Financial Peace®
SCHOOL CURRICULUM

FOUNDATIONS for LIFE and MONEY™

Chapter 1

DAVE RAMSEY

SAVINGS CH 1

Case Study

Rob and Carol were married recently and both have good jobs coming out of college. Rob was hired by The Lather Group as an assistant designer making a starting wage of $40,000 per year. Carol began her career as a first grade teacher's aide for the local school district making $11.75 per hour for 30 hours a week.

After their wedding, Rob and Carol each purchased new vehicles. Rob's payments on his new truck are $488 per month, and Carol is leasing her new compact car for nothing down and $239 per month for the next three years. They are also considering buying a new home with a monthly mortgage payment of $1,850.

Neither Rob nor Carol brought debt into their marriage, but they decided to get their first credit card so they could build credit to purchase a house. They also figure that they can use this card in case of any emergencies that might come up.

Their only savings was the money they received from their wedding, totaling $2,500. They used about $1,500 of that money toward a down payment on Rob's truck.

After figuring in monthly expenses, they realize that there isn't much left over at the end of the month. The next day their television goes out, and they decide to replace it. They have limited cash on hand, but they have their credit card for emergencies.

Critical Thinking Questions:

- What purchasing options do Rob and Carol have for their television? What are the positives and negatives for each option?
- What financial recommendations do Rob and Carol need as they begin their married lives together? Defend your response.
- What should Rob and Carol's plan of action be from this point forward? Explain.

LEARNING OUTCOMES

List the Baby Steps.

Explain the three basic reasons for saving money.

Identify the benefits of having an emergency fund.

Demonstrate how compound interest works and understand the impact of annual interest rates.

KEY TERMS

Baby Steps
Compound Interest
Emergency Fund
Interest Rate
Money Market
Sinking Fund

BEFORE YOU BEGIN

What do you know about saving?

Before watching the lesson, read each statement below and mark whether you agree or disagree in the "before" column. Then, after watching the lesson, do it again using the "after" column to see if you changed your mind about any of the statements.

Before: Agree	Before: Disagree	Statement	After: Agree	After: Disagree
☐	☐	1. The amount of money you save depends on how much money you earn. Simply put, you will *save* more when you *earn* more.	☐	☐
☐	☐	2. A savings account at your bank is the best place for your emergency fund.	☐	☐
☐	☐	3. The two biggest factors in compound interest and building wealth are time and the initial amount of the investment.	☐	☐
☐	☐	4. It is okay to use your emergency fund to pay cash for big purchases such as a TV or a cell phone.	☐	☐
☐	☐	5. You should pay yourself first before you pay bills.	☐	☐

What are your initial thoughts about saving?

What do you want to learn about saving?

CH 1 SAVINGS

The Seven Baby Steps

Step 1
$1,000 in an emergency fund (or $500 if you make less than $20,000 a year)

Step 2
Pay off all debt except the house using the debt snowball

Step 3
Three to six months of expenses in savings

Step 4
Invest 15% of your household income into Roth IRAs and pre-tax retirement plans

Step 5
College funding

Step 6
Pay off your home early

Step 7
Build wealth and give!

MORE INFO

The **Seven Baby Steps** are the steps you should take to reach financial peace.

If you are not in debt, these steps will serve as your compass or framework for financial success.

When you begin implementing the Baby Steps for yourself, be sure to follow them in order and complete each one before moving on to the next.

MONEY FACTS

70% of consumers live paycheck to paycheck.

The Wall Street Journal

Only **41%** of Americans save regularly.

Federal Reserve System

Half of American households live on less than $46,326 a year.

U.S. Census Bureau

Take the First Step

Baby Step 1 is ________ in an emergency fund.

If you make under $20,000 a year, put __________ in an emergency fund.

_______________ must become a priority. Always pay _____________ first.

Saving money is about ______________ and ______________.

Money is __________________.

END OF VIDEO PART 1
(Discuss questions 1, 2 & 3)

You should save money for three basic reasons:

1. _________________________
2. _________________________
3. _________________________

REAL LIFE

Do you think people who *make* more actually *save* more? Think again. Harris Interactive conducted a survey for CareerBuilder.com (November/December 2006) of 6,169 full-time adult workers. The survey, according to a Reuters news release, found that 19% of workers who make over $100,000 live paycheck to paycheck.

Emergency Fund

________________ are going to happen. Count on it.

Baby Step 1, a beginner emergency fund, is ___________ in the bank (or $500 if your household income is below $20,000 per year).

Baby Step 3 is a fully funded emergency fund of 3 to 6 months of expenses.

A great place to keep your emergency fund is in a __________ __________ account from a mutual fund company.

Your emergency fund is not an ____________, it is insurance.

WISE GUYS

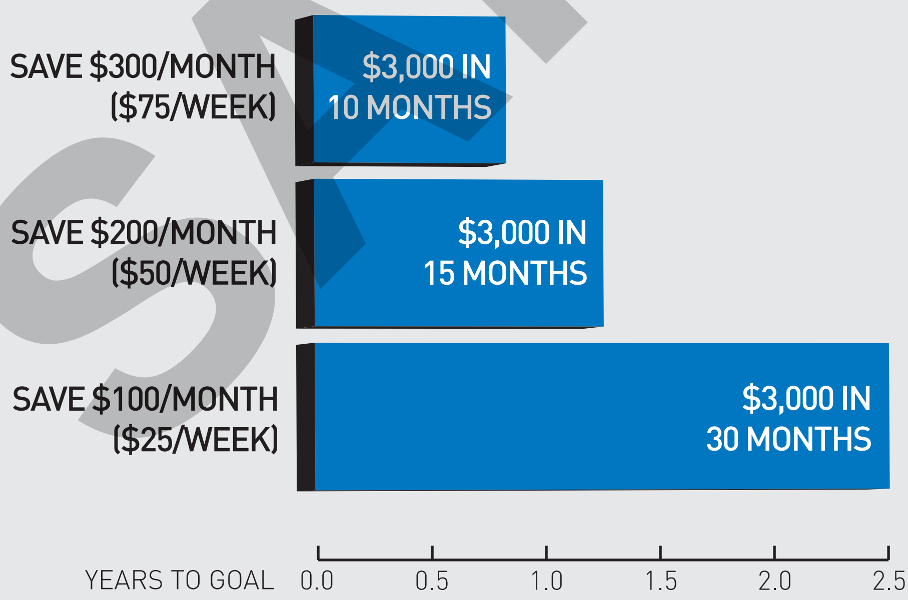
"If you do the things you need to do when you need to do them, then someday you can do the things you want to do when you want to do them."

— Zig Ziglar

"I want to buy a car in a couple of years. How much money will it take to get a good one?"

DAVE'S ANSWER: You can buy a good used car for around $3,000. This may seem like a lot right now, but let me show you how easy it can be. Let's say you work part time after school and on weekends. If you make $100 a week and save it all, you'll have enough for a car in only eight months. Pretty cool, huh?

Can't do $100 a week? Saving a little bit at a time adds up and you will eventually reach your goal. Take a look at the graph below for a few ways it can be done.



Q&A

Q&A

"How should I prepare to manage my money while I'm in college and what should I do when I'm there?"

DAVE'S ANSWER: One thing you want to be sure to do in college is avoid credit cards. They're going to be tempting you on every corner. And of course, you need to learn how to operate, balance and reconcile a checkbook.

You also need to learn how to do a zero-based budget where you look at what you're going to spend every month. A friend of mine gives his college-age daughter $200 a month for expenses and she has to do a written plan showing exactly what she's going to do with that money before each month begins.

Do not __________ this fund for purchases.

The emergency fund is your _______________ savings priority. Do it quickly!

The second thing you save money for is ________________.

Purchases

Instead of _______________ to purchase, pay cash by using a ___________ ___________ approach.

END OF VIDEO PART 2
(Discuss questions 4 & 5)

MORE INFO

For example...

Say you borrow $4,000 to purchase a dining room set.

Most furniture stores will sell their financing contracts to finance companies.

This means you will have borrowed at 24% with payments of $211 per month for 24 months. So, you will pay a total of $5,064, plus interest, for that set.

But if you save the same $211 per month for only 18 months, you will be able to pay cash.

When you pay cash, you can almost always negotiate a discount, so you will be able to buy it even earlier.

Wealth Building

The third thing you save money for is

_____________ _______________.

________________ is a key ingredient when it comes to wealth building.

Building wealth is a ______________, not a sprint.

Pre-_________________ ________________(PACs) withdrawals are a good way to build in discipline.

END OF VIDEO PART 3
(Discuss question 6)

_____________ _____________ is a mathematical explosion. You must start _______.

MORE INFO

You should have an emergency fund because unexpected things are going to happen. Smart people have known this for centuries and used to say, "In the house of the wise are stores of choice food and oil, but a foolish man devours all he has" (Proverbs 21:20). In other words, having some money saved can turn a crisis into an inconvenience.

Compound Interest Is Powerful

Take $1,000 and earn 10% on it. Your interest at the end of the year is $100. Add that to your original $1,000 and you have $1,100. At the end of the next year, your $1,100 is compounded at 10% interest, so your return on investment is $110. Add that to the $1,100 and you now have $1,210. Your interest on $1,210 is $121. So as time passes, the amount you earn from interest grows. That is why it is so important that you start now. You have more time for your interest to snowball and pick up more and more snow!

How to Calculate Compound Interest

Use this simple formula to figure out the future value of a deposit once compound interest has worked its magic.

$$FV = PV(1+r/m)^{mt}$$

When calculating this formula, remember to use the mathematical order of operations.

FV is the future value
PV is the present value
r is the annual rate of interest as a decimal (5% is expressed as the decimal .05)
m is the number of times per year the interest is compounded (monthly, annually, etc.)
t is the number of years you leave it invested

REAL LIFE

Compound interest is interest paid on interest previously earned; it is credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.

DAVE SAYS

Dear Dave,
Other than not getting into credit card debt, do you have any special advice for college students who live on less than $10,000 a year and have no help from their parents?
Thomas

Dear Thomas,
It's very, very tough. A written budget always makes money work harder. You always want to go that route. Certainly it's not easy. I remember working my way through school. I worked 40–60 hours a week while I was carrying a full load of classes. And I still graduated from college with a half-box of No-Doz as my net worth. It's tough and I don't have a magic answer for you, but debt will not be the answer.
Dave

The Story of Ben and Arthur

Both save $2,000 per year at 12%. Ben starts at age 19 and stops at age 26, while Arthur starts at age 27 and stops at age 65.

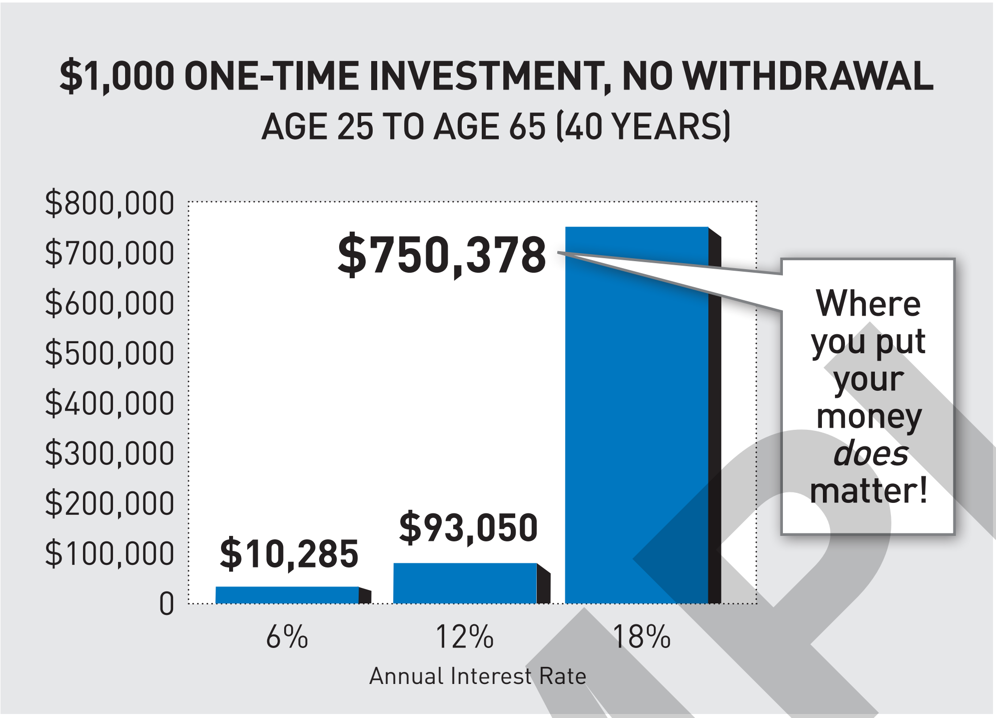
AGE	BEN INVESTS:		ARTHUR INVESTS:	
19	2,000	2,240	0	0
20	2,000	4,749	0	0
21	2,000	7,558	0	0
22	2,000	10,706	0	0
23	2,000	14,230	0	0
24	2,000	18,178	0	0
25	2,000	22,599	0	0
26	2,000	27,551	0	0
27	0	30,857	2,000	2,240
28	0	34,560	2,000	4,749
29	0	38,708	2,000	7,558
30	0	43,352	2,000	10,706
31	0	48,554	2,000	14,230
32	0	54,381	2,000	18,178
33	0	60,907	2,000	22,599
34	0	68,216	2,000	27,551
35	0	76,802	2,000	33,097
36	0	85,570	2,000	39,309
37	0	95,383	2,000	46,266
38	0	107,339	2,000	54,058
39	0	120,220	2,000	62,785
40	0	134,646	2,000	72,559
41	0	150,804	2,000	83,506
42	0	168,900	2,000	95,767
43	0	189,168	2,000	109,499
44	0	211,869	2,000	124,879
45	0	237,293	2,000	142,104
46	0	265,768	2,000	161,396
47	0	297,660	2,000	183,004
48	0	333,379	2,000	207,204
49	0	373,385	2,000	234,308
50	0	418,191	2,000	264,665
51	0	468,374	2,000	298,665
52	0	524,579	2,000	336,745
53	0	587,528	2,000	379,394
54	0	658,032	2,000	427,161
55	0	736,995	2,000	480,660
56	0	825,435	2,000	540,579
57	0	924,487	2,000	607,688
58	0	1,035,425	2,000	682,851
59	0	1,159,676	2,000	767,033
60	0	1,298,837	2,000	861,317
61	0	1,454,698	2,000	966,915
62	0	1,629,261	2,000	1,085,185
63	0	1,824,773	2,000	1,217,647
64	0	2,043,746	2,000	1,366,005
65	0	**2,288,996**	2,000	**1,532,166**

Saving only $167 a month!

Arthur invested $78,000 and NEVER caught up!

Ben invested only $16,000!

Rate of Return, or ____________________ rate, is important.



END OF VIDEO PART 4
(Discuss questions 7 & 8)

Recap and Review

Make savings a priority. START NOW!

Compound interest works over time and the rate of return will make a difference in how large your investment grows. Remember Ben and Arthur.

An emergency fund is your backup strategy when unexpected financial events happen. Baby Step 1 is $1,000 in your emergency fund ($500 if you earn less than $20,000).

Discipline and focused emotion is the key to saving.

Remember the 80/20 rule. Handling money is 80% behavior and only 20% head knowledge. Anyone can learn to save!

DAVE SAYS

Dear Dave,
My daughter is a freshman in college. Do you think it is wrong for me to give her an allowance of $100 per month while she is in school? I want to help her with some of her expenses such as food or a bill or two. Do you think that is a bad thing for me to do?
Deborah

Dear Deborah,
No, I don't really have a problem with that. I wouldn't give her an excuse to be lazy and sit on the couch and eat Doritos all day, but I don't think $100 a month is going to do that to her.
A lot of that depends on the kid, too. If I feel that she is responsible and will keep up her grades and make good decisions, then I wouldn't think twice about it, but if I've got a kid who I think is going to school to party, then I would tell them to go get a job.
I don't think it is a bad thing to give your daughter some spending money. Just don't give her an excuse to do nothing. Encourage her to get involved in something. Give her the tools she needs to be successful.
Dave