WEEK 4 – The MONEY Plan

It is time to talk about the actual plan. The best way to describe this proven approach is to think of it as "Baby Steps." Tens of thousands of people have followed this tried-and-true system to get out of debt and live for God's glory.

Why "baby steps"? If you try to do everything at once, you will fail. If you woke up this morning and realized you needed to lose 100 pounds, build your cardiovascular system, and tone your muscles, what would you do? If on the first day of your new plan you quit eating, run three miles, and lift all the weight you can lift with every muscle group, you will collapse. If you don't collapse the first day, wait forty-eight hours for the muscle groups to lock up and the cardio to go crazy, and you will be bingeing on food shortly thereafter.

We must **WALK** before we can run.

Proverbs 11:1 - A **false balance** is abomination to the LORD: but a just weight is his delight.

If you try to attack several areas at once, you will dilute your efforts and you don't finish anything you start for a long time. That makes you feel that you aren't accomplishing anything, which is very dangerous. If you feel that nothing is getting done, you will soon lose energy for the task of money management altogether. The power of focus is that it works. Things happen. You check stuff off your list. Life gives you an "attaboy" in the form of actual visible progress.

Each of these steps is part of a proven plan to financial fitness. They **BUILD** on one another; therefore, if done out of order, they do not work. Think of a 350-pound person beginning a marathon training with a quick ten-mile run. The results of not building up to that run could be total frustration at best and a heart attack at worst. So do the Baby Steps in order. Walk around the block and lose some weight before going on a ten-mile run.

Basic Tools

Today we will talk about the first Baby Step, but before we discuss saving $1,000 fast, we need to look at some basic tools needed to win and some ongoing things you should be doing as you go.

The dreaded "B" word enters the picture here. You must set up a **BUDGET**, a written budget, ***every*** month – period.

This plan is about a process that will enable you to win with your money, a process that others have completed successfully, and that virtually none of the thousands of winners did without a written budget.

You must tell your money what to do or it leaves. A written budget for the month is your money goal. P.T. Barnum said, "*Money is an excellent slave and a horrible master*."

Jesus said…

Luke 14:28 - For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it?

You would not build a house or a church without a blueprint, so why do you spend your lifetime income of over $2 million without a blueprint?

This is a practical study on the steps to take and how to take them.

Budget every month. Don't try to have the perfect budget for the perfect month because we never have those. Spend every dollar on paper before the month begins. Give every dollar of your income a name before the month begins, which is called zero-based budget. Income minus outgo equals zero every month.

Look at this month's income and this month's bills, savings, and debts, and match them up until you have given every income dollar an outgo name. If you have irregular income due to commissions, self-employment, or bonuses, you will have to work it out, but you still must do a written budget before each month begins.

Agree on it

If you are married, agree on the budget with your spouse. This one sentence requires a stand-alone book to describe how, but the bottom line is this: if you aren't working together, it is almost **IMPOSSIBLE** to win. Once the budget is agreed on and is in writing, pinky-swear and spit shake that you will never do anything with money that is not on that paper. The paper is the boss of the money, and you are the boss of what goes on the paper, but you have to stick to the budget, or it's just an elaborate theory.

If something comes up in the middle of the month that causes the budget to need changing by say $50 more, you must both be on the same page and you must lower what you are spending somewhere else by $50 so that your income minus your outgo still equals zero.

Focused Intensity!

Before we get to Baby Step One, you will have to do one other thing. You will have to be **CURRENT** with all your creditors. If you are behind on payments, the first goal will be to become current. If you are far behind, do necessities first, which are basic food, shelter, utilities, clothing and transportation. Only when you're current with the necessities can you catch up on credit cards and student loans. If you need more help with this level of financial crisis, call me.

Focused intensity is required to win.

In order to win, you are going to have to get mad. People who have succeeded in this plan have gotten sick and tired of being sick and tired! They said, "I've had it!" and went ballistic to change their lives.

There is no intellectual exercise where you can academically work your way into wealth; you have to get fired up. Play the music from *Rocky* or something to get you going!

After you are current, have a written, agreed-on plan, have the obstacle course behind you, and are focused and intense, you are ready to follow the right priorities…

BABY STEP #1 Save **$1,000 Cash** as a Starter Emergency Fund

It is going to **RAIN**. You need a rainy-day fund. You need an umbrella.

Money magazine says that **78** percent of us will have a major negative event in a given ten-year period of time. Major events include things like:

- The job is downsized, right sized, reorganized, or you just plain get fired.
- There's an unexpected pregnancy: "*Weren't going to have kids yet/another one*."
- The car blows up.
- The transmission goes out.
- A loved one dies or is critically ill.

Life happens, so be ready. This is not a surprise. You need an emergency fund!

Obviously, $1,000 isn't going to catch all these big things, but it will catch the little ones until the emergency fund is fully funded.

The emergency fund is not for buying things or for vacation; it is for emergencies only. No cheating. Do you know who Murphy is? You know, "*If it can go wrong, it will*." For many people, Murphy is like a member of the family! Interestingly enough, when you have a Total Money Makeover, Murphy leaves. Saving money for emergencies is Murphy ***repellent***! Being broke all the time seems to attract Murphy to set up residence.

Most of America uses credit cards to catch all of life's "*emergencies*." Some of these so-called emergencies are events like **CHRISTMAS**. Christmas is not an emergency; it doesn't sneak up on you. The car will need repairs and you will need clothes at some point. These are not emergencies; they are items that belong in your budget. If you don't budget for them, they will feel like emergencies. Americans use the credit cards to cover actual emergencies too. Things discussed earlier like job layoffs, are real emergencies and are the reason for an emergency fund.

Whether the emergency is real of just poor **PLANNING**, the cycle of dependence on credit cards has to be broken. A well-planned budget for anticipated things and an emergency fund for the truly unexpected can end dependence on credit cards.

The first step is $1,000 in cash – stop everything and focus!

If you don't have an emergency fund and you have to use debt after swearing it off, you lose momentum to keep going. It is like eating seven pounds of ice cream on Friday after losing two pounds that week. You feel sick, like a failure.

So start with a little fund to catch the little things before beginning to dump the debt. If a real emergency happens, you have to handle it with your emergency fund. No more **BORROWING**! You have to break the cycle.

Hide it

When you get the $1,000, hide it. You can't keep the money handy because it will get spent. Impulse buying will rob your emergency fund every time. Consider using a separate savings account at the bank for this money.

Keep it Liquid

Your emergency fund, limited to $1,000 in liquid, available cash, is all that is acceptable. That means it is not an IRA, a retirement account, an annuity, a **MUTUAL** fund, a CD or anything else that is not completely liquid and ready for use when needed.

What if you are at Baby Step Two and you use $300 from your emergency fund to fix the alternator on your car? If this happens, **STOP** Step Two and return to Step One until the full $1,000 is replenished. Once your beginner emergency fund is funded again, you can return to Step Two. Otherwise, you will gradually do away with this small buffer and be back to old habits of borrowing to cover real emergencies.

For some of you, this step is very simplistic. For some, this is an instantaneous step, and for others this is the first time they have ever had enough **CONTROL** over their money to save it. For some people, this is an easy step. For others, this is the step that will be the spiritual and emotional basis for the entire *Total Money Makeover*.

Psalms 37:3 - **Trust in the LORD**, and do good; so shalt thou dwell in the land, and verily thou shalt be fed.

Proverbs 3:5 - **Trust in the LORD** with all thine heart; and lean not unto thine own understanding.

Proverbs 29:25 - The fear of man bringeth a snare: but whoso putteth his trust in the LORD **shall be safe**.

Philippians 4:19 - But my God **shall supply all your need** according to his riches in glory by Christ Jesus.

James 4:14 - Whereas ye know not what shall be on **the morrow**. For what is your life? It is even a vapour, that appeareth for a little time, and then vanisheth away.

How about you? Now is the time to decide.

Is this theory, or is it **REAL**?

IDENTIFY THE ENEMY

As a reminder, the most powerful savings-building tool is your **INCOME**. The bottom line is that it is easy to save money if you do not have payments. If you didn't have a car payment, student loans, credit cards out your ears, medical debt, or even a mortgage, you could save money very quickly. Do the math sometime…

BABY STEP #2 Start the Debt **SNOWBALL**

The way you are going to pay off your debt is called the Debt Snowball. This process is simple to understand but will require a big effort on your part. It is not complicated, but it is difficult to **<u>DO</u>**. Personal finance is **80** percent behavior and **20** percent knowledge.

2 Kings 22:5 - And let them deliver it into the hand of the **doer**s of the work, that have the oversight of the house of the LORD: and let them give it to the **doer**s of the work which is in the house of the LORD, to repair the breaches of the house,

James 1:22 - But be ye **doer**s of the word, and not hearers only, deceiving your own selves.

The Debt Snowball is designed the way it is because you should be more concerned with modifying behavior than correct mathematics. (You will see what I mean shortly.) You may be tempted to start trying to make the math work based on interest rates. Understand, sometimes **MOTIVATION** is more important than math. This is one of those times.

The Debt Snowball method requires you to list all your debts in order of smallest payoff balance to largest. List all your debts except your home/rent. This includes loans from Mom and Dad or medical debts that have zero interest. It does not matter if some have zero interest or not. It does not matter if some have 24 percent interest and others have 4 percent. List the debts from smallest to largest! *(If we were so fabulous at* **MATH***, we wouldn't have debt, so try this method! ☺)*

Get the Snowball Rolling

Item	Total Payoff	Minimum Payment	Payments Remaining	New Payment	New Payments Remaining

Redo this sheet each time you pay off a debt, so you can see how close you are getting to freedom. Keep the old sheets to wallpaper your bathroom in your new debt-free house. The "New Payment" is found by adding all the payments on the debts listed above that item to the payment you are working on, so you have compounding payments that will get you out of debt very quickly. "Payments Remaining" is the number of payments remaining when you get down the snowball to that item. "New Payments Remaining" is the total payments needed, using the new snowball payment amount, to pay off that item.

An obvious step to working the Debt Snowball is to stop borrowing. Otherwise, you will just be changing the names of your creditors on your debt list. So you must draw the line in the sand and say, "I will **NEVER** borrow again!"

As soon as you make that statement, there will be a test. Your transmission will go out – you fill in the blank. It is almost as if God wants to see if you are really gazelle intense. A permanent change in your view of debt is your only chance. No matter what happens, you must pursue the opportunity or solve the challenge without debt. It must stop. If you think you can get out of debt without huge resolve to stop borrowing, you are wrong. You can't get out of a hole by digging out the bottom.

How to Get the Snowball Rolling

Sometimes your Debt Snowball won't roll. When some people do their budget, there is barely enough to make all the minimum payments and nothing extra to pay the smallest. There is no push to get the Snowball rolling. Ex – log jams and dynamite

Sometimes you must get radical to get the money flowing again. You could sell lots of little stuff at a garage sale, sell stuff on the internet, or sell a big precious item through the classified ads in the newspaper.

"Sell things that make your broke friends question your sanity!" - Dave Ramsey

One role of thumb is that if you can't be debt free on it in **18** to **20** months ***sell it! …*** even your car. *"I used to love my car too, but I found keeping that huge debt while trying to get out of debt was like trying to run a race wearing ankle weights." - Dave Ramsey*

Remember, if you have an emergency, stop, take care of it, build back your $1,000 and then resume the Debt Snowball.

When you reach this step, you have $1,000 cash and no debt except your home mortgage or rent. You have pushed with such focused intensity that the ball is now rolling, and you have momentum on your side. You are beginning to see the power of being in control of your largest wealth-building tool, your **INCOME**. Now that you don't have any payments except your house or apartment, Baby Step Three should come quickly.

BABY STEP #3 FINISH the Emergency Fund

A fully funded emergency fund covers **3** to **6** months of expenses. What would it take for you to live three to six months if you lost your income? This will usually range from $5,000 to $20,000 depending on your life situation, family, etc.

A strong foundation in your financial house includes the big savings account, which will be used just for emergencies. This is vital if you if your Total Money Makeover is going to be **PERMANENT**.

Psalms 11:3 - If the **foundation**s be destroyed, what can the righteous do?

Luke 6:48 - He is like a man which built an house, and digged deep, and laid the **foundation** on a rock: and when the flood arose, the stream beat vehemently upon that house, and could not shake it: for it was founded upon a rock. 49 But he that heareth, and doeth not, is like a man that without a **foundation** built an house upon the earth; against which the stream did beat vehemently, and immediately it fell; and the ruin of that house was great.

Luke 14:29 - Lest haply, after he hath laid the **foundation**, and is not able to finish it, all that behold it begin to mock him,

Key stats to consider…

- **49**% of Americans could cover less than one month's expenses if they lost their income.
- **HALF** of this culture has virtually no buffer between them and life.
- Here comes **MURPHY**!

Keys to Remember with your Emergency Fund

As you budget over the years and God helps you to completely change your money habits, you will use the emergency fund less and less. As you crawl out of the hole, positive outcomes begin to take effect, and you will have fewer things you can't control in your monthly budget. At first, ***everything*** will be an emergency.

If you don't own a home

Do not buy a **HOME** until you finish this step. A home is a blessing, but if you move into home ownership with debt and no emergency fund, Murphy will set up residence in the spare bedroom. Many young couples rush to buy something before they are ready.

Proverbs 24:27 - Prepare thy work without, and make it fit for thyself in the field; and afterwards build thine house.

1 John 2:15 - Love not the world, neither the things that are in the world. If any man love the world, the love of the Father is not in him. 16 For all that is in the world, the lust of the flesh, and the lust of the eyes, and the pride of life, is not of the Father, but is of the world. 17 And the world passeth away, and the lust thereof: but he that doeth the will of God abideth for ever. [1]

Once we have covered these basic steps and laid a foundation, we are doing what the Bible says and we in the center of God's will financially – can you say **AMEN**! God can now lead us **<u>WHEREVER</u>** He wants as we submit to Him and follow Him and serve Him.

BABY STEP #4 Maximize **RETIREMENT** Savings–Financially Healthy for Life!

You have attacked your debt; it is gone. With the extra money after eliminating your debt, you attacked your emergency fund; it is funded. You are now at a crucial time. *What do you do with the extra money that you poured into the emergency fund and debt payoffs?* This is not the time to give yourself a raise! It is time to begin with the end in mind. You are 2 quarters in to a 4-quarter game. It is time to invest.

When we talk about retirement, we are talking about security and resources that will enable you and your family to do whatever God leads you to do. It is about **<u>CHOICES</u>**.

USA Today reports that out of one hundred people age 65, **97** of them can't write a check for $600, **54** are still working, and **3** are financially secure.

Invest 15% of your income in Retirement

The rule is simple: invest 15% of before-tax gross income annually towards retirement. Why no more? You need some of your income left to do the next 2 steps, college saving and paying off your home early. Keep in mind, most companies have a 401(k) retirement plan that will allow you to do this and they will also **MATCH** your money by putting more money in for you for **FREE**.

Baby Step 4 is not "*Get rich quick*." The investing you do systematically and consistently over time will make your savings grow – and put you in a position of great **FLEXIBILITY** to fulfill God's plans for your life.

Proverbs 21:20 - There is treasure to be desired and oil in the dwelling of the wise; but a foolish man spendeth it up.

1 Tim 6:18-19 - That they do good, that they be rich in good works, ready to distribute, willing to communicate. 19 Laying up in store for themselves a good foundation against the time to come, that they may lay hold on eternal life.

Prov 11:24-25 - There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty. 25 The liberal soul shall be made fat: and he that watereth shall be watered also himself.

2 Cor 9:6-8 - But this I say, He which soweth sparingly shall reap also sparingly; and he which soweth bountifully shall reap also bountifully. 7 Every man according as he purposeth in his heart, so let him give; not grudgingly, or of necessity: for God loveth a cheerful giver. 8 And God is able to make all grace abound toward you; that ye, always having all sufficiency in all things, may abound to every good work.

BABY STEP #5 COLLEGE or Trade School Funding for your kids (maybe)

Money magazine and CBS Marketwatch both quote the statistic that **39** percent of Americans with kids don't save a dime toward college. **4** percent have saved less than $1,000 and **25** percent have saved between $1,000 and $10,000. That means that **68**% have saved nothing or close to nothing. Why?

If you don't have kids, simply skip this step.

BABY STEP #6 PAY OFF your Home Mortgage

Big Reason #1

Myth: **It is wise to keep my home mortgage to get the tax deduction.**

Truth: **Tax deductions are no bargain.**

If you have a home with a $900 payment, and the interest portion is $830 per month, you have paid around $10,000 in interest that year, which creates a tax deduction.

If you do not have a $10,000 tax deduction and you are in a 30% tax bracket, you will have to pay $3,000 in taxes on that $10,000. According to the myth, we should send $**10,000** in interest to the **BANK** so we don't have to send $**3,000** in taxes to the **IRS**.

Big Reason #2

Myth: **It is wise to borrow all I can on my home (or continually refinance to cash out) because of the great interest rates; then I can invest the money.**

Truth: **You really don't make anything when the smoke clears.**

Most of the time, people forget that they have to pay taxes on the money they invest, so the ability to save after taxes above and beyond the interest on the house is not really there.

If I own a home next to you and have no debt and you (because of your investment adviser guy) borrowed $100,000 on your home, who has taken more risk? When the economy moves south, when there is war or rumors of war, when you get sick or have a car wreck or are down sized, you will run into major problems with a $100,000 mortgage that I will never have. So debt causes risk to **INCREASE**.

Myth: **Take out a 30 year mortgage and promise yourself to pay it like a 15 year, so if something goes wrong you have wiggle room.**

Truth: **Something will go wrong.**

The FDIC says that **97.3**% of people don't systematically pay extra on their mortgage.

<u>At 7% interest rate:</u>

30 Year mortgage	$732 per month	$**263,520** total paid
15 Year mortgage	$988 per month	$**177,840** total paid
Difference	$256 per month	$**85,680**

Myth: **It is wise to use the lower rates offered by an ARM mortgage or balloon mortgage if you know you will "be moving in a few years anyway."**

Truth: **You will be moving when they foreclose.**

The myth sayers always seem to want to add risk to your home, the one place you should want to make sure has **STABILITY**.

Myth: **The home equity loan is good to have instead of an emergency fund.**

Truth: **Again, emergencies are precisely when you don't need DEBT.**

The home equity loan is one of the most aggressively marketed loans today. These loans are very dangerous. It may seem attractive to you now, but after you have walked through an emergency or two, you will realize very plainly that an emergency is the last time you need to be borrowing money.

Myth: **You can't pay CASH for a home!**

Truth: **It is easier than you might think.**

Ask any **80**-year-old if **5** years of sacrifice is worth it to change your financial destiny for the rest of your life! Ask any **80**-year-old, if **5** years of sacrifice is worth it to have the satisfaction of knowing you changed your family tree.

Paying cash for a home is possible, very possible. What's hard to find is people willing to pay the price in sacrificed **LIFESTYLE**.

BABY STEP #7 Your future is in your **HANDS** – will God be able to trust you?

What was the purpose of your having a Total Money Makeover? Why did you do it? Why all the sacrifice and work? To be in debt and out of control doesn't take nearly as much effort.

Savings are not an escape mechanism. It is instead a tremendous **RESPONSIBILITY**.

1 Tim 6:18-19 - That they do good, that they be rich in good works, ready to distribute, willing to communicate. 19 Laying up in store for themselves a good foundation against the time to come, that they may lay hold on eternal life.

2 Cor 9:6-8 - But this I say, He which soweth sparingly shall reap also sparingly; and he which soweth bountifully shall reap also bountifully. 7 Every man according as he purposeth in his heart, so let him give; not grudgingly, or of necessity: for God loveth a cheerful giver.

1 Sam 3:4 - That the LORD called Samuel: and he answered, Here am I.

Isaiah 6:8 - Also I heard the voice of the Lord, saying, Whom shall I send, and who will go for us? Then said I, Here am I; send me.