

Stewardship Forum

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Stewardship Tools for Individuals : Lifestyle Issues

Title: Master Your Money

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The Bible has a lot to say about money. Even though it was written thousands of years ago this book provides key principles that are priceless in facing today's financial questions. Questions such as, "Where do I go for advice? How can I find peace of mind about providing for my retirement? Should I be saving and how much?"

Where should you go for advice?

1. The first place to which we should go for advice is the bible. There are over 2,350 references to matters financial and you can find wisdom for the most challenging and the most mundane issues.
2. Your pastor should be able to help you – encourage him/her to delve into the scriptures and teach about money on a regular basis (not just about giving but about handling money).

It has to be admitted that there is a paucity of teaching in the UK but last January there was an historic conference held in Coventry. 250 people packed out the Britannia Hotel at M:Power. This was a highly successful Stewardship event for probably the first time in the UK, which sought to equip leaders of churches and charities to understand how money works from a biblical perspective.

3. Read up on it. Keith Tondeur (available through Credit Action 01223 324034) and Ron Blue (available through Ronald Blue & Co North Ltd) have written good books ("What Jesus said about Money and Possessions" and "Master Your Money" respectively) and there are other resources...though not yet enough.

Generally, I do not find newspaper and magazine editorial very helpful – the need for a story usually overtakes the need for education. Money Management and Planned Savings are exceptions – although they are hard work!

4. Speak with a financial advisor. In the UK there are strict regulations covering the provision of technical financial advice. For example, advice on what sort of product to buy or from which company. Over the last decade financial advisors have operated under polarisation rules. This meant that anyone offering financial advice either represented a product provider (an insurance company or bank for example) or acted as an independent, able to advise on a wide range of products and product providers.

The Financial Services Authority has recently announced a radical re-structuring. This is still in the consultation stage but seems to be heading toward a more complex system with up to 6 different types of advisor, some tied to one provider or several, some

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restricted to basic products and others operating on a fee-only basis as complete independents.

Whoever you turn to for advice, make sure you fully understand their status (i.e. who they work for and what they can and cannot advise on) and how they get paid. If you are seeking a new adviser you can contact ACIFA (Association of Christian Financial Advisers) on enquiries@acifa.co.uk.

5. If you are married, you should always make financial decisions with your spouse. If you are not married, it could be wise to involve a close friend.

The Bible says, "Plans fail for lack of counsel, but with many advisers they succeed."
Proverbs 15:22

What about retirement?

Some people are beginning to find that the projections on which they were basing their retirement plans are proving inaccurate. How do you make sure that you will have enough to live on when you stop work? This is a big area with a wide range of factors:

- When do you plan to stop work?
- Will there be a complete stop or might you have ongoing income from part-time work or consultancy?
- How much income will you need?
- What provision have you already made?
- What effect will inflation, interest rates and investment returns have on all the above?

Broadly speaking the government has always advised that you should save 10% of your income (before tax) from age 20 to age 60. That should ensure sufficient income for retirement. The main sources of pension income are:

- Basic State Pension (available to everyone who has paid NIC) of up to £72.50 per week for a single person and £115.88 for a married couple (call 0191 218 7585 for a statement of what your benefits are).
- SERPS (available to employed people who have made appropriate NIC payments).
- Employer pension schemes (usually based on length of service and final salary).
- Various forms of Personal Pensions (where the income in retirement is based on how much has been paid in, for how long and what level of investment return has been enjoyed).

Projections made some years ago are changing for a number of reasons: investment returns, interest rates and inflation have fallen steadily over the last decade. This means that you can't expect as great a return on your Personal Pensions but also that you don't need to provide quite as much because inflation is lower.

Another reason that projections have changed is that annuity rates have fallen significantly over the last decade. Annuities are the source of pension income and they fall as long-term interest rates fall, and as life expectancy increases. It's a double whammy: because you are likely to live longer, you have to provide more income for longer but using an annuity which gives less.

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Just to confuse and depress us further, the DWP (Department for Work and Pensions) are reviewing the way projections are done. The first indications are that these are going to lower projected returns even further.

Now the bible does not mention the word retirement. In fact it does not seem to acknowledge the concept of stopping work and living off a pension. That may be a cultural thing although I don't think God plans to retire. The bible does however encourage us to prepare for the future ("Go to the ant, O sluggard. Observe her ways and be wise; which having no chief, officer, or ruler, prepares her food in the summer, and gathers her provision in the harvest. Proverbs 6:6-8) whilst living a life of faith in God who provides for His children ("Therefore I tell you, do not worry about your life, what you will eat or drink; or about your body, what you will wear. Is not life more important than food, and the body more important than clothes?" Matthew 6:25).

I suggest that you spend time with God discerning what he wants you to do with your "retirement" and then take advice about how best to provide an income for that time. The golden principle: plan ahead and plan early.

Savings

The concepts behind saving are very similar to pensions. A pension is simply a savings plan aimed at providing an income when you retire, enjoying significant tax concessions as it does so.

However, it is wise to save in addition to funding a pension. As a nation we have become poor savers. We seem to be happier using our money to pay for loans rather than save. I pointed out that the government advise saving 10% of income for retirement. I suggest that you save around another 10% for shorter-term purposes. However, saving should be done in the following order:

1. Pay off expensive debt (credit cards, car loans etc)
2. Establish a buffer in your current account (say 1 month's spending)
3. Establish an emergency reserve (say 3 months' spending)
4. Then identify key projects that you would like to save for

When you have worked through steps 1, 2 and 3 look at using your ISA (Individual Savings Account) entitlement of up to £7,000 per person per year. These can be low risk or high risk and are paid out tax-free. You can usually save monthly or in lump sums.

Four main factors will affect the success of your savings plan:

1. How much you save
2. For how long
3. What investment return you enjoy
4. What charges you pay

You control the first two of these. The third, investment return, will be related to the quality of the investment adviser and the risk you are willing to take. Stock market-linked investments have done very well in most years over the last couple of decades – returns have exceeded 7% a year over the longer term. However, in the last 12 months the stock market has fallen

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by 16%. It is important that you understand the nature of the risk when you make an investment. I also advise that you use established blue chip investment companies with a reasonably long track record.

The fourth factor is difficult to control. However, there are many products on the market which only charge 1%. This is OK but you may not get much advice with that. A reasonable commission to pay for someone to advise you is 3% of your investment and 0.5% a year thereafter (or you could perhaps agree a fee and pay no commission).

The bible advises us "Do not wear yourself out to get rich; have the wisdom to show restraint (Proverbs 23:4). In other words, get rich slow. Not to go for the quick return but to plan ahead and build carefully. "Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it?" (Luke 14:28).

Conclusion

The bible has a lot to say about money. Of course we should give generously to our churches and to other callings. But we should bring the rest of our money (the 90%) under the Lord's control too. These are the 5 core principles we use in advising our clients:

1. Remember that it all belongs to God (Psalm 24:1 "the earth is the Lord's and everything in it"). That includes your pension fund, your overdraft, your car, your salary...
2. Spend less than you earn. Know what you earn, know what you plan to spend and ensure that the latter is less than the former.
3. Avoid the use of debt. Except for unavoidable debt like mortgages, debt is generally a millstone. Try to plan to live without it because "the borrower is the servant of the lender." (Proverbs 22:7).
4. Draw up a savings plan. In other words, be putting money aside for the future. A combination of no debt and having some savings gives you great flexibility and choice for whatever the Lord calls you to do.
5. Have a plan. In Luke 14 Jesus talks about the builder planning his project carefully. Do the same for your money and your life. Write it down and be flexible to change it year on year.

The bible warns us against fear and greed. In my experience, most investment mistakes can be put down to people acting out of one or the other. We have a loving God, it all belongs to Him and we need neither fear for the future nor be greedy for better returns. But we do need to be good stewards with what He entrusts to us.

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