

Risk Management & Budgeting
 (appropriate for High-Schoolers and older)
 Michael R. Daily June 2018

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Proverbs 21:5

The plans of the diligent *lead* surely to advantage, But everyone who is hasty *comes* surely to poverty.

Proverbs 16:9

The mind of man plans his way, But the LORD directs his steps.

God wants us to plan for the future. Those who plan appropriately will have an advantage over those who do not. How we manage the resources God gives us is an important area where planning is very important.

Ecclesiastes 11:2

Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth.

Living on Earth is risky. Bad things happen in life. What does God tell us we need to do because of that? God tells us that the best way to manage risk is to divide up our resources into 7 or 8 areas.

What follows is one way to do that. Its not the only way, but it's one way to implement Ecclesiastes 11:2 as good stewards of the resources God has given us.

We can use the matrix shown to help us think through risks in life and determine how to use our resources to mitigate risks appropriately.

Mitigate: *to cause to become less harsh or hostile, to make less severe or painful*

As we think through a risk, we estimate the likelihood that the bad thing will happen. Is the likelihood Low, Medium, or High? Then we think through what negative consequences would result if the bad thing happens. Are the negative consequences Low, Medium, or High? We can then combine the two things together (i.e. Likelihood & Consequence) to determine the overall level of risk associated with the bad thing happening.

Severity of Consequence	High (3)	Medium Risk 3	High Risk 6	Extreme Risk 9
	Med. (2)	Low Risk 2	Medium Risk 4	High Risk 6
	Low (1)	Low Risk 1	Low Risk 2	Medium Risk 3
		Low (1)	Med. (2)	High (3)

Likelihood of Occurrence

If you prefer, you can make this Risk Matrix numerical by associating the number "1" with Low, "2" with Medium, and "3" with High. You can then calculate risk by multiplying the Likelihood number with the Consequence number. This makes it easy to compare and prioritize risks, but numbers are not necessary.

Let's work through a few examples:

Extreme Risk Example:

Likelihood of death for a non-christian, sometime during their life = High (100%)
 Negative consequence of death without Christ = High (eternity in the Lake of Fire!)
 Risk = Extremely High (mitigation urgent: Put faith in Christ - consequence and therefore risk change to zero!)

High Risk Example:

Likelihood of death for a family's wage earner, sometime during their life = High
 Negative consequence of death for the wage earner's family = High
 Risk = High (mitigation needed: arrange now for family to not fall into poverty if the wage earner dies)

Medium Risk Example:

Likelihood of my house burning down = Low

Negative consequence for my family of my house burning down = High

Risk = Medium Risk (moderate mitigation needed: homeowner's insurance)

Note that, in general, for High risks I am willing to put more effort and resources into mitigating the risk than if the risk is Medium.

Low Risk Example:

Likelihood of Halloween pumpkin being stolen from my front porch = Low

Negative consequence of pumpkin being stolen = Low

Risk = Low (no investment needed, just live with the risk)

Note that for risks that are Low we will probably not put resources into mitigating those risks further. There are a very large number of risks in life that are low. If we try to reduce these risks to zero, we will waste resources unnecessarily. Instead, as prudent stewards, we will trust God in these low risk areas without taking action.

So, our risk matrix ends up looking more like this picture. We have the normal expenses of daily life, plus 6 types of risk mitigation we will put resources into. That's consistent with God's instructions in Ecclesiastes 11:2.

Let's look at one more example:

Let's say you get paid from your job once a month at the beginning of the month.

Unfortunately, you consistently run out of money before the end of the month and you and your family have to go without, hide from bill collectors, or beg or borrow from others to meet the family's needs. The non-Christians see you doing that month after month. Is that a good testimony? No.

High (3)	Medium Risk 3	High Risk 6	Extreme Risk 9
Med. (2)	High Risk 4	High Risk 6	High Risk 6
Low (1)	High Risk 4	High Risk 4	Medium Risk 3
	Low (1)	Med. (2)	High (3)

Luke 14:28-29

For which one of you, when he wants to build a tower, does not first sit down and calculate the cost to see if he has enough to complete it? ²⁹ Otherwise, when he has laid a foundation and is not able to finish, all who observe it begin to ridicule him

1 Timothy 5:8

But if anyone does not provide for his own, and especially for those of his household, he has denied the faith and is worse than an unbeliever.

Although it was not our intention, this behavior looks to others like we are not providing for our family, which is not a good testimony.

Let's run this example through our risk matrix.

Family Budget Example

Likelihood of running out of money before my next paycheck = High

Negative consequence to my Christian testimony of running out of money before next paycheck = Medium (?)

Risk = High or possibly Medium depending on how you scored consequence (corrective action needed)

We need to take action to use the income and resources God has provided for us, to consistently meet family needs and enable us to have a good testimony among the non-Christians we live around.

Proverbs 6:6-7

Go to the ant, O sluggard, Observe her ways and be wise, ⁷ Which, having no chief, Officer or ruler, ⁸ Prepares her food in the summer *And* gathers her provision in the harvest.

Ants “know” that every year there are parts of the year when food is scarce and these periods of time are repeatable and predictable. So, during parts of the year when they have plenty of food, they don’t eat all of it. They save just enough to meet their need for food during periods of the year when food will be scarce. God tells us that we can learn from the ant and do something similar.

We can estimate our expenses and set aside money when we get paid so that we have it when we need it.

- 1) Make a list of what your weekly expenses are. These are expenses that occur every week and are relatively repeatable and predictable. For example, how much money you spend on food.
- 2) Once you have that list, make a list of monthly expenses that were not included in your weekly list. For example, if your electric bill comes once a month, include that on this list. Make sure to include your giving to God and your church if it wasn’t on the weekly list.

I Corinthians 16:1-2

Now concerning the collection for the saints, as I directed the churches of Galatia, so do you also.

² On the first day of every week each one of you is to put aside and save, as he may prosper, so that no collections be made when I come.

- 3) Take out another sheet of paper and write the names of each month on the paper, separated by 3 or 4 lines. Think through each month and write down special expenses for that month that were not included in your weekly/monthly list. Perhaps you have additional expenses every November and December because you buy Christmas presents or have a Christmas party each year. Perhaps the best time to buy school supplies for the children is in July, so add those expenses to the July list. Write these down along with the amount of money you plan to spend on these things.
- 4) Think through expenses that occur only a few times a year. For example, you may change the oil in your car only once every 3 or 4 months. Write these down along with the expense amounts.
- 5) Then think through expenses that occur only once every few years. For example, replacing the car brakes or making repairs to the house. Write these down.
- 6) Then think through large expenses that occur predictably but rarely such as replacing a worn out car.

If you are married, make these lists together as a couple since you are more likely to identify all the actual expenses as well as getting more accurate estimates of what they really are. If you miss something during the original list making, that’s OK. When you become aware of it later, you can add it to the list.

Proverbs 20:18

Prepare plans by consultation, And make war by wise guidance.

The Combined Monthly List (budget)

Once you have all the expenses on your various lists you will combine them into one monthly list.

Take the weekly list and multiply the expense numbers by 4.3 (the average number of weeks in a month = 52 divided by 12). Add the items from the monthly list to this list with no changes.

For items 3 through 6 above think of these as savings funds.

Proverbs 21:20

There is precious treasure and oil in the dwelling of the wise, But a foolish man swallows it up.

God wants us to save some of our resources (i.e. money) and not swallow it all up as we get it. So, for each of these expenses, calculate what the equivalent annual cost would be if you were saving for each of these. For example, if one of your special monthly expenses was Christmas presents, then take the total cost estimated for those presents and divide by 12. This is the amount of money that needs to be set aside every month so that the money will be available in December. Do this with all the expenses listed in items 3 through 6.

Another example is replacing the car. Let's say you know that, on average, you need to replace the car every 10 years and you estimate that you will need \$5,000 to buy the replacement car. Divide \$5,000 by 120 (10 years x 12 months in a year) to calculate how much money needs to be set aside each month to save for the replacement car. In this example, you would need to set aside \$42 every month.

For expenses that occur less frequently than every month, you will want to open one or more savings accounts at the bank to keep these saved funds in. However, you will still need a ledger to keep track of how many dollars in the saving account are, for example, Christmas presents, car replacement, school supplies, etc.

Reconciling Your Budget & Income

Now that you have your monthly budget list with estimated expense numbers on it, you can add up the numbers and compare it to your monthly income. The first time this is done most people have a monthly expense total that is higher than their monthly income! This is pretty typical. Now comes the hard part. We have to go back through our list of expenses and determine what realistic things we can do to reduce each expense. In some cases, perhaps nothing can be done (for example, taxes) or the entire expense may be eliminated (you might not really need that magazine subscription after all). In other cases, there may be things you can do to reduce the expense (for example, clothing). Keep working on this until the total expenses for the month match up with the expected monthly income. You now have your monthly budget.

Managing the Budget

For monthly expenses, you can keep track of what you spend in a ledger sheet. This way you can tell how much money you have spent in each category as the month progresses. Another option is to put the cash for each category in separately marked envelopes. Take the money out of the envelopes when you need it for that type of expense. You can tell by looking in the envelopes during the month to see how much money you have spent and how much you have left. For the expenses that occur less often than every month, you will need to keep track of the savings on a ledger sheet, as stated previously. When the money gets spent, this is also recorded on the ledger in the appropriate category.

Final Thoughts

Some people will argue that we don't need to plan because God promises to meet our needs and take care of us. This is true but God starts meeting our ordinary needs by giving us our ordinary income which he expects us to manage as good stewards. Once we have done that, if extraordinary needs come up (and they do) then God will help us using extraordinary means.

Philippians 4:19

And my God will supply all your needs according to His riches in glory in Christ Jesus.

But if we expect God to meet our ordinary needs with extraordinary actions because we were unwilling to work or we mismanaged our normal income, then instead of trusting God, what we are really doing is testing Him!

Psalms 78:17-20

Yet they still continued to sin against Him, To rebel against the Most High in the desert. ¹⁸ And in their heart they put God to the test By asking food according to their desire. ¹⁹ Then they spoke against God; They said, "Can God prepare a table in the wilderness? ²⁰ "Behold, He struck the rock so that waters gushed out, And streams were overflowing; Can He give bread also? Will He provide meat for His people?"

Matthew 4:7

Jesus said to him, "On the other hand, it is written, 'YOU SHALL NOT PUT THE LORD YOUR GOD TO THE TEST.'"

Family Budgeting Handout

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Proverbs 6:6-7 - Go to the ant, O sluggard, Observe her ways and be wise, ⁷ Which, having no chief, Officer or ruler, ⁸ Prepares her food in the summer *And* gathers her provision in the harvest.

Ants "know" that every year there are parts of the year when food is scarce and these periods of time are repeatable and predictable. So, during parts of the year when they have plenty of food, they don't eat all of it. They save just enough to meet their need for food during periods of the year when food will be scarce.

We can estimate our expenses and set aside money when we get paid so that we have it when we need it.

- 1) Make a list of what your weekly expenses are. These are expenses that occur every week and are relatively repeatable and predictable. For example, how much money you spend on food.
- 2) Then make a list of monthly expenses that were not included in your weekly list. For example, if your electric bill comes once a month, include that on this list. Make sure to include your giving to God/church.
- 3) Think through each of the 12 months and write down special expenses for each month that were not included in your weekly/monthly list. Examples include Christmas presents and annual school supplies.
- 4) Think through expenses that occur only a few times a year. For example, you may change the oil in your car only once every 3 or 4 months. Write these down along with the expense amounts.
- 5) Then think through expenses that occur only once every few years. For example, replacing the car brakes or making repairs to the house. Write these down.
- 6) Then think through large expenses that occur predictably but rarely, such as replacing a worn out car.

If you miss something during the original list making that's OK. When you come across it later you can add it to the list.

Once you have all the expenses on your various lists you will combine them into one monthly list. Take the weekly list and multiply the expense numbers by 4.3 (the average number of weeks in a month = 52 divided by 12).

For items 3 through 6 above think of these as savings funds. For each of these expenses calculate what the equivalent annual cost would be if you were saving for each of these. For example, if one of your special monthly expenses was Christmas presents in December, then take the total cost estimated for those presents and divide by 12. This is the amount of money that needs to be set aside every month so that the money will be available in December. Do this with all the expenses listed in items 3 through 6. Another example is replacing the car. Let's say you know that you need to replace the car every 10 years and you estimate that it will cost \$5,000 to buy the replacement car. Divide \$5,000 by 120 (10 years x 12 months in a year) to calculate how much money needs to be set aside each month to save for the replacement car. In this example, you would need to set aside \$42 every month.

For expenses that occur less frequently than every month, open one or more savings accounts at the bank to keep these saved funds in. You will need a ledger to keep track of how many dollars in the saving account are, for example, Christmas presents, car replacement, school supplies, and so on.

Reconcile your budget with your income by going back through your list of expenses and determine what things can be done to reduce each expense. In some cases, perhaps nothing can be done (for example, taxes) or the entire expense may be eliminated. In other cases there may be things you can do to reduce the expense. Keep working on this until the total expenses for the month equal your expected monthly income. You now have your monthly budget.

For monthly expenses you can keep track of what you spend in a ledger sheet. This way you can tell how much money you have spent in each category as the month progresses. Another option is to put the cash for each category in separately marked envelopes. Take the money out of the envelopes when you need it for that type of expense. You can tell by looking in the envelopes during the month to see how much money you have spent and how much you have left. For the expenses that occur less often than every month, you will need to keep track of the savings on a ledger sheet. When the money gets spent, this is also recorded on the ledger in the appropriate category.

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Severity of Consequence

Likelihood of Occurrence

Severity of Consequence



Low (1)

Med. (2)

High (3)

Likelihood of Occurrence

QUIET TIMES ALONE WITH GOD
JEREMIAH 15:16
THEME: Risk Management & Budgeting

PASSAGE FOR MEDITATION: *Proverbs 21:5, Proverbs 16:9*

How does this passage relate to the theme?

When I reflect on this passage, does it primarily convict, encourage or challenge me? Explain why:

How will I apply this passage to my life in the coming week and is there anything I can do today to make this passage a part of my Christian life?

PASSAGE FOR MEDITATION: *Ecclesiastes 11:2*

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PASSAGE FOR MEDITATION: *Luke 14:28-29, I Timothy 5:8*

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JEREMIAH 15:16
THEME: Risk Management & Budgeting

PASSAGE FOR MEDITATION: Proverbs 6:6-7

How does this passage relate to the theme?

When I reflect on this passage, does it primarily convict, encourage or challenge me? Explain why:

How will I apply this passage to my life in the coming week and is there anything I can do today to make this passage a part of my Christian life?

PASSAGE FOR MEDITATION: I Corinthians 16:1-2

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PASSAGE FOR MEDITATION: Proverbs 20:18, Proverbs 21:20

How does this passage relate to the theme?

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PASSAGE FOR MEDITATION: *Philippians 4:19*

How does this passage relate to the theme?

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PASSAGE FOR MEDITATION: *Psalms 78:17-20*

How does this passage relate to the theme?

When I reflect on this passage, does it primarily convict, encourage or challenge me? Explain why:

How will I apply this passage to my life in the coming week and is there anything I can do today to make this passage a part of my Christian life?

PASSAGE FOR MEDITATION: *Matthew 4:7*

How does this passage relate to the theme?

When I reflect on this passage, does it primarily convict, encourage or challenge me? Explain why:

How will I apply this passage to my life in the coming week and is there anything I can do today to make this passage a part of my Christian life?