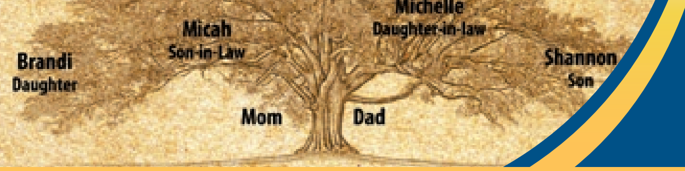
Dave Ramsey's Financial Peace® University

Coordinator Guide Supplement

This Coordinator Guide Supplement provides the answers to the weekly "Review of Last Week" questions in your printed Coordinator Guide. Use these answers to remind your class of the previous week's key points.

Note that the first lesson, *Super Saving*, has no "Review of Last Week" questions and is therefore not represented in this supplement.



Review of Last Week

Review questions from page 35 of the Member Workbook:

1. Name three reasons why you should save money.

We teach you to save for three basic reasons: for an emergency fund, for purchases and for wealth building.

The emergency fund is your first savings priority.

2. What is Baby Step 1? Why is it important to do this first?

Baby Step 1 is putting $1,000 in an emergency fund ($500 if you make less than $20,000 a year). Do it quickly and don't touch it! Put it where you can't get to it easily. It is not an investment; it is insurance, there to protect you.

It is important to do this because emergencies are going to happen. You can count on it! You must be prepared for unexpected events. They do occur! Being prepared makes you feel better and provides emotional relief. Plus, it is "Murphy repellent"! It prevents Murphy and his three cousins, Broke, Desperate and Stupid, from taking up residence in your home.

This first step is the easiest and hardest: easiest because of the relatively small amount and hardest because it is your initial commitment to change. Remember, the Seven Baby Steps are a proven priority. Do not to try to climb the mountain until you have firmly established a base camp.

3. What can you do to fund your emergency fund quickly?

- Save your pizza or cable money.
- Sell something—garage sale, consignment shop, eBay, run an ad, etc.
- Get an extra job—deliver pizzas, mow lawns, deliver papers, etc.
- Add overtime or take on additional responsibility at your job.
- Make saving the highest priority—pay yourself first!
- Pay only the Four Walls (food, clothing, shelter, transportation) until you complete Baby Step 1. Other debts can wait until after your emergency fund has been established.

4. Everyone hold up your completed Basic Quickie Budget form. We told you we'd check to see if you did it!

(No specific response necessary.)

Review of Last Week

Review questions from page 61 of the Member Workbook:

1. The flow of money represents your family's:

A. Income B. Value System C. Teamwork

This one is a multiple choice. The answer is "B": the flow of money in a family represents the value system within which that family operates. Where your money goes tells everyone what is important to you. Set your priorities with your money. Agreeing on your value system will bring a sense of unity to your relationship that you cannot get any other way.

2. Explain the concept of the Nerd and Free Spirit.

Opposites attract. In most couples, there is a nerd and a free spirit. The nerd is precise, organized, detailed and wants to be in charge. Every nerd can be a bit of a control freak, but they feel like they are caring, not controlling. The nerd probably wants to do the budget.

Free spirits often don't feel cared for; instead, they feel controlled, and they don't like it. They don't get a high from doing a spread sheet. They'd rather have a life. They do want to be part of the program, though.

The nerd is usually a saver. The free spirit is usually a spender. The nerd thinks the free spirit is irresponsible. The free spirit thinks the nerd is too controlling.

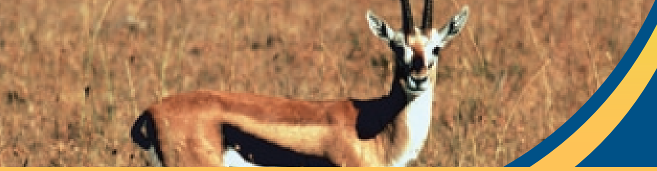
3. Who should do the financial decision-making in a marriage?

Both the nerd and the free spirit should do the decision-making. The nerd should prepare the budget, but both must agree on it. Usually the nerd will do most of the first-draft detail work, but the free spirit must participate and contribute.

The nerd's rules are: First, prepare the budget, give it to the free spirit, and shut up. Second, remember that this is a *meeting*, not a weekend retreat (keep it short). Third, you must make the free spirit change something. The free spirit's rules are: First, come to the meeting. Second, you must contribute. Third, you must change something on the budget. Fourth, you can never again say "Whatever you want to do, honey."

4. How can an accountability partner help a single person win with money?

An accountability partner can help by being willing to hurt their partner's feelings for their own good; by discussing purchases and budgets and saying "don't do that," and by insisting that the single person have a written plan, which will give them empowerment and self-accountability.



Review of Last Week

Review questions from page 75 of the Member Workbook:

1. **What is a zero-based budget? Why is it important?**

   In a zero-based budget, the income minus the outgo always equals zero.

   A budget is telling your money what to do instead of wondering where it went. You must be intentional with your money if you want to win with it. It is important to use the zero-based model because it gives every dollar a name before the month begins, which puts you in complete control of your money!

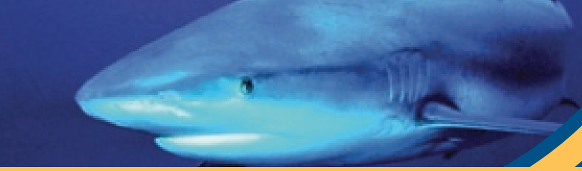
2. **Name some of the reasons we need to do a zero-based budget each month.**

   There are several reasons:

   - A cash flow plan ends management by crisis.
   - Managed money goes farther.
   - Budgeting ends most money fights.
   - Budgeting removes much of the guilt, shame and fear you now experience.
   - Budgeting ends overdrafts and the accompanying stress.
   - Budgeting tells you where you are overspending and underspending.

3. **Hold your budget up! How did your first family budget session go?**

   (No specific response suggested.)



Review of Last Week

Review questions from page 97 of the Member Workbook:

1. What are the six steps to getting out of debt?

1. You must quit borrowing money! You can't get out of a hole by digging deeper.
2. You must start saving money, specifically to fund your Baby Step 1 emergency fund. If you are vulnerable to emergencies, you will never get traction.
3. Prayer really works!
4. Sell something. Have a garage sale. Run ads. Use eBay. Sell so much that the kids think they're next!
5. Get a part-time job or add overtime where you already work. If you don't have a job, get one. Work like no one else, so later you can *really* work like no one else.
6. Use the debt snowball. List your debts smallest to largest, pay minimums on all but the smallest, and throw everything you can at that one. When it has been knocked out, shift to the second one, using everything you were paying on the first one, plus the minimum you were paying on the second one. Then move to the third, and so on.

2. What are the seven Baby Steps (in order)?

Baby Step 1: $1,000 in an emergency fund ($500 if income under $20,000)

Baby Step 2: Pay off all debt (except your home) using the debt snowball

Baby Step 3: Three to six months of household expenses in savings

Baby Step 4: Invest 15% of your income in Roth IRAs and pre-tax retirement

Baby Step 5: Fund college for your children

Baby Step 6: Pay off your home early

Baby Step 7: Build wealth and give

3. Why is it important to complete Baby Step 1 before moving on to Baby Step 2?

If you aren't prepared when an emergency happens—and it *will* happen—you will be distracted and thrown off of your debt snowball plan. The Baby Steps establish a proven priority that works consistently in all kinds of situations.

Review of Last Week

Review questions from page 103 of the Member Workbook:

1. What are collectors trained to do?

A collector is not your friend—that's just a technique collectors often use. Their only purpose is to get your money. They are trained to evoke strong emotion. Be it fear, anger, embarrassment, whatever—if they can increase your pulse rate, they believe they've got you!

2. Who should set the priorities for your family—you or the collectors?

You should set your own payment priorities. Take care of the Four Walls first, and then set the order of payment that works best for your overall plan.

3. How often should you check your credit report? Why?

You should check your reports annually. Many credit reports contain critical errors, duplications and out-of-date information. One survey found that 79% of reports contained errors, with one-third of those errors being critical. Accounts are supposed to be removed after seven years (10 years if you've filed a Chapter 7) if there hasn't been any activity. You don't want to wait until an error has been on there for a long time. You want to stay on top of things.

4. What are the Four Walls?

The Four Walls are the necessities. They are food, clothing, shelter and transportation.

5. Name the seven Baby Steps in order.

Baby Step 1: $1,000 in an emergency fund ($500 if income under $20,000)

Baby Step 2: Pay off all debt (except your home) using the debt snowball

Baby Step 3: Three to six months of household expenses in savings

Baby Step 4: Invest 15% of your income in Roth IRAs and pre-tax retirement

Baby Step 5: Fund college for your children

Baby Step 6: Pay off your home early

Baby Step 7: Build wealth and give

Review of Last Week

Review questions from page 113 of the Member Workbook:

1. **Name five keys to power over purchase. Did you discuss these things with your spouse or accountability partner this week?**

   You'll never get ahead until you develop power over purchase.

   1. **Always wait overnight before completing a significant purchase.** A significant purchase is something over $300 for most people. You and your spouse or accountability partner need to decide what that amount is. When you consider making a significant purchase, you undergo a chemical reaction called excitement. Waiting overnight will allow that excitement to die down and let you think clearly about the purchase. The wave of emotion that almost knocked you over at the store will have receded by then.

   2. **Carefully consider your buying motive.** Is it a *need* or a *want*? Be honest with yourself. If you don't need it, perhaps you shouldn't buy it. If it's a want, ask yourself if you have the money and if it fits within the budget.

   3. **Never buy anything you do not understand**, particularly financial products or investments. Never buy something that you cannot fully explain to someone else.

   4. **Carefully consider the opportunity cost.** When you spend money on something, you are using money you could have used for something else. That is, if you use some money to buy one thing, you can't also use that same money to buy something else, save or invest. So be sure you know which one is more important. Always think about what else you could do with that money.

   5. **Seek the counsel of your spouse.** If you don't do this, you are operating with only half your brain. If single, seek the counsel of your accountability partner or someone else who will listen to you and hurt your feelings for your own good. Don't go it alone and expect anything but being broke.

2. **Complete this statement: "FPU has helped my life by …"**

   (No specific response suggested.)

Review of Last Week

Review questions from page 121 of the Member Workbook:

1. **The purpose of insurance is to:**

   A. Lower Risk B. Transfer Risk C. Eliminate Risk.

   This one is multiple choice. The answer is "B": the purpose of insurance is to transfer risk from you to the insurance company. If you can't accept the risk, pay a few dollars to transfer that risk to someone else. Those dollars are called premiums. Insurance is a big umbrella over your life, one that protects you and enables you to keep what you have.

2. **True or False: Insurance is an essential planning tool. Why or why not?**

   True. Without proper insurance, certain kinds of losses can bankrupt you. The way to know if you are paying too much for insurance is to do a cost-benefit analysis. Simply compare the potential risk you are insuring to the premium you are paying. If they are the same or close, you could self-insure. If the potential risk is considerably greater, you should transfer that risk by paying the premium.

3. **At what point in the Baby Steps should insurance be included in your financial plan?**

   The need for the proper amount of insurance runs parallel to the Baby Steps. This is a responsibility that should be taken care of immediately and kept up as you move forward through the Baby Steps! There is not an insurance-specific Baby Step because it is vital to have the right insurance in place regardless of where you are in the process.

4. **Hold up your monthly zero-based budget.**

   A. Discuss how much easier or harder it was to do this time compared with the first one. Be *honest* with each other.

   B. Discuss what you have learned about handling money.

   (No specific response suggested.)

Review of Last Week

Review questions from page 131 of the Member Workbook:

1. **What are the seven basic rules of negotiating?**

   These are Dave's Lucky Seven basic steps of negotiating. Have fun with them.

   1. **Tell the absolute truth.** Withholding the truth is the same as not telling the truth. Integrity matters. When you lie, it costs you. There is no shortcut.
   2. **Use the power of cash.** Cash is powerful. When you spend cash, it hurts, so it makes you stop and think. It is also emotional when you hold it up where it can be seen. It's visual and has immediacy. You will usually get a deal when you flash your cash.
   3. **Understand and use walk-away power.** You can't be emotionally married to the item. People can tell when you are. You have to keep your emotional distance. When you lose your walk-away power, you lose your ability to negotiate.
   4. **Shut up!** Don't talk too much! Gather information and be quiet. Just nod and smile. Silence is powerful. Don't be unpleasant; just smile and look right at them.
   5. **Say, "That's not good enough!"** This is a powerful phrase. It keeps the ball in their court. Say that, smile and be quiet. But beware of having this technique (and the others, for that matter) used on you, especially by collectors.
   6. **Play good guy, bad guy.** This is position selling. The person out front can't make the decision, allegedly, and the bad guy out back must be checked with before the deal is done. The way to neutralize this is to refuse to negotiate with the one who isn't qualified to make the deal. In other words, pull the other guy out of the back. Go to the one who is supposed to be the bad guy.
   7. **Try the "If I" take away technique.** Say, "If I were to buy this today, I need you to…" and add something to the deal. That's how you get more than they are offering, by making the deal contingent on that item being added.
   8. **Patience is critical.** Remember, the one who wins the negotiation is the one with the most information and the most patience.

2. **Did the previous lesson change any of your shopping habits this week?**

   (No specific response suggested.)

Review of Last Week

Review questions from page 145 of the Member Workbook:

1. **What does diversification mean and how does it affect your risk in investing?**

   Diversification simply means to spread around. Don't put all your money on one thing. Dave uses the illustration of not putting all your eggs in one basket to demonstrate this point.

2. **Are mutual funds for long-term or short-term investing?**

   Mutual funds are for long-term investing. Money that is "parked" for less than five years and used for a specific purpose (such as buying a home or car) isn't called investing, it's called savings.

   Over a 5–10 year period, mutual fund returns tend to even out. Most mutual funds make good money over the long haul.

3. **Explain Dave's four-fold diversification strategy for long-term investing.**

   Dave recommends that you select established mutual funds with a minimum five-year (preferably 10-year) track record of 10% growth.

   Spread your investment evenly over four types of funds: growth (mid cap), growth and income (large cap), aggressive growth (small cap), and international.

Review of Last Week

Review questions from page 155 of the Member Workbook:

1. **What is an IRA?**

   It is a tax-favored plan, meaning it receives special IRS treatment. The initials IRA mean Individual Retirement Arrangement, not Individual Retirement Account. The distinction is important. The investment wears a coat of protection furnished by the IRS, and that's the arrangement. That coat can protect an account, real estate, a certificate or any type of investment.

   Contributions to an IRA are tax-free; funds are taxed when you take them out at retirement. Contributions to a Roth IRA are taxed, but the growth is tax-free.

2. **Should you ever cash in or borrow against pre-taxed retirement savings early to pay debt?**

   Generally speaking, you should never do either of these things.

   Cashing in is not a good idea because there are oppressive penalties and fees for an early withdrawal. You'll end up losing about 40% of your money.

   Borrowing against it is not a good idea because the amount you borrow is unplugged from your investment. When you leave your company you have to pay the loan in full in 60 days or have it counted as an early withdrawal, which triggers those fees and penalties.

   The only time this should ever even be considered is in a last-ditch, final effort to avoid bankruptcy or foreclosure. Except in these extreme cases, these two practices should be completely dismissed as foolish and harmful to your long-term success.

Review of Last Week

Review questions from page 169 of the Member Workbook:

1. **What are some specific ways in which your unique personality style impacts your work life?**

   (No specific response suggested; the list that follows is for easy reference.)

   D = Dominant (Lion): hard driving, takes charge, likes power, overlooks details, first looks to problem, gets stuff done (10% of the population)

   I = Influencing (Otter): party looking for a place to happen, expressive, people-oriented, outgoing, entertaining, lose sight of the task (25% of the population)

   S = Stable (Golden Retriever) steady, calm, loyal, amiable, concerned with pace, slow to act, can seem unenthusiastic, will run from conflict (40% of the population)

   C = Compliant (Beaver) analytical, loves detail, logical, factual, resists change, loves procedures, can seem rigid, rules matter (25% of the population)

2. **Discuss the three-year professional plan you outlined for yourself last week.**

   (No specific response necessary.)

3. **Why is sacrifice so important in taking on a part-time job for short-term goals?**

   You have to be willing to sacrifice short-term desires for long-term success. Sacrifice demonstrates intensity, focus and determination—characteristics needed to win. Remember, gazelle intensity means doing whatever it takes. But you need to have a goal, a visible finish line, and have a way to measure progress, so as to stay encouraged. If you work like no one else, later you can work like no one else.

4. **Recite all seven Baby Steps.**

   Baby Step 1: $1,000 in an emergency fund ($500 if income under $20,000)

   Baby Step 2: Pay off all debt (except your home) using the debt snowball

   Baby Step 3: Three to six months of household expenses in savings

   Baby Step 4: Invest 15% of your income in Roth IRAs and pre-tax retirement

   Baby Step 5: Fund college for your children

   Baby Step 6: Pay off your home early

   Baby Step 7: Build wealth and give

Review of Last Week

Review questions from page 177 of the Member Workbook:

1. **Homes in good neighborhoods appreciate and are priced on what three standards?**

   Location, location and location.

   In case you don't get it, location is everything, and if the location has a view, all the better. If the home has a view of water, even of a pond that masquerades as a lake, that's a plus, too. If it's actually on the water, that's the best yet.

2. **True or False: The time and money you spend fixing up your house prior to selling can greatly increase your asking price.**

   True. You must think like a retailer. Think about your house as a model home. Remember, you seldom get a second chance to make a first impression. Curb appeal is a big deal. Few people want to buy someone else's problems.

3. **According to Financial Peace principles, is it wiser to buy a little less house with a 15-year mortgage or more house with a 30-year mortgage?**

   The best mortgage plan is the 100% down plan (no mortgage at all).

   However, given the fact that most people take out a mortgage, it is far better to buy a little less house with a 15-year fixed mortgage. The total you'll pay over the life of the loan will be significantly less, and the reduction of the principle will occur significantly faster.

4. **Which is better, an adjustable or fixed-rate mortgage?**

   Adjustable-rate mortgages are traps waiting to be sprung. The mortgage holder is transferring the risk to you! The "carrot" on the end of the stick (the low initial rate) will lure you into overspending. When the rate adjusts, the new rate will almost always be much higher than you thought it would be.