

Dave Ramsey's Baby Steps to Financial Freedom

From his Financial Peace University

Baby Step 1:

\$1,000.00 in the Bank

*If your income is under \$20,000.00, make this \$500.00

Baby Step 2:

Debt Snowball: Pay off all your debt except your house starting with the smallest debt first.

Baby Step 3:

3 to 6 months of expenses in savings.

Baby Step 4:

Invest 15% of your household income into Roth IRAs and pre-tax retirement plans.

Baby Step 5:

Save for your children's college using tax-favored plans.

Baby Step 6:

Pay off your home early.

Baby Step 7:

Build wealth and give! (this is any giving above and beyond the tithe, 10%). Invest in mutual funds and real

estate. “Surplus wealth is a sacred trust to be managed for the good of others.” Andrew Carnegie

Saving and Investment Basics – Some Additional Thoughts

*Saving --- "to put aside as a reserve. Key Principle - if possible, start saving when you are young!

I. The Basics of Sound Financial Management

- A. Determine where you are financially by keeping track of all income and expenditures for 60 days. You are hoping to find the leaks in your financial boat and some “disposable” income☺
- B. Keep good records (update your *balance sheet* and *income statement*)
- C. Balance your check book; use credit cards sparingly if at all
- D. Develop a budget; have the integrity to stick to your budget
- E. If married, pay your bills together twice per month; communicate w/o anger!

II. Nelson's “Separate” Account Method for Paying Yourself – Once you have eliminated all consumer debt and established an emergency account of 4 months of expenses, deposit a predetermined % from your earned income less business expenses, giving, and taxes into separate accounts like the following:

- A. Next Auto Account (make a car payment to yourself)
- B. Kid's Education Account (for your children’s post high school education)
- C. Long Term Savings or "Capital " Account (this becomes your " money making machine" to allow you to *rewire* in the future)
- D. Home Improvement Account (for the maintenance and enhancement of your home)
- E. Family Fun Account (for vacations, recreational equipment, etc.)
- F. Gift Account (for the expenses of holidays, birthdays, etc.)

** These accounts may vary according to your circumstances and may become multiple accounts under one category.

*** Give each other an allowance each month to spend in any way you choose.

**** Key Principle - all investments have an element of risk; the greater the potential reward, the greater the potential risk.

Prov 6:6-8 NIV

6 Go to the ant, you sluggard; consider its ways and be wise! 7 It has no commander, no overseer or ruler, 8 yet it stores its provisions in summer and gathers its food at harvest.