

The Seven Baby Steps to Financial Peace

Baby Step 1: \$1,000 to start an Emergency Fund



An emergency fund is for those unexpected events in life that you can't plan for: the loss of a job, an unexpected pregnancy, a faulty car transmission, and the list goes on and on. It's not a matter of *if* these events will happen; it's simply a matter of *when* they will happen.

Baby Step 2: Pay off all debt using the Debt Snowball



List your debts, excluding the house, in order, smallest balance to largest. The smallest balance should be your number one priority. Don't worry about interest rates unless two debts have similar payoffs. If that's the case, then list the higher interest rate debt first.

Baby Step 3: 3 to 6 months of expenses in savings



Once you complete the first two baby steps, you will have built serious momentum. But don't start throwing all your "extra" money into investments quite yet. It's time to build your full emergency fund of 3 to 6 months of expenses. The exact amount will depend on your situation and how likely a loss of income might be.

Baby Step 3B: If you plan to buy a home, then saving for your down payment goes here (after your emergency fund is fully funded).

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



When you reach this step, you'll have no payments—except the house—and a fully funded emergency fund. Now it's time to get serious about building wealth.

Baby Step 5: College funding for children



By this point, you should have already started Baby Step 4—investing 15% of your income—*before* saving for college. Whether you are saving for you or your child to go to college, you need to start *now*.

Baby Step 6: Pay off home early



Now it's time to begin chunking all of your extra money toward the mortgage. You are getting closer to realizing the dream of a life with no house payments! (**Note:** if you have a home equity loan in addition to your mortgage, it goes here **ONLY** if the balance is more than half your annual income. Otherwise put it into Baby Step 2.)

Baby Step 7: Build wealth and give!



It's time to build wealth and give like never before. Leave an inheritance for future generations, and bless others now with your excess. It's really the only way to live!

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