

Ask the Budget Guy

Submitted by Allen Gunter

HERE'S MY WALLET – HELP YOURSELF!!

Way to go, Budget Guy! I can use a few extra bucks this month. I'll just open up your wallet and see what I can find. Hmm...pictures of your kids (great picture of Ray)...insurance card, AARP card, auto club...some phone numbers... Hey – where's the money?!

Sorry, Charlie! Do you really think I'd let you just help yourself to my money?

No, I guess not. You'd have to be pretty stupid to do that! It's just that I'm a little short this month, and a few extra bucks would help me make the minimums on my credit cards.

So you carry a balance on your credit cards?

Doesn't everyone?

No – only those who like to hold out their wallets and let the credit card companies help themselves. Unfortunately, about 60% of cardholders don't seem to mind doing that.

Hey – no need to get nasty about it! So I carry a balance. It's no big deal – only about \$6,000. Just the other day I read where the average balance is \$9,000, so I'm doing ok.

Really?? If your interest rate is 12% and you just make the minimum payments, that \$6,000 will take you 20 years to pay off! *And it will cost you an extra \$16,800!!* Just because someone else is hurting more than you doesn't mean your pain is any less.

Yeah, well...wait a minute! I may not be a math whiz, but even I know that I won't pay \$16,800 in interest!

No, you'll pay about \$5,400 in interest. But if you were to take the amount you would pay in interest each month and invest it to earn 5%, you would end up with about \$11,400. That makes your total pain \$16,800.

Duh – of course! I don't just lose the interest I pay on my credit cards, I also lose the interest I could earn. Wow – that adds up!

And don't forget about taxes.

Huh? My interest payments aren't deductible. What do taxes have to do with it?

Well, in order to pay that \$5,400 in interest, you first have to earn the money. And the money you earn will be taxed. So with income taxes and Social Security, you have to earn something like \$8,200 just to pay that \$5,400 in interest. How long does it take you to make \$8,200?

Too long! But what about the taxes I would pay if I were to invest those interest payments?

No FICA taxes. And you can defer the income taxes indefinitely if you invest through an IRA. You might even be able to get a tax deduction for your contributions!

Remember the parable of the talents?

Two servants invested the money they were given and were rewarded with a closer relationship with their master. The third buried the money and was cast out. It's a good thing credit cards didn't exist then! Can you imagine what the master would have done if the third servant had taken what he had been given and ended up with credit card debt? What are you doing with what God has given you?

Everything in the heavens and earth is yours, O Lord, and this is your kingdom. Riches and honor come from you alone.

– 1 Chronicles 29:11-12

Okay. I'm convinced. Carrying a balance on my credit cards costs way too much. I'm giving away my future just to have some things today that, come to think of it, really aren't all that important. But I don't have \$6,000 lying around to pay off my credit cards. So what do I do now?

You've already taken the most important step – you've decided to get out of debt. Next month, we'll talk about the best way to do that. If you can't wait, let me know and we'll get started right away:

Want some help with your finances? SHPC's Financial Ministry can help. You can get confidential personal help from the Budget Guy, Allen Gunter (892-3580, ext. 122 or BudgetGuy@SHPC.org). Or try one of the Crown Financial Ministries Small Study Groups or Sunday School classes. Call Ron Miller at 892-1862 for more information.