Financial Wellness

Purpose of this Book

The purpose of this booklet is to provide an orientation to general principles of Financial Health within the context of employment within the Seventh-day Adventist Church in North America. This book is best used as a reference for taking the course of the same title under the Adventist Learning Community platform.

Examples shown in this booklet make assumptions which may or may not apply in every situation. No example should be construed as a promise to provide specific benefits in every situation. The employee may wish to receive input from a financial planner, or to contact his current or last employer’s human resources offices for clarification of policy questions.
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**Financial Wellness**

### Glossary

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<th>Term</th>
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<td><strong>Leakage</strong></td>
<td>Assets lost due to unpaid loans, withdrawals, tax penalties, contribution delays or failures and excessive fees.</td>
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<td><strong>Match Contribution</strong></td>
<td>The employer’s contribution which matches the Voluntary Contribution up to 3%.</td>
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<td><strong>Secure Foundation</strong></td>
<td>A variable annuity provided by Great West to Adventist Retirement Plan (ARP) employees and retirees.</td>
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<td><strong>Voluntary Contribution</strong></td>
<td>The employee’s voluntary contribution. Recommended three percent to seven percent.</td>
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<td><strong>Adventist Retirement Plan (ARP)</strong></td>
<td>The US Church Defined Contribution Retirement Savings Account Plan.</td>
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<td><strong>Defined Contribution Retirement Plan (DC Plan)</strong></td>
<td>The US Church Retirement Plan in the form of a retirement savings account accumulated post-1999. Also referred to as Adventist Retirement Plan, or ARP.</td>
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<tr>
<td><strong>Defined Benefit Retirement Plan (DB Plan)</strong></td>
<td>The US Church Retirement Plan in the form of a pension that is calculated based on pre-2000 Qualified Service Credit.</td>
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<td><strong>Participating Employer</strong></td>
<td>An employer that participates in the NAD Retirement Plans.</td>
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<td><strong>Vesting</strong></td>
<td>Employee has reached a service requirement which grants unconditional entitlement to future retirement benefits.</td>
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<td><strong>Annuity</strong></td>
<td>An instrument to convert a lump sum, such as in a DC Plan, to a regular flow of funds.</td>
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<td><strong>Longevity Risk</strong></td>
<td>The uncertainty of life expectancy, and the possibility of outliving retirement income.</td>
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<tr>
<td><strong>Retirement Plan</strong></td>
<td>A Plan designed to provide income and assistance after termination of full-time employment after age 59 ½.</td>
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<td><strong>North American Division (NAD)</strong></td>
<td>One of the Seventh-day Adventist World Divisions which includes Canada, Bermuda and the United States.</td>
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<tr>
<td><strong>Participant</strong></td>
<td>An employee of a participating employer who is eligible to earn service credit in the Plan, or a former employee who is receiving benefits from the Plan.</td>
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<tr>
<td><strong>Adventist Risk Management (ARM)</strong></td>
<td>The Adventist agency which assists the Plan in managing Dental/Vision/Hearing and pre-Medicare options.</td>
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<tr>
<td><strong>Plan</strong></td>
<td>The NAD Retirement Plan administration.</td>
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This section of this syllabus is designed for employees who are not looking at imminent retirement. Young and middle-age employees should find the material helpful in preparing prudently for the long term.
Christian Planning

Before diving into the details of financial planning, let’s deal directly with the challenge the Christian faces. Scripture seems to provide some mixed messages. Many messages deal with the danger of putting our hope in wealth. The eye of the needle and lilies of the field metaphors warn about the danger of wealth preventing the rich from accepting God’s kingdom. “You cannot serve God and mammon.”

However other passages support prudently planning for the future. God’s abundance is promised to those who comply with the covenant relationship (Deut. 28:12). Many scriptures provide good counsel in avoiding both pitfalls of neglect and greed.

Ellen White has very strong advice regarding debt, including the vivid image of avoiding smallpox (Adventist Home, p. 393). Scripture indicates it is God’s desire to abundantly bless His people, but cautions that wealth hoarded is often lost (Eccl. 5:13-14). In Luke 14, Jesus urges
prudently planning in the context of counting the cost of discipleship. The principle of a modest, prudent plan, caring for immediate family, avoiding debt, living generously and leaving a legacy for future generations is spelled out across Scripture.

We believe that it is not inconsistent for a believer in the imminent return of Jesus to also provide a prudent financial plan for the future. So, let’s dive in. How does the Adventist employee develop a prudent financial plan to meet these biblical principles?

A Prudent Plan

Books are written and consultants consult on how to develop a prudent plan. Advice given here is certainly not comprehensive, nor is it original. Here are important pieces of a prudent plan:

- **Save before Spend.** Or put another way, always pay yourself first. Many have said it, but few do it. Employees have us told how, right after first employment with the church, a parent or an older colleague encouraged them to, before anything else, sign up for the 403(b) Retirement Plan. “Save it and forget it.” How grateful they were for that good advice.
- **Eliminate Debt.** Debt is a serious problem today. Conferences tell us that some seminarians emerge with educational debt approaching $80,000. Getting out from under that debt load, starting a career at modest denominational pay, and perhaps starting to raise a family can be overwhelming.
- **Avoid Leakage.** “Leakage” is a term we use to describe how assets can drip out of the retirement plan account even as contributions continue to be made. More on this later.
- **Patient and Prudent.** Use patient and prudent investment strategies.
- **Protect your blessings.** Bad stuff happens. Have appropriate insurance and legal documentation in place.

**Save Before Spend**

For years the plan has modeled contributions with the

- **Employer Basic Contribution** of 5 percent
- **Employee Voluntary Contribution** recommended at least 3 percent
- **Employer Match** of 100 percent of Voluntary up to 3 percent
- **Totaling 11 percent**

This was a valid goal for somebody contributing for 40 years. However, the Plan has determined that many employees probably will not accumulate enough with this model due to withdrawals and contribution procrastination and has adopted an Auto Enroll and Auto Escalate model for all employees.
This means that all new employees will automatically be enrolled with a three percent contribution, and all employees currently below seven percent Voluntary will be annually ‘escalated’ by one percent until reaching seven percent Voluntary yielding a total of 15 percent including the Basic, Voluntary and Match. While this happens automatically, employees have the option of declining either the auto enroll and/or the auto escalate.

Retirement Asset Target
Because of the challenge of predicting inflation, some retirement advisors suggest that a target Retirement Asset should be described in terms of a multiple of annual wages instead of in dollars. The graph shows a full career. Since the Defined Contribution Plan has only been in place since 2000, no employee will at this point have anywhere near 40 years of DC employment.

The Basic series shows what the Basic contribution would grow to, given modest assumptions. Some employees believe that they don’t need to contribute anything because the employer contributes even if the employee doesn’t. The employer basic contribution would flow and grow to about four times annual wages after a 40-year career of employer contributions. That would not be adequate to maintain the standard of living enjoyed prior to retirement.

In this example, the employee voluntarily contributed three percent, which resulted in a 40-year total growth to about seven times annual wages. However, as a result of the Employee Voluntary contribution, the employer added the 100 Percent Match, and the total account would grow to about nine times annual wages. The literature that we read suggests that eight
to ten times annual wages should provide a standard of living similar to that enjoyed prior to retirement.

Whether six, or eight, or ten times last wages will work for an individual depends on many important factors. This graph is designed to show the importance of earning the match in order to reach a general rule of thumb target.

Notice the shape of the curve. It is not a straight line. Compound returns tend to push the curve higher as the years go by. It doesn’t take many years of faithful contributing and normal market performance for the average investment returns to begin to exceed the personal contributions. That is a great tipping point, although it does not mean the employee should stop contributing.

**The Cost of Delay**

There are always reasons employees find to NOT contribute. The graph shows three fictitious employees with the same wages, investment returns and contributions per year. Susan and Joe both began to contribute at age 25. Susan contributed until she reached age 65. Joe, however, stopped at age 35 after only 10 years of contributing. Samantha delayed contributing, starting at age 35. At that point, she contributed until age 65.

These three cases tell an important story. Susan’s career-long value maximized compound returns, the interest being earned on interest. At about age 37, her average annual investment earnings are actually exceeding her annual contributions.

Joe’s contribution stop at age 35 is unfortunate, but as long as he does not make any withdrawals, his account continues to increase with market growth. It ends up far less than Susan’s.

Samantha’s situation is surprising. A 10-year delay in starting contributions puts her behind both Susan and Joe. She contributes for 30 years, and finally catches up with Joe who only contributed for the first 10 years.
The lesson here is that those who contribute throughout the career will be rewarded, but just as importantly, early years are more important than later years. Delay is costly.

“**The rich rule over the poor, and the borrower is slave to the lender.**”
Proverbs 22:7

**Managing Debt**

Today’s employees struggle with managing debt. Banks push the concept of ‘buy now, pay later.’ New employees emerge from school with significant educational debt, and banks rush to sign them up for credit cards. Colleagues drive nice cars and have exciting toys. “Why not me?” Debt can easily snowball and overwhelm. Becoming debt free is part of a prudent plan.

Some will say we have these in the wrong order. Debt elimination comes before saving. However, many advisors suggest that protecting yourself from surprises by saving for a modest emergency fund comes before debt elimination. Almost all advisors will urge clients to ‘earn the match’ if one is provided by an employer. In the case of the ARP system that means contributing at least three percent even while eliminating debt.

Advisors sometimes define ‘good’ and ‘bad’ debt based on what happens to the ‘asset’ after purchase. Does it appreciate or depreciate? However, a six percent home equity loan taken to pay off a 20 percent credit card obligation could be good debt! A car depreciates. But an auto loan that enables you to get a better job may be prudent. A house appreciates. But a real estate loan on an unsellable house becomes bad debt if a move becomes necessary. Education appreciates. However Educational debt for a degree not valued in the market becomes bad debt. The sad reality is that all debt must be repaid by someone, someday.

Many advisors dive right into the best methods to

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**Do Not Emulate Fashionable Neighbors**—It is not best to pretend to be rich, or anything above what we are—humble followers of the meek and lowly Saviour. We are not to feel disturbed if our neighbors build and furnish their houses in a manner that we are not authorized to follow. Ellen White (Adventist Home, p. 384).
eliminate debt. Some ignore what should be the most obvious first step. Quit adding to your debt! Paying off debts while continuing to incur debts is a futile exercise.

Why do we incur debt? Unexpected expenses, admiring the neighbors, stress diversion, ease of obtaining credit, adult toys, and the incessant message from marketers that buying will make you happy.

**Leakage**

Happily, about 70 percent of our denominational employees contribute regularly to the Defined Contribution Retirement Plan. Sadly, leakage happens. Leakage refers to assets being siphoned out of the Plan. Leakage can include many factors. The four major areas are:

- **Loans Deemed**: Loans taken against retirement assets and not repaid before retirement are ‘deemed’, or declared to be a withdrawal.
- **Withdrawals prior to retirement**: The Plan and the IRS allow for hardship withdrawals under certain severe and immediate financial difficulties. While a valuable emergency provision, the result will be a reduction of retirement income. Some employees withdraw assets when they make a change in employment. Again, there are tax penalties and a reduction in retirement income as a result.
- **Fees**: Fees are an insidious form of leakage. All plans will have management fees. But excessive commissions and other fees can end up quietly siphoning assets from the account over time.
- **Contribution Failures**: Contribution failures or delays have an enormous impact on future retirement income.

The graph shows the end result of investing $25,000, earning 7 percent per year with fees of .5 percent and 1.5 percent. A one percent fee difference creates a 28 percent difference in the balance over 35 years.

**Prudent and Patient Investing**

Investment strategies are described in countless books and by a multitude of counselors. This subject goes well beyond the skill set of Retirement personnel. However, a few investing principles are broadly accepted when looking at long-term Retirement investing.

- Plan for long-term steady growth.
- Diversify broadly.
- Stay invested.
- Consider social screens.

“Investing should be more like watching paint dry or watching grass grow. If you want excitement take $800 and go to Las Vegas.”

Paul Samuelson
Diversify
Why diversify? In any given economic situation, not all investments will react the same way. In one economy, small companies may do well and larger ones may not do well. Then, the economic situation changes. Suddenly, the positions may reverse.

It is virtually impossible to guess which investment will do better than another in the future. So, it doesn’t make sense to just guess how to invest, only to find out later that you guessed wrong. Investment professionals agree that a better way to manage your retirement portfolio is to diversify, that is spread your money into different types of investments.
You can diversify by owning investments in more than one asset class, or by owning different types of investments within the same asset class.

While diversification does not assure a profit or protect against loss of principal, it can help reduce overall volatility in the markets and reduce the overall risk in your portfolio. These graphs are intended to demonstrate diversification, not to recommend a specific investment model.

Some Plan participants have asked why they could not invest in individual companies such as General Electric or Ford Motor Company.

Enron Corporation was an energy, commodities and services company based in Houston, founded in 1985 as a merger. Before its bankruptcy on December 2, 2001, the company claimed revenues of over $100 billion. However, it was
discovered that Enron participated in “institutionalized, systematic, and creatively planned accounting fraud.” Approximately 20,000 employees lost their jobs as a result of the failure.

According to one news report, one officer had built up a 401(k) balance of a little over $1 million. Unfortunately, it was all invested in Enron. When the company went down, that employee essentially lost his whole retirement plan.

As a result of risk associated with narrow investments, Retirement plans generally require participants to invest using mutual funds or similar vehicles, thus spreading their investment risk across hundreds of companies. The Adventist Retirement Plan follows that plan and encourages employees to spread investments broadly.

**Dollar Cost Averaging**

Unfortunately, market downturns can result in discouragement, and some employees have chosen to cease making contributions to their retirement plan. A phenomenon known as ‘Dollar Cost Averaging’ provides an incentive to continue to contribute the same amount, whether markets are Bulls or Bears, rising or falling. If markets are up, the cost per share is higher, and thus you buy fewer shares of the mutual funds. If markets are down, your contribution buys more shares. The result is the average cost per share is pushed down over time.

**Asset Allocation**

Various investment strategies include:
- Market timing
- Investment selection
- Asset Allocation
- Other

Studies have repeatedly confirmed that an Asset Allocation model which makes sense for the age and risk tolerance of the participant is better by far than market timing or investment selection. The reality is that few can consistently predict the direction investments will go. An
Asset allocation model is an investment strategy which distributes assets across various classes of equities and fixed income options. Asset allocations will drift as markets operate unevenly over time and will require rebalancing. As a person ages, most advisors suggest a more conservative allocation.

A young employee would be more into equities, while the older employee would have more of his/her money in bonds and fixed income, specifically reducing exposure to international and small companies.

This graph is an illustration, and not a recommendation of a specific model. Employees may wish to get help in setting up an asset allocation model or use the default models available in the Adventist Retirement Plan Empower Retirement website.

**Investment Risk Model**
The investments offered by ARP include 20 plus funds. Several are quite aggressive, and several are very conservative. The pyramid shows the risk curve of investments. Most investment advisors will recognize that the low-risk options at the bottom of the pyramid will certainly reduce the ups and downs of the market, but over the long haul will probably not meet the return needs of participants. History says that the most aggressive investments reward the investor over the long term, but the roller-coaster ride will be intense. Thus, advisors will usually encourage participants to spread across the range of investments with funds in each of the categories. Younger employees will generally be able to move the ‘center of gravity’ of their investments up, while those approaching retirement will generally want to move the center of gravity lower. Older employees don’t have as much time to ride out a market downturn.

**Staying Invested**
An incentive to stay in the market through ups and downs is often referred to as the “Best Ten Days” concept. It is surprising how concentrated good growth trading days are. Nobody has figured out a way to successfully predict when...
the best trading days will come along. Sometimes they come within a few days of a bad trading day.

If $10,000 were invested in the S&P 500 Total Return Index on January 3, 1995, and left to grow until December 31, 2014, a period of 20 years or approximately 4,900 trading days, the investment would have grown from $10,000 to $65,000.

However, if a cautious investor had tried to time the market, and missed just the 10 best days, the asset at the end of 20 years is only $32,000. If he missed only the 40 best days, less than one percent of the total days, he’d have experienced a loss, with only $9,000. Investors continue to find indicators to help them predict the best and worst trading days. They’ll get rich.

Investing for Good
The Adventist Church has published values regarding products which are seen as harmful. Of the 20 plus funds, the ones with the “SDA” prefix use screens to avoid investments in companies manufacturing or distributing objectionable products. Other investments, though listed in the Adventist Retirement Plan, do not use these screens. The choice whether to screen or not is up to the participant. The specific screens used include:

- Gambling
- Pornography
- Meat Packing
- Alcohol
- Tobacco
- Caffeine
- Armaments

Default Investment Models
Close to 70 percent of ARP participants are “default employees,” meaning that they have not informed either VALIC or Empower Retirement of an investment strategy. The ARP Board has established a default investment strategy which is age appropriate, uses the SDA Social Screens and makes use of Target Dated strategies. This essentially means that the investments move incrementally quarter by quarter as a participant ages, so that when he or she reaches normal retirement age, the investments strategy is appropriate for a retiree.

ARP Participant Investment Methods
Plan participants invest in three uneven groups. The largest group by far is the Default group. These employees have not selected an investment strategy and thus have dropped into the default investment model. Our review of investment success of this group shows that they generally do quite well.
Fees are low, and passive investing—not trying to time the market—generally has provided satisfying results.

The do-it-yourself group seeks to model their own asset allocation from among the funds offered within the Plan, using online tools from Empower including modeling, advisors and Managed Funds.

The third group of investors consider themselves to be the most knowledgeable. They ignore the vetted mutual funds offered by the Plan and enter the available Schwab brokerage window. This opens hundreds of available investment options to be researched and selected by the investor.

**Protect Your Blessings**
This last piece of the Prudent Plan is somewhat defensive in nature. In this sinful world, bad stuff happens. No amount of defensive planning can protect you from every potential catastrophe. But some prudent steps can help.

**Keep the Covenant**
Scripture is clear. God will reward those who keep the covenant relationship with Him, including being faithful with the tithe. Don’t misunderstand. The tithe is an honest result of the covenant relationship, not an umbrella to keep away the locusts of life. But the promise is true. Be grateful to God for your daily blessings, and for family and friends.

**Care for your Health**
Little is more valuable than your health. Eat well, maintain a healthy weight, get moving, protect your skin, floss, get regular checkups, avoid high-risk activities.

**Protect Your Family**
Estate planning documents should all be in place early in life, not just at retirement. Wills, Advance Directives, and Powers of Attorney will lessen the burden on family if the unthinkable happens. What would happen to the family should the primary wage earner pass away? Would a grieving widow be forced to move from the home? Adequate life insurance is important. Do you need disability insurance? Both the church and Social Security make some provision.
Protect your Assets
Carry reliable homeowners and automobile insurance. You may wish to consider liability insurance. You may be able to add a million-dollar liability rider to your homeowners insurance for a modest annual fee to protect you from lawsuits if your dog bites a postal employee or a child trips on your broken sidewalk.

Interim Financial Wellness Targets
Many young employees disregard long-term planning because of the word “Retirement.” So, let’s look at interim steps. Each level could be argued over until the sun goes down but looking at interim steps may help the long-term plan prove less overwhelming. These targets assume the career is under the post-1999 Defined Contribution Plan. With a little math, employees with pre-2000 employment can convert those years to a multiple of wages as used in the targets. In the Learning Exercises for this lesson, find the “Where Am I?” link to determine where you are, particularly if you straddle the 1999 freeze of the Defined Benefit Retirement Plan.

We will look at the career in 10-year bands and suggest targets for homeowner’s equity, savings, debt management, estate planning and family protection.

Age 25
- Voluntary contributions to earn the match
- Educational debt on a five to ten-year plan towards elimination
- A Will and an Advance Directive in place
- Begin saving towards a modest emergency fund
- Saving towards a down payment on a home. Dave Ramsey suggests not buying until the employee can put 20-percent down
- Consider appropriate Life Insurance, particularly if starting a family and/or there is debt

Age 35
- Total Retirement asset at least 1.3 times annual wages
- A Will and Advance Directive in place and current
- A three-month Emergency Fund in place, and saving towards six months
- Home purchased, or saving towards 20-percent down payment
- Appropriate Life Insurance in place

Age 45
- Total retirement asset at least 3.0 times annual wages
- A Will and Advance Directive in place and current
- A six-month emergency fund in place
- Home ownership at 35 percent of value of home
- Appropriate Life Insurance in place
Age 55
- Total retirement asset at least 5.0 times annual wages
- A Will and Advance Directive in place and current
- A six-month emergency fund in place
- Home ownership at 60 percent of value of home
- Appropriate Life Insurance in place
- Consider a Retirement Income distribution model such as Secure Foundation
- Retirement Budget modeled
- Retirement Locations considered

Age 65
- Total Retirement asset at least 8.0 times annual wages
- A Will and Advance Directive in place and current
- A six-month emergency fund in place
- Home ownership at 100 percent of value of home
- Appropriate Life Insurance in place
- Medicare Part A applied for even if still employed
- Medicare Part B applied for effective at termination
- Retirement Budget firmed up
- Retirement Location and date firmly established

At Retirement
At least six months prior to the Retirement Effective date, a Retirement Application should be filed with the employer’s human resources office. This will start the process of getting a pension under way if applicable, as well as Retirement Healthcare Assistance.

About three months prior to the Retirement Effective Date, Medicare part B should be applied for to be effective at retirement.

The Estate Plan should be updated, particularly if a retirement home is in another state. Retirees suggest to us that it is prudent to purchase a debt-free low-mileage retirement vehicle. Consider whether more than one car is really needed. Some retirees also point out the value of furnishing a retirement home with new major appliances under warranty.

If life insurance is needed during early retirement years because of debt or a special needs dependent, now is the time to arrange for this. Existing supplemental insurance carried through the employer can at this time be converted to a personal plan at a modest cost if determined to be necessary. Adventist Risk Management provides the necessary application form.
Learning Exercises

Helpful Links
Dave Ramsey is a well-known entrepreneur and radio show host who provides financial wellness advice based on Christian principles. To learn about his ‘Snowball Plan’ for debt elimination, try this link:

For a surprising Dave Ramsey idea on debt elimination, try this link:
https://www.moneyunder30.com/should-you-delay-retirement-contributions-to-pay-off-debt

To work on an estimate of where you are on the Asset Target Curve, try this link and scroll to the “Where Am I?” link:
https://www.adventistretirement.org/employee/defined-contribution-plan/

To convert an existing Supplemental Life Insurance to a personal Retiree Life Insurance, try this link provided to us by Adventist Risk Management:
https://tinyurl.com/ARMLifeInsConvertForm

To learn more about the Secure Foundation option for retirement income, try this link:
http://greatwestfunds.com/secure-foundation-lifetime-funds.html

Learning Evaluation (Answers follow)

1. Studies indicate that, over the long haul, the following strategy is most effective in growing the retirement plan assets:
   ___ Market timing
   ___ Finding the best stock-picker
   ___ A good asset allocation
   ___ Finding the best stocks

2. The ‘Best Ten Days’ concept suggest:
   ___ Seek to predict a few days when the market will grow the most and get invested fully.
   ___ When a good day happens, get invested because the next nine days will usually follow suit.
   ___ Good market days happen unpredictably. Stay invested so you won’t miss them.
   ___ Ten good days will be followed by 10 evil days.

3. In the context of the Adventist Retirement Plan, “leakage” generally describes:
   ___ Assets lost due to unpaid loans, excessive fees, pre-retirement withdrawals and delayed or failed contributions.
   ___ Theft of personal assets by predatory brokers.
   ___ Assets lost due to failure to vest.
   ___ Assets sent to a Nigerian prince.
4. The Cost of Delay means that:
   ___Because of compounding returns, early contributions are more valuable than contributions just prior to retirement.
   ___Getting to your new job late might get you fired.
   ___Defaulting on selecting an investment plan will cost you in lower returns.
   ___Not responding in a timely way to market changes will cost you.