes, insurances, etc.) and divide the total by 52. This amount is what you will have to set aside each week to make sure that you are ready when these expenses come due. To avoid temptation, set up a separate saving account rather than using your checking account.

Pay Bills



Most people have a general idea of how much they earn, how much debt is outstanding and the amount of money that remains. Having this knowledge, you can now determine if you can pay all your current debts or if some may have to be delayed. You must decide which are the most important to pay immediately and those that can be paid at a later time.

As you make these decisions, you must look at what can happen if you delay some of the payments. Will you and your family be seriously affected by the debts you do not pay?

The most important debts are usually those secured by collateral, such as, your house, car, furniture, etc. These are considered most essential to your daily living and are those you must try to keep. Whereas, debts that are not secured by collateral, such as, your credit cards, charge cards, medical, etc. are not tied to any property, and can be considered less essential.

Now, you have prepared two lists:

- Most essential (Secured by collateral)
- Less essential (Unsecured by collateral)

Each month review these lists to decide if you must switch the items from one list to the other. For example, you may decide to call the creditor to ask for an extension or a reduced payment on your furniture loan. Although, this is a *most essential item* you now have the option to delay the payment and apply that money to another debt.

Another option may be to sell the boat you can no longer afford. This decision will also cause you to make changes on your lists. Keep in mind that these changes may seem mind-boggling, but eventually they lead to debt freedom.

2. Set...*Financial Goals*

- **Formalize Budget**

Create a simple monthly budget! Make sure you can see how your *spending* compares with the amounts you have budgeted. (Ask the participants if they have a written budget)

What method do you use to budget?

Most of us have tried to keep some kind of a budget, but has it really worked? One approach to budgeting is to carefully track your spending during the month and make adjustments up and down in each category. When you are trying to account for every penny, it will take some time doing it.

Has your method worked for you? Are you still deep in debt?



The purpose of a budget is to prevent overspending and keep us out of debt. Now, you will have the opportunity to prepare a monthly budget of your current financial activities. Looking at the activities on a monthly basis, makes it much easier to understand than if you do it on a yearly basis. (Monthly Income and Expense Sheet)

This will give you a personal picture of how much you make and spend for the month.

Monthly Income – Fill in each category and then add them up for your Total Monthly Income.

Monthly Expenses – Fill in each category in both columns and then add both columns for your Total Monthly Expenses.

Take your total monthly income and write it the box on the first \$_____.

Take your total monthly expenses and write in the box on the second \$_____.

Take your credit card/medical debt total and write it in the box on the third \$_____.

Now, add the three totals, which gives you the Total Monthly Amount of funds that are left over at the end of the month.

Do your liabilities exceed your assets?

If so, you have:

Negative net worth and your money is not working for you.

It's time to:

Tackle debt and work at reducing your expenses and/or increasing your income.

Financial recovery:

Take control of expenses immediately!



- **What Makes a Good Budget?** (Top Ten Features of a Successful Budget)
- **Budgeting Can Improve Your Life** (Got Budget?)
- **Steps to Your Goals**

Since you cannot predict the future, you need to build a plan to take care of your upcoming opportunities. To do this you will need to assume certain things about your future.

Ask yourself questions that you need to give *serious thought*, even though it involves future events.

Sample questions:

- How long will you continue to work?
- What will happen if your income stays the same?
- Will you be able to maintain the same rate of return on your investments?
- What steps can you take to respond to most of your future concerns?

To build a plan you need to start by defining *where* you want to be financially, in the future. Some common concerns are:

- To have sufficient funds and medical coverage in case of illness.
- To be able to retire comfortably
- To have sufficient funds to maintain or increase the present standard of living
- To minimize income taxes

Develop your plan to fit what best suits your *individual needs*. You may want to pay more attention to your retirement and insurance needs rather than concerns about your taxes. This approach requires you to focus on specific issues that are the most important to your life. At this point, you are *directing your financial future*.

The next step is to take each specific issue and decide their order of importance. Some issues may have the same level of importance. As you determine their importance, you also need to decide which issues require your immediate attention. For instance, if you neglect to purchase adequate insurances, this could severely affect you later in life. This is an issue that may need your attention, today.

Once you know your financial concerns, have placed them in order of importance, you are ready to *build a plan* to get to where you want to be. As you build your plan, it should allow you to make changes as your circumstances change. Therefore, build a plan that is *flexible* so that if you experience employment changes, investment variations, etc., you can adjust your plan.



Another consideration we previously mentioned, is the importance of having sufficient funds to deal with *emergencies*. These funds must be easily available and free from withdrawal fees.

Finally, a primary concern should be to minimize both your income tax and your estate taxes. One of the easiest way to reduce estate taxes is to take advantage of the gift tax exclusion. Examples include, gifts of money, holiday presents, income in a trust, etc.

Remember. The best plan in the world is *worthless* unless you take the necessary steps to your future.

3. PLAN...INVESTMENTS

- **Principles of Investing**

Liquidity, Safety, and Total Return

Prior to making any investment decisions, you need to realize that for every investment there will be some tradeoffs you will have to make. These tradeoffs will involve variables such as:

Liquidity – Involves the *ease or availability* of your investment being converted into cash. When your money is in an account or fund that is highly liquid, you have immediate access. However, the tradeoff is:

The higher the liquidity of the investment, the lower the total return.

Try to determine how much liquidity you will need in terms of the types of emergencies you anticipate, and your present insurance coverages. You may not need much liquidity if you have adequate insurance protection. Therefore, you can afford less liquidity and a greater return on your investment. Take the time to weigh these factors and it will prove to maximize your overall total return.

Safety – Involves the possibility that a total loss or a large drop in value may occur. These losses are likely to occur when your focus is on achieving the highest available yield. Thus, increase your level of safety and protect your investment by:

- *Accepting a lower rate of return*
- *Diversifying among types of investments*

Note: For a higher return, you generally have to sacrifice some *liquidity or safety, or both*.

Total Return – Involves return on your investment, such as:

- Interest:
Bank accounts, certificates of deposit, money market accounts and bonds
- Dividends:
Stock mutual funds and common and preferred stock
- Price appreciation:
Stock or bond mutual shares, stocks, real estate, and works of art

Note: The total return takes into account both, the income the investment *earns* (interest or dividends) and any changes in *value* (appreciation or depreciation).

Investment Strategy

Once you have achieved a positive net worth, positive cash flow, and a comfortable emergency fund, you are ready to develop an overall financial strategy.

Think of your financial strategy as a roadmap that gives you directions to the future. Your financial strategy should include:

A statement of all your financial goals – Include what and when you want to achieve these goals.

Your risk profile – How much risk you are comfortable taking with your money.

Your present portfolio – The mix of stock, bonds, and cash products you own.

Your investment preferences – The decisions you will make of what to buy and sell, and when.

Tracking your funds – How often you will monitor your plan and make the necessary adjustments.

Investing requires discipline! Find an efficient method that makes the investing game more fun. Investment tracking tools are available online that help you to achieve your goals, while you watch your money grow.

If you have made the decision to save and invest, a way to begin is to write yourself a check each month equal to a fixed percentage of your gross income. For example, you may want to start with 5% and gradually increase this percentage in time. Remember, even though this voluntary deduction may change your lifestyle it also changes your future security. Make sure you deduct the amount from your budget and show it as a saving or investment entry.

These funds should be deposited in a savings or a money market account until you have accumulated adequate investment funds to look into tax-advantage retirement savings, such as an IRA account. Or, you can check with your employer if a salary-reduction plan, such as a 401k plan is available. Tax-free bonds, can also be a part of your retirement plan.



Once you have your emergency and retirement funds established, you may want to consider short-term certificates of deposit, Treasury bills, or a stock or bond mutual fund that does not require a high initial investment.

By the time you have accumulated what you consider significant funds for investment, you have experienced and learned many lessons. You have learned that:

- Investments require monitoring
- Investment conditions change
- Financial picture becomes more complex
- Need for professional investment advice increases

Sound Advice vs. Do-It-Yourself

Can you afford the time to select and monitor your investments?



If this is not possible, then you must decide where you will turn for professional advice. Keep in mind that if you decide to use a broker or some other advisor, you should expect to pay a high commission rate for their services.

Another consideration that might be as good and less expensive, is to invest in a mutual fund. Generally, these funds are managed by individuals with access to the same information as a broker.

If you have a financial strategy and a strong commitment to learn, it is likely that as your investments grow you are likely to develop greater investment skills. Although you have entrusted a broker with your investments, you must still watch and question any transaction that you do not understand.

Investment Alternatives

The typical small investor might consider starting with *low-risk investments* that require fairly small sums of money and gradually move to investments requiring both *high-risk* and large sums of money.

Begin, by selecting the type of investment that interests you. Several investment alternatives and some of their features are:

Money market funds – Instant liquidity, preservation of principal, and a higher yield than those offered by banks

Mutual funds – Low liquidity, and offers diversification

Stocks – Higher risk, potential for good returns

Bonds – Safer, dividends specified in advance, callable, and subject to erosion by inflation

Real estate – Illiquid, entire range of risk level, and time consuming

Timing and Diversification

Two keys to successful investing are the:

- *Timing* of each investment
- *Diversification* of your total holdings

Obviously, it would be profitable to buy stocks when the market is low and the price of the stock would rise as the market improved. Likewise, it would be profitable to buy bonds when interest rates are high, since the value of the bond would rise as the interest rates fell. Unfortunately, this kind of market timing requires insight not available to human beings.

Investment experts recommend a safer strategy: To invest smaller sums of money regularly, without regard to interest rates or market prices.

- **The Rule of 72**

The Rule of 72 is a tool that can provide approximate answers to the question:

“How long will it take to double my money?”

The rule is simple:

If you know the *doubling time*,
divide it into 72 to get the growth rate.

If you know the growth (or interest) rate,
divide it into 72 to get the number of years
it takes for your money to double.

For example:

<u>Annual Return Rate</u>	<u>Money Will Double</u>
10 %	7.2 Years
7.2 %	10 Years
8 %	9 Years
12 %	6 Years

So a stock that doubles after 10 years, returned approximately 7.2% a year. And an investment with a compound growth rate, or interest rate, of 7.2% doubles in ten years.

The rule of 72 is a short way to get an *approximate compound average* growth rate (CAGR), if you know how long it took for a stock to double, and to figure the number of years it would take for an investment to double if you know the interest rate or CAGR.

This rule makes it very clear that the more money you have, the more you can make. It also makes it clear that you need to get started, right away.

Start:



Finish:

