

Abundance or Scarcity: It's Up to You!

Thanksgiving is a day of gratitude for our many blessings and a time to appreciate our abundance. Do you live from a sense of *financial abundance* during the other 364 days of the year or do you often live in fear, from a belief in scarcity?

Abundance

An extremely plentiful or over sufficient quantity or supply.

Our wealth far exceeds the basic human requirements of food, shelter and clothing. In spite of this, I meet many people who do not feel that they live in financial abundance. Why do some people live from a sense of financial abundance while others, often with more financial resources, live in fear of *financial scarcity*?

Scarcity

An insufficiency of amount or supply.

As a Certified Financial Planner (CFP®), I strive to help my clients move from a fear of financial scarcity to a sense of financial abundance. This transformation requires a commitment to actively manage, protect and control one's financial activities. From my practice, I have developed the "Seven Steps to Financial Abundance." While following these steps will not guarantee financial abundance, as a minimum, they should help reduce fear of financial scarcity.

Seven Steps to Financial Abundance

1. Spend Less Than You Earn
2. Maximize Your Financial Resources
3. Minimize Your Taxes
4. Manage Your Investments
5. Protect your Financial Resources
6. Control Your Personal Finances
7. Have Faith in Continued Abundance

Wealth is NOT Financial Abundance

To appreciate this, we need only to look at the biblical story of the Exodus. Pharaoh, one of the richest individuals in the world, lived with a sense of scarcity. He used Joseph to secure all of his country's food and land so that he would be prepared for the coming famine. He spent his life in fear and scarcity.

1. Spend Less Than You Earn

The first step on the path to financial abundance is to create *excess earnings*. If you contribute to a retirement plan, your contributions are included in excess earnings.

Excess Earnings

The amount remaining when yearly expenses are subtracted from yearly income

A reasonable goal is excess earnings of at least 15% of after tax income. To meet this goal, consider the “pay-yourself-first” approach. On payday, make your first payment to the excess earnings fund. This fund can be used to buy your first house, pay for your children’s education or your help fund retirement.

If you have not already done so, use excess earnings to build an *emergency fund*. With an emergency fund, you will be able to survive a job layoff or short term disability, without prematurely using funds from you retirement account.

Emergency Fund

An account, with highly liquid assets, that can provide 6 to 12 months of income when a short term emergency occurs.

2. Maximize Your Financial Resources

The next step toward financial abundance is to maximize your savings income. If you have a company sponsored retirement plan, as a minimum, contribute the maximum amount that your company will “match.” When your company matches 50% of your contribution, the company’s contribution is “free money,” guaranteeing an immediate 50% investment return on your retirement savings.

If you are saving for your children’s education, use a Coverdell Education Savings Account and/or Section 529 College Savings Plans. Your educational savings will grow and no taxes will be paid on the growth and income from these plans.

If you are responsible for your health insurance, a high deductible health insurance plan (HDHP) plus funding your Health Savings Account (HSA), to the maximum amount allowed, will virtually guarantee a lower (after tax) cost for your health care.

These are only a few of the many strategies that can be used to maximize the income and growth of your financial resources.

3. Minimize Your Taxes

Using every legal method for reducing taxes is the next step toward financial abundance. If you are married and your spouse has no earned income, you may be able to fund a “spousal IRA.” With a spousal IRA, you may deduct an additional \$4,000 (\$5,000 if your spouse is over age 50) from your income taxes.

If you have children in college, be sure to claim the Hope or Lifetime Learning Credits. These tax credits can reduce your tax bill by up to \$2,000 annually to offset high educational costs.

Tax Credits

Items that reduce income taxes owed on a dollar-for-dollars basis.

Use appreciated long term stock for your charitable giving. You pay no taxes on the stock's appreciation and receive a charitable deduction of the stock's full value. Establishing a Donor Advised Charitable Giving Fund makes this easy to do.

Every dollar saved by reducing your taxes helps build your financial abundance.

4. Manage Your Investments

Properly managing investments is a critical step toward financial abundance. If you manage your own investments, implement an asset allocation that allows you to sleep well at night. Low cost, indexed mutual funds will provide superior long term results for most investors.

If you use an investment advisor, investigate potential conflicts between how the advisor is compensated and your best interests. These conflicts are more likely to occur when advisors are compensated by commissions on products that they sell.

5. Protect Your Financial Resources

Fear of the unknown can produce a sense of scarcity. Proper insurance to protect your financial resources is important in keeping this fear at bay. The requirement for health, life and property insurance is often well understood.

Unfortunately, disability insurance is sometimes overlooked. Peter Ubel, professor of psychology states, "If people are smart, they will invest wisely in [disability] insurance." A serious, long-term disability can destroy even the best financial plan.

Protecting yourself from catastrophic financial risks is a necessary step in obtaining financial abundance.

6. Control Your Personal Finances

The stock market, tax codes, the economy or negative world events are outside of your control. Things we cannot control increase the fear of scarcity. However, we can control our spending habits, our prioritization of saving for our family's future and our decision to plan for our financial well-being.

With this control, we have significant power over personal finances. Once this power is recognized, fear of scarcity is diminished and a feeling of financial security begins to permeate our lives, leading us toward financial abundance.

7. Have Faith in Continued Abundance

Overcoming the fear of scarcity requires faith in continued abundance.

Faith

A belief that is not based on proof.

By implementing the first six steps, you have done everything in your power to control your financial abundance. However, without faith that your abundance will continue, doubts and fears of the unknown and uncontrollable future can become overwhelming.

Fear

A distressing emotion aroused by impending danger, whether the threat is real or imagined.

Living in financial abundance requires controlling consumer-driven consumption, maximizing and protecting financial resources and faith that abundance will continue.

If you do not feel that you can take these steps by yourself, find a knowledgeable and trustworthy financial guide to help you with this journey.

Once you escape the fear of scarcity, you may find true serenity. When living in financial abundance, you may even decide to share more of your abundance with your favorite charitable organizations.