

LESSON 3

BABY STEP 3

KEY POINTS

- ✓ Baby Step 3 is saving 3–6 months of expenses in a fully funded emergency fund.
- ✓ The emergency fund is Murphy repellent. It keeps you from living in fear of the next emergency.
- ✓ Your emergency fund is insurance, not an investment! It prevents you from going back into debt.

BABY STEP

3

Save 3–6 Months of Expenses in a Fully Funded Emergency Fund

Baby Step 3 is all about building your full emergency fund with 3–6 months of expenses. After the momentum and intensity of Baby Step 2, it's easy to let your foot off the gas. Don't let that happen! Keep your intensity through Baby Step 3. In the same way your \$1,000 starter emergency fund kept you from going into debt because of emergency expenses, your fully funded emergency fund will protect you when life's bigger surprises hit.

THE BABY
7 STEPS

LESSON 3 //
SAVING

SAVING



GUIDE
Rachel Cruze

“Debt *steals* your future.
Saving *secures* it.”

— RACHEL CRUZE

Nearly 80% of Americans live paycheck to paycheck. They use _____ to cover emergencies.

The emergency fund gives you _____ to cover emergencies so you stay out of debt.

You can save money if it's your _____.



The wise man *saves* for the
future, but the foolish man
spends whatever he gets.

— PROVERBS 21:20 (TLB)

ANSWER KEY

Debt
Cash
Priority
Cure
Gratitude

The _____ for comparison is contentment.

_____ will lead you to contentment.

LESSON 3 //
SAVING



GUIDE
George Kamel



**I am not saying this because I am
in need, for I have *learned*
to be *content* whatever
the circumstances.**

— PHILIPPIANS 4:11 (NIV)

BABY STEP 3

Save _____ months of expenses in a fully funded emergency fund.

Murphy's Law states: Anything that can go wrong _____ go wrong.

Save _____ months of expenses if you fall into any of these categories:

- You're married but have a single-income household.
- You're a single parent.
- You or your spouse is self-employed, work on commission, or have a highly irregular income.
- Your job is seasonal.
- You or someone in your household is chronically ill.

ANSWER KEY

3–6
Will
Six

LESSON 3 //
BABY STEP 3



For *wisdom* provides protection,
just as *money* provides protection.

— ECCLESIASTES 7:12 (NET)

Save at least _____ months of expenses if you fall into either of these categories:

- You're single with no dependents and a stable income.
- You're married and have two incomes, both of which are stable.

An emergency fund is _____. It's not an investment.

When you use your emergency fund, _____ it back up.



ANSWER KEY

Three
Insurance
Build

Stay GAZELLE INTENSE

Let's look at two couples. We'll call them Brian & Heather and Ashton & Kelsey.

Both couples were gazelle intense and made extreme sacrifices to pay off their debt. They're finally debt-free! Baby Step 2—check! They take a few weeks to breathe and celebrate before they dive into Baby Step 3.

But now, they're ready to get their **fully funded emergency fund** up and running! They look at their current savings and expenses and decide on their emergency fund goal.

HERE ARE THEIR

Numbers

\$1,000



**CURRENT
EMERGENCY FUND**

\$2,000



**CURRENT
MONTHLY EXPENSES**

\$12,000



**FULLY FUNDED
EMERGENCY FUND
GOAL**

Both couples are single-income households and need a six-month emergency fund!

HOW TO SAVE FOR BABY STEP 3

With \$1,000 already in the bank from Baby Step 1, how many months will it take each couple to reach their \$12,000 goal?

BRIAN & HEATHER



Brian & Heather continue celebrating and let off the gas. They only put **\$300 per month** into their emergency fund.

MONTHS

ASHTON & KELSEY



Ashton & Kelsey stay gazelle intense and put the **\$1,000 per month** that *was* going toward debt right into their emergency fund.

MONTHS

Moral of the story? **Don't let off the gas!** Take what you were throwing at debt and save it in your fully funded emergency fund. Keep up your gazelle intensity through Baby Step 3!

Respond to the following questions:

-  Remember to stay gazelle intense in Baby Step 3. But what's the one way you'll celebrate being debt-free before you kick it back into high gear?
-  If these couples asked you about investing or paying off their mortgage before completing Baby Step 3, what advice would you give them? Why?

DISCUSSION

Whether you're taking this class online or in person, be honest with your answers and remember to encourage one another!



By now, you've seen and experienced the power of the debt snowball. How can its momentum help you knock out your emergency fund? Why is that important to know?



When have you wished you had Murphy repellent in your life? How would a fully funded emergency fund have turned that crisis into a simple inconvenience?



In building your emergency fund, consider the suggested savings range of 3–6 months of expenses. Which amount makes the most sense for your life and gives you the most peace?



Once you're debt-free, it can be tempting to let your foot off the gas and taper off the intensity. But we want you to move through the first three Baby Steps as fast as you can! What are some practical things you can do to maintain your gazelle intensity in Baby Step 3?

ACTION STEPS

It's time to live out what you just learned! Complete each of the Action Steps before the next lesson.



CALCULATE YOUR BABY STEP 3 GOAL

It's time to protect yourself from Murphy! Before you can save 3–6 months of expenses, you need to figure out how much you need to save. First, determine if you need three or six months of expenses saved. (Look back at the lesson for a quick reminder.) Second, multiply that number by how much you spend on essential expenses each month. And just like that, you've got your Baby Step 3 goal.



OPEN A SEPARATE ACCOUNT

No matter which Baby Step you're on, make sure your emergency fund is in a separate account from your checking account! It needs to be easy for you to get to, but not too easy to spend from. Here are some options: a savings account connected to your checking account, a money market account that comes with a debit card or check-writing privileges, or an online bank where you can transfer money quickly and directly to your checking account.



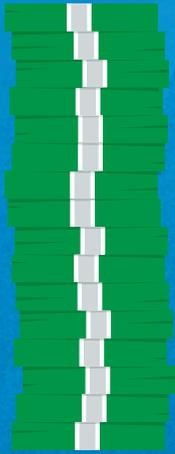
TRACK YOUR TRANSACTIONS IN EVERYDOLLAR

Make sure you're sticking to the budget you set by tracking your transactions. If you connected your bank to **EveryDollar**, this takes minutes—just drag and drop the transactions into the right budget lines, and you're done. **Pro tip:** This is also a great time to make any edits to your budget lines and see where you're accidentally overspending.



READ “EXACTLY HOW MUCH DO YOU SAVE FOR BABY STEP 3?” ON THE NEXT PAGE

Want to see a real example of how to calculate your Baby Step 3 goal? Check out the next page!



EXACTLY HOW MUCH DO YOU SAVE FOR BABY STEP 3?

Remember the budget Rachel created in Lesson 1? Our example couple was budgeting for the very first time so they could cut expenses and save \$1,000 ASAP. Well, guess what? It's been two years, and they just made their final debt payment (cue the confetti!). Now, they're ready to start saving their fully funded emergency fund in Baby Step 3!

How will they figure out the exact number they need to save? With the same three easy steps you'll follow:

- 1 DETERMINE** if you (and your spouse, if you're married) need three or six months of expenses saved.
- 2 GET YOUR BUDGET OUT** and add up how much you're spending on giving and essential expenses each month. (FYI, EveryDollar totals this for you!)
- 3 MULTIPLY** your answer for #1 by your total for #2.

THAT'S YOUR BABY STEP 3

Savings Goal!

INCOME

Paychecks	\$5,700
Side Hustle	\$600

EXPENSES

Giving	\$630
Mortgage/Rent	\$1,250
Electric	\$100
Water	\$60
Natural Gas	\$30
Transportation	\$250
Groceries	\$600
Miscellaneous	\$201
Mom Fun Money	\$50
Dad Fun Money	\$50
Haircuts	\$40
Christmas	\$25
Birthdays	\$25
Childcare	\$700
Cell Phones	\$70
Internet	\$60
Clothing	\$50
Ramsey+ Membership	\$11
Media/Music	\$35
Doctor Visits	\$40
Insurance	\$100
Student Loan	\$1,923


\$4,377
Spent

Let's follow along with our example couple to see how they walk through each step.

- 1 Both Mom and Dad have stable jobs, so according to George, they should save **three months** of expenses.
- 2 They take out their EveryDollar budget and see that last month, they spent \$4,377. (Remember, debt will no longer come out of their paychecks, so they don't need to plan for it in their expenses.) Then, they talk through items they won't need every month, like haircuts and new clothes. So, they look at what they spent on average over the last three months and land on **\$4,200**.
- 3 Finally, they get out their calculator and punch in $3 \times 4,200 =$ **\$12,600**.

**THEIR BABY STEP 3
SAVINGS GOAL IS**
\$11,600

Since they already have \$1,000 in their emergency fund from Baby Step 1, they need to save **\$11,600** to get it fully funded.

Now they ask, "How fast can we save \$11,600 to finish Baby Step 3?"

Great news! Since they got gazelle intense in Baby Step 2 by living on a budget and working a side hustle, they were able to pay **\$1,923** toward debt last month.

If they keep up their intensity, they can save \$1,923 per month (since they aren't sending it to Sallie Mae anymore), and they'll be done with Baby Step 3 in **six months**. (P.S. The math on that is: $\$11,600 \text{ savings goal} \div \$1,923 \text{ payment} = 6 \text{ months!}$)

*They're done
with debt!*

BABY STEP

Write your Baby Step 3 goal below and bookmark this page.
On the day you save your last dollar in Baby Step 3, you'll see
how all your hard work paid off!

 **GOAL**

\$

 **DATE COMPLETED**

MONTH

DAY

YEAR

AN *Emergency*
FUND **TURNS**
A **CRISIS**
INTO AN
Inconvenience

A blue double quote icon consisting of two stylized, rounded shapes facing each other.

This is a
WEALTH-BUILDING
plan, not just a get-out-
of-debt plan.

— DAVE RAMSEY

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