

LESSON 4

**BABY
STEPS** **KEY POINTS**

- ✓ Baby Step 4 is to invest 15% of your household income in retirement.
- ✓ Baby Step 5 is to save for your children's college fund.
- ✓ Baby Step 6 is to pay off your home early.
- ✓ Baby Step 7 is to build wealth and give.
- ✓ You'll do Baby Steps 4–6 in order, but at the same time. Then, Baby Step 7 is where you'll have the most fun!

BABY STEP

4

Invest 15% of Your Household Income in Retirement

You've finished paying for the past—now it's time to start paying for your future! On Baby Step 4, you'll invest 15% of your household income into tax-advantaged accounts for retirement. There is no quick-fix, snap-your-fingers way to build wealth, but you *can* become a Baby Steps Millionaire. The key is to start investing early and consistently, letting compound interest work its magic!

THE BABY
7 STEPS

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BABY STEP 4



GUIDE
Dave Ramsey

When you follow the Baby Steps over time, you _____ become a Baby Steps Millionaire.

MILLIONAIRE MYTHS & TRUTHS

MYTH: Millionaires inherit their wealth.

TRUTH: 89% of millionaires are not millionaires because of inheritance. In fact, 79% received _____ inheritance.

MYTH: Millionaires have high salaries.

TRUTH: 33% of millionaires _____ earned more than \$100,000 in any single working year of their career.



A faithful man will abound with blessings, but he who hastens to be rich will not go unpunished.

— PROVERBS 28:20 (NKJV)

MYTH: Millionaires follow a get-rich-quick method.

TRUTH: _____% of millionaires attribute regular, consistent investing in retirement plans over a long period of time as a reason for their success.

ANSWER KEY

Will
Zero
Never
79

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MYTH: Millionaires take risks when investing and play the stock market.

TRUTH: _____% of millionaires reached millionaire status through their employer-sponsored retirement plan.



**Wealth gained *hastily* will
dwindle, but whoever gathers
little by little will increase it.**

— PROVERBS 13:11 (ESV)

MYTH: Millionaires get the best rate of return on their investments.

TRUTH: Rates of return, asset allocation and expense ratios on investments only account for _____% or less of a millionaire's success.

NOTES

ANSWER KEY

80
20

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BABY STEP 4

Baby Step 4 is to invest ____% of your household income in retirement.

Investing \$_____ every month from age 25 to age 65 (at an 11% rate of return) gets you to \$1.3 million.

Have a _____ meeting with your spouse. If you're single, talk with your accountability partner.

The secret to becoming a Baby Steps Millionaire is _____ you can do it.

Numbers change when _____ do.

NOTES

ANSWER KEY

- 15
- 150
- Dream
- Believing
- People

The Story of JACK & BLAKE

AND THE POWER OF COMPOUND GROWTH



JACK

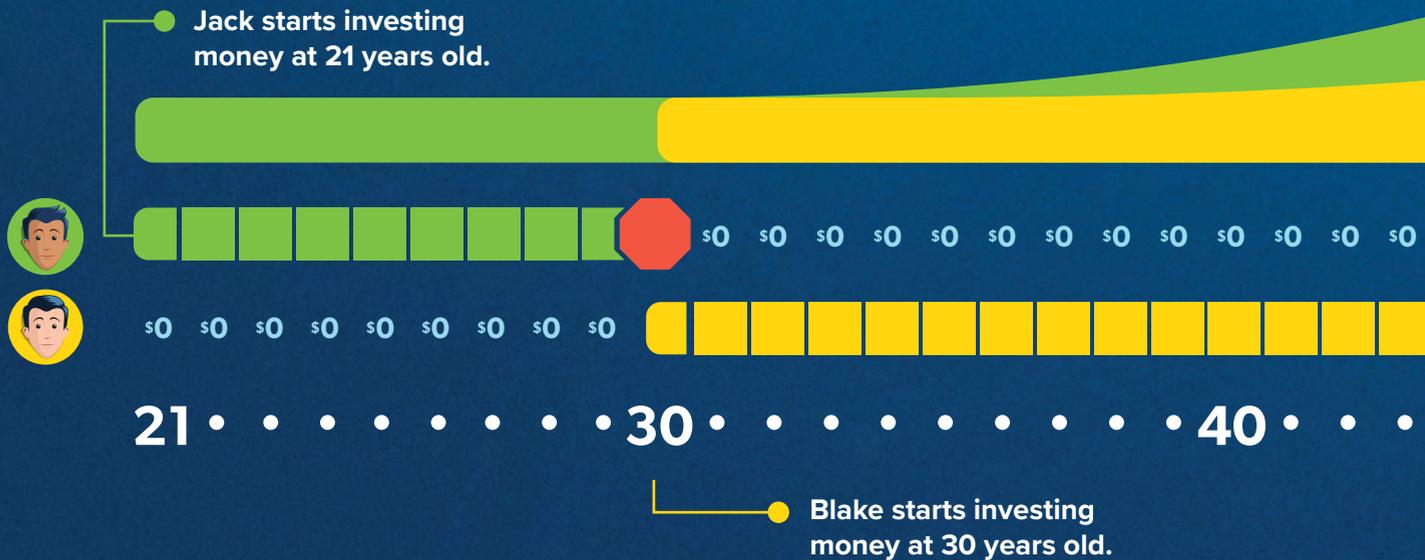
At age 21, Jack decided to invest \$2,400 every year (\$200 per month) for nine years. Then, at age 30, Jack stopped putting money into his investments. So all together, he put a total of \$21,600 into his investment funds, then left them alone.



BLAKE

Blake didn't start investing until age 30—nine years after Jack got started. And just like Jack, Blake put \$2,400 into his investment funds every year—but he invested 29 more years than Jack. Blake invested a total of \$91,200 over 38 years.

At age 67, Jack and Blake decided to compare their investment accounts. Who do you think had more? Jack, with his total of \$21,600 invested over nine years, or Blake, who invested \$91,200 over 38 years? Check this out:





JACK

Total invested over 9 years:
\$21,600

Return:
\$2,547,150

He never caught up!



BLAKE

Total invested over 38 years:
\$91,200

Return:
\$1,483,033

\$0 \$0



• • • • • **50** • • • • •

• • • • • **60** • • • • •

• • • • • **67**

Blake invests \$2,400 a year through age 67—almost his entire life.

THE MORAL OF THE STORY IS **START EARLY!**

BABY STEP

5

Save for Your Children's College Fund

By this step, you've paid off all your debt except the house and you've started saving for retirement. Now it's time to save for your children's college expenses using an Education Savings Account (ESA) or a 529 plan. Help your children go to college the right way—without debt. It *can* be done!

THE
7 **BABY**
STEPS

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BABY STEP 5



GUIDE
Rachel Cruze

BABY STEP 5

Save for your children's _____ fund.

You have two options for college savings—an _____
and a _____ plan.



**Train up a *child* in the way he
should go, and when he is old
he will not *depart* from it.**

— PROVERBS 22:6 (NKJV)

Three ways to go to college debt-free:

1. Select an _____ school.
2. _____ for things like scholarships, grants
and work study.
3. Get a _____.

**“College is a blessing, not
an *entitlement*.”**

— RACHEL CRUZE

ANSWER KEY

College
ESA
529
Affordable
Apply
Job

BABY STEP

6

Pay Off Your Home Early

Baby Step 6 is the big one! There's only one more thing standing in the way of your complete freedom from debt—your mortgage. This part of paying off debt is a little more like a marathon. But any extra money you can put toward your mortgage will help save you tens of thousands of dollars in interest. And the grass will truly feel different under your feet once it's *yours*.

THE
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BABY
STEPS

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BABY STEP 6



GUIDE
Dave Ramsey

BABY STEP 6

Pay off your home _____.

100% of foreclosures occur on a home with
a _____.

Should you **PAY OFF
YOUR HOME EARLY?**



INTEREST vs. TAXES

The interest you pay on your mortgage is deductible on your taxes. Are you saving more money by taking this deduction or should you just pay the taxes? Let's take a look.

MORTGAGE INTEREST

$$\mathbf{\$200K} \times \mathbf{5\%} = \mathbf{\$10,000}$$

MORTGAGE AMOUNT

INTEREST RATE

ANNUAL INTEREST PAID

TAXES WITH PAID HOME

$$\mathbf{\$10K} \times \mathbf{22\%} = \mathbf{\$2,200}$$

TAXABLE AMOUNT

TAX BRACKET

TAXES PAID

SO, WHAT MAKES MORE SENSE . . .

**PAYING \$10,000 TO A BANK OR
PAYING \$2,200 TO THE IRS?**

ANSWER KEY

Early
Mortgage

BABY STEP

7

Build Wealth and Give

You know what people with no debt and no payments can do? Anything they want! Now you can truly live and give like no one else by building wealth, becoming insanely generous, and changing your family tree. Your focus and sacrifice got you here. You made it. You lived like no one else, and now you get to *live* and *give* like no one else!

THE BABY
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BABY STEP 7

Build wealth and be outrageously _____ !

Giving is possibly the most _____ you will ever have with money.



Each of you should *give* what you have decided in your heart to give, not reluctantly or under compulsion, for God loves a *cheerful giver*.

— 2 CORINTHIANS 9:7 (NIV)



ANSWER KEY

Generous
Fun

Dream FOR YOUR FUTURE

You wake up to silence and sun. There's no alarm clock ringing in your ear. In fact, there's no clock in your bedroom at all. You reach for your phone out of habit and put it back on your nightstand before rolling over in bed. **There's a lot you used to do that you don't have to do anymore.**

You don't check your **inbox**—you couldn't, even if you wanted to. You retired years ago, long before your coworkers.

You don't check **social media** when you first wake up. You quit the comparison game back when you learned the power of contentment. Plus, you're living your dream. You don't want someone else's life—you love yours.

You don't check your **bank account**. You know how much you have . . . you even know your net worth. You hit seven figures when you became a Baby Steps Millionaire.

You don't check a list of what you must do. You get to list what you want to do. **So, what do you want to do?**



WHAT'S YOUR DREAM RETIREMENT?

Get specific! Want to travel? Write where you want to go. Want to live closer to your kids? Jot down what your dream home looks like. Want to start a business? Put it on paper!



IT'S TIME TO LIVE AND GIVE LIKE NO ONE ELSE

Picture this: You're living your dream retirement! You're traveling the way you always wanted. You're spending more time with your kids—and maybe even your grandkids. You own your home. And it's not just any house on the block. It's your dream home.

You've worked hard for years and years to get to where you are today. And it was all worth it.

YOU'RE ON BABY STEP 7!

Now you get to have some serious fun with money.



You just heard Dave tell the story of his friend who took his entire family on a cruise. **How will you have fun spending your money?**



You also heard Dave tell the story of this same friend taking his entire family to give bikes away to kids in need. **How will you have fun giving your money?**

DISCUSSION

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



Before this lesson, did you believe it was possible for you to become a millionaire? How has this lesson changed the way you think about building wealth and dreaming about your future?



If you're a parent, how do you feel about investing for retirement before saving for your children's college fund? Based on the ages of your kids, what is your plan to send them to college debt-free?



If you're currently paying a mortgage each month, how would paying off your home early change your life? What would you be able to do that you can't do now?



When is a time that generosity has impacted your life? Were you the giver or the receiver?

ACTION STEPS

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

- SCHEDULE A BUDGET COMMITTEE MEETING**
You're coming up on your next budgeting cycle! Remember, it takes three months to get the budget right, so stick with it. If you're married, schedule your next Budget Committee Meeting. Singles, don't forget to review your budget with your accountability partner. And keep tracking your transactions!
- MAKE SURE GIVING IS AT THE TOP OF YOUR BUDGET**
When you hold money with an open hand—not a clenched fist—you're able to give generously *and* receive graciously. No matter which Baby Step you're on, giving is your priority, whether that's a tithe to your church or contributions to charity.
- KNOW YOUR NET WORTH**
Your net worth is what you own (assets) minus what you owe (liabilities). It's an overall measure of wealth. Use the Net Worth Calculator in **Ramsey+** to see where you stand today!
- CONTACT A SMARTVESTOR PRO**
If you're done with Baby Step 3, check out our list of SmartVestor Pros near you in **Ramsey+**. These investing professionals will help you invest the right way for you and learn how to save for your kids' college.
- READ "IN ORDER, BUT AT THE SAME TIME" ON THE NEXT PAGE**
The Baby Steps work when you do them in order. But Baby Steps 4–6 are done at the same time! We know that sounds confusing, but this Deep Dive tells you exactly what we mean.

BABY STEPS



IN ORDER, BUT AT THE SAME TIME

You do Baby Steps 1, 2 and 3 one at a time. Check. You do Baby Steps 4, 5 and 6 at the same time. *What?*

Baby Steps 1, 2 and 3 require laser focus and gazelle intensity—and they each have a specific dollar goal. After Baby Step 3, however, the plan changes gears. You'll do Baby Steps 4, 5 and 6 in order, but at the same time.

Here's what we mean:

Meet the Campbells.

This average American family has a household income of \$5,000 per month. They used the debt snowball to put \$1,500 a month toward paying off all their debt. Then they used the *same* gazelle intensity and saved \$1,500 a month to finish their emergency fund.

The Campbells celebrate! They get to ease up on their intensity some, but they're ready to attack **Baby Steps 4, 5 and 6—in order, but at the same time.**

IF THEY SET ASIDE \$1,000 FOR THESE BABY STEPS, WATCH WHAT WOULD HAPPEN:

1 START BABY STEP 4

The Campbells save 15% of their gross income in retirement. So, they open a Roth 401(k) and start investing \$750 every month.



2 START BABY STEP 5

They open an ESA for their 3-year-old and contribute \$166 per month. (That's the ESA contribution limit as of 2022.)



3 START BABY STEP 6

The Campbells still have \$84! They go ahead and add it to their mortgage payment knowing they could find more money in the budget to throw at their home if they wanted to.



There you have it. Baby Steps 4, 5 and 6—**IN ORDER, BUT AT THE SAME TIME.**



“

Make sure what you **BUY**
aligns with the person
you **WANT** to be.

— GEORGE KAMEL

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