



Dave Ramsey's

Baby Steps to Financial Peace!

Budget Basics Challenge

Baby Step 1: \$1,000 Cash in a Beginner Emergency Fund

- Build this emergency fund as fast as you can. Sell stuff that has been stored away for years or get a second job. Just do what it takes to get some cash into this account.
- Open a separate savings account to put this cash in, so it is less accessible.
- Having cash in this account will help you stay out of debt when emergencies happen.

Baby Step 2: Use the Debt Snowball to Pay Off All your Debt Except Your House.

- Make a list of all your expenses, except the house.
- Focus on the smallest bill first.
- Once the first bill is paid off move onto the next smallest bill and use that money from the first bill to start paying toward the new bill.

Baby Step 3: A Fully Funded Emergency Fund of 3 to 6 Months of Expenses.

- Now that you are becoming more confident in managing your money, it is time to really start building your emergency fund to support you and your family.
- Calculate how much you will need to fully support your family if an emergency were to happen. Add up all expenses, utilities, groceries, etc. that you expend each month then calculate what it would cost to have a 3 to 6-month fund.
- The average fund saving is around 10-15 thousand. Start working on this to start feeling more secure.
- Once you have an adequate emergency fund, you will never have to worry about being in debt again.
- If you have discipline save the money in a separate checking/savings account or open a money market that is easily accessible for emergent use.

Baby Step 4: Invest 15% of Your Households Income into Retirement.

- You have developed a secure emergency fund and are no longer in debt. Time to start thinking about your retirement plan.
- There are a lot of options to consider for your retirement. Will you go with a 401K, Roth IRAs, or a traditional IRAs?
- Take 15 % of gross income and invest it into the retirement option you have chosen.
- It is best to spread the funds over 4 types of mutual funds; growth, aggressive growth, growth and income, and international.

Baby Step 5: Start Saving for College.

- Start saving for your children's college fund.
- Do your homework to figure out which college fund will be best for your family.
- Two great options are opening a 529 College Saving or a Coverdell ESAs (Education Saving Account).

Baby Step 6: Pay off Your Home Early.

- If your home is not on a 15-year fixed rate mortgage plan, you may want to refinance to change your plan. A 15-year rate will help you to pay off your home faster.
- Now that you have extra money, put it into paying off your home. You will save thousands of dollars when you pay extra each month.

Baby Step 7: Build Wealth and Give Generously.

- Your home is paid off and you are now debt free. Time to live and have more fun. With the extra money you may also want to leave an inheritance for future generations.