The Total Money Makeover
by Dave Ramsey

Focused Intensity
ANYONE CAN CLIMB OUT OF DEBT AND CREATE FINANCIAL PEACE

QUICK OVERVIEW

Ninety percent of solving a problem is realizing that there is one, and Dave Ramsey, author of The Total Money Makeover: A Proven Plan for Financial Fitness, knows that firsthand. Four years after becoming a multimillionaire, Ramsey became bankrupt. Since that experience, he has been working to help others avoid the same fate. His plan promises to take anyone from being financially out of shape to being financially fit, if they're willing to commit and follow his simple steps with focused intensity.

Using straight talk and simple explanations, Ramsey walks readers though the process of eliminating debt and building wealth. Throughout the book, readers receive jolts of inspiration from real-life stories of others who have experienced the irritation of creditor calls, the bleakness of bankruptcy and foreclosure, and have used Ramsey's six "Baby Steps" to face and fix their financial problems. "It isn't magic," Ramsey writes. "It is common sense. Anyone can do this—anyone."

APPLY AND ACHIEVE

Most of us live our lives with debt, including car payments, college loans, credit card bills and mortgages. We don't have to live that way. The solution, according to Ramsey, is to commit to a Total Money Makeover. Follow the steps, understand that it won't be easy, and it's possible to leave debt behind, establish an emergency fund and live a life not dependent on credit.

Ramsey begins by debunking the myths many people have come to accept as truth. Among them are that prepaid college funds are a good investment, that debt is necessary to the nation's economy, that bankruptcy is an easy way out and that credit cards help build credit. Once you're willing to forgo those and other myths, you're ready to start your makeover. The first steps are to build an emergency fund and then move on to attacking all of the debt in your life. Once all debts are paid off, you'll learn how to "build wealth like crazy" with the goal of never needing—or wanting—to go into debt again. Anyone can do it, Ramsey says, as long as they're willing to focus on changing how they look at and handle their finances, and commit 100 percent to the effort.
I am positive that personal finance is 80 percent behavior and only 20 percent head knowledge. Our concentration on behavior—realizing that most folks have a good idea of what to do with money but not how to do it—has led us to a different view of personal finance. Most financial people make the mistake of trying to show you the numbers, thinking that you just don’t get the math. I am sure that the problem with my money is the guy in my mirror. If he will behave, he can make the money thing work. The math of wealth building is not rocket science; it is simple—but you have to DO IT! The Total Money Makeover is a book for everyone. The principles are common sense, which isn’t so common anymore. The Total Money Makeover plan isn’t theory. It works every single time. It works because it is simple. It works because it gets to the heart of your money problems: you.

Focused intensity, life-or-death intensity, is required for you to reset your money-spending patterns, and one of your biggest obstacles is DENIAL. Change is painful. Few people have the courage to seek out change. Most people won’t change until the pain of where they are exceeds the pain of change.

LIVE LIKE A MILLIONAIRE

It is human nature to want it and want it now; it is also a sign of immaturity. Being willing to delay pleasure for a greater result is a sign of maturity. Debt is a means to obtain the “I want its” before we can afford them. Debt is so ingrained into our culture that most Americans can’t even envision a car without a payment, a house without a mortgage, a student without a loan, and credit without a card. My contention is that debt brings on enough risk to offset any advantage that could be gained through leverage of debt. The silly marketing that America falls for has resulted in this: We buy things we don’t need with money we don’t have in order to impress people we don’t like.

Taking on a car payment is one of the dumbest things people do to destroy their chances of building wealth. If you insist on driving new cars with payments your whole life, you will literally blow a life’s fortune on them. If you are willing to sacrifice for a while, you can have your life’s fortune and drive quality cars. I’d opt for the millionaire’s strategy.

Don’t let anyone tell you to go into debt to make way for a mortgage; that is a lie. A quality mortgage professional can get you into a home if he or she knows how to do underwriting. As for building credit for the other stuff, leave that to the losers.

The Visa debit card or other check cards that are connected to your checking account give you the ability to do virtually anything a credit card will do. Of course, you must have money before you can buy something with a debit card, but paying for things with money you have now is part of your Total Money Makeover. Remember, there is one thing the debit card won’t do: get you into debt.

Your largest wealth-building asset is your income. When you tie up your income, you lose. When you invest your income, you become wealthy and can do anything you want. How much could you give every month, save every month and spend every month if you had no payments? Your income is your greatest wealth-building tool, not debt. We yearn to become healthy, wealthy, and wise with no effort and with no risk, but it will never happen. A price has to be paid, and there are no shortcuts.

Your Total Money Makeover will cause you to pay your debts. Bankruptcy is not something I recommend any more than I would recommend divorce. Few people who have been through bankruptcy would report that it is a painless wiping-clean of the slate, after which you merrily trot off into your future to start fresh. It is life-altering and leaves deep wounds both to the psyche and the credit report.

One of the paradoxically dumb things we do is to destroy our finances by buying garbage we can’t afford to try to make ourselves appear wealthy to others. Peer pressure is very, very powerful. To wish for the admiration of others is normal. The problem is that this admiration can become a drug. Many of you are addicted to this drug, and the destruction to your wealth and financial well-being caused by your addiction is huge.

READY TO MAKE A CHANGE

The Twelve Steppers have it right. They say, “Continuing to do the same thing over and over again and expecting a different result is the definition of insanity.” What you have falsely believed and acted on or not acted on has brought you to the place you are today with your money. If you want to be in a different place, you must believe and do things differently.

Set up a new budget every month. Don’t try to have the perfect budget for the perfect month, because we never have those. Spend every dollar on paper before the month begins. Give every dollar of your income a name before the month begins, which is called a zero-based budget. Income minus outgo
equals zero every month. Look at this month’s income and this month’s bills, savings and debts, and match them up until you have given every income dollar an outgo name. If you have an irregular income due to commissions, self-employment or bonuses, use the Irregular-Income Planning sheet in the system to create a prioritized spending plan, but you still must do a written budget before each month begins. If you’re married, agree on the budget with your spouse.

You will have to be current with all your creditors. If you are behind on payments, the first goal will be to become current. If you are far behind, do necessities first, which are basic food, shelter, utilities, clothing and transportation. Only when you’re current with the necessities can you catch up on credit cards and student loans.

The first major Baby Step to your Total Money Makeover is to begin the emergency fund. A small start is to save $1,000 in cash fast! If you have a household income under $20,000 per year, use $500 for your beginner fund. Those who earn more than $20,000 should get together $1,000 fast! Stop everything and focus. When you get the $1,000, hide it. You can’t keep the money handy, because it will get spent. Keep it liquid. This is a small step, so take it quickly!

ROLLING THE DEBT SNOWBALL
To build wealth, YOU will have to regain control of your income. The bottom line is that it is easy to become wealthy if you don’t have any payments. If you didn’t have a car payment, a student loan, credit cards out your ears, medical debt or even a mortgage, you could become wealthy very quickly. I have a fool-proof, but very difficult, method for getting out of debt. Most people won’t do it because they are average, but not you. You have already figured out that if you will live like no one else, later you can live like no one else. You are sick and tired of being sick and tired, so you are willing to pay the price for greatness. This is the toughest of all the Baby Steps to your Total Money Makeover. Time to pay off the DEBT!

We have discussed that personal finance is 80 percent behavior and 20 percent head knowledge. The Debt Snowball is designed the way it is because we are more concerned with modifying behavior than correct mathematics. The Debt Snowball method requires you to list all your debts in order of smallest payoff balance to largest. List all your debts except your home; we will get to it in another step. List all of your debts—even loans from mom and dad or medical debts that have zero interest. The reason we list smallest to largest is to have some quick wins. This is the “behavior modification over math” part I referred to earlier.

After you list the debts smallest to largest, pay the minimum payment to stay current on all the debts except the smallest. Every dollar you can find from anywhere in your budget goes toward the smallest debt until it is paid. Once the smallest is

Money Myths: The (Non) Secrets of the Rich
1. Everything will be fine when I retire. I know I’m not saving yet, but it will be OK.
2. Gold is a good investment and will cover me if the economy collapses.
3. I can get rich quickly and easily if I buy this tape set and work three hours a week.
4. Cash Value life insurance, like Whole Life, will help me retire wealthy.
5. Playing the lotto and other forms of gambling will make you rich.
6. Mobile homes, or trailers, will allow me to own something instead of renting, and that will help me to become wealthy.
7. Prepaying my funeral or my kids’ college expenses is a good way to invest and protect myself against inflation.
8. I don’t have time to work on a budget, retirement plan or estate plan.
9. The debt-management companies on TV will save me.
10. I can buy a kit to clean up my credit, and all my past misdeeds will be washed away.
11. My divorce decree says my spouse has to pay the debt, so I don’t.
12. That collector was so helpful; he really likes me.
13. I’ll just file bankruptcy and start over; it seems so easy.
14. I can’t use cash because it’s dangerous; I might get robbed.
15. I can’t afford insurance.
16. If I do a will, I might die.
paid, the payment from that debt, plus any extra “found” money, is added to the next smallest debt. (Trust me, once you get going, you will find money.) Keep paying minimums on all the debts except the smallest until it is paid. Every time you pay one off, the amount you pay on the next one down increases. All the money from old debts and all the money you can find anywhere goes on the smallest until it is gone. Attack! Use the Debt Snowball to become debt-free except for your home.

Sometimes your Debt Snowball won’t roll. When some people do their budget, there is barely enough to make all the minimum payments and nothing extra to pay on the smallest. There is no push to get the Snowball rolling. If your budget is too tight to get the Debt Snowball rolling, you need to do something to increase income. Selling debt-ridden items lowers the outgo, and selling other items temporarily increases your income. Likewise, working extra hours can increase income in order to increase the speed of debt repayment. The Debt Snowball is very possibly the most important step in your Total Money Makeover for two reasons. One, you free up your most powerful wealth-building tool, your income, during this step. Two, you take on the entire American culture by declaring war on debt.

YOUR EMERGENCY FUND

A fully funded emergency fund covers three to six months of expenses. Don’t forget, Money magazine says that 78 percent of us will have a major unexpected event within the next 10 years. If you use debt to cover emergencies, you have backtracked again. The worst time to borrow is when times are bad. So, what is an emergency anyway? An emergency is something you had no way of knowing was coming, something that has a major impact on you and your family if you don’t cover it. The emergency fund must be easy to access. Keep your emergency fund in something that is liquid. Liquid is a money term that means easy to get to with no penalties. I suggest a money market account with no penalties and full check-writing privileges for your emergency fund. The purpose of the fund is to absorb risk, so the more risky your situation, the greater the emergency fund you should have.

Customize your emergency fund to your situation and to how your spouse deals with the feeling of risk. This fund is for actual protection and for peace of mind, so the spouse who wants this fund to be higher wins. Clean everything out and become debt-free except for the house. Use all savings and investments that don’t have a penalty for withdrawal like retirement plans. If you used savings that you had in Baby Step Two (start the Debt Snowball), you cleaned out even the emergency fund down to Baby Step One (save $1,000). Now is the time to rebuild your emergency fund by replacing any money you may have used to pay debt. As you budget over the years and your Total Money Makeover completely changes your money habits, you will use the emergency fund less and less.

TAKING THE NEXT STEPS

Once we have covered these basic steps and laid a foundation, the time has come to build some wealth. Remember, that is why we started a Total Money Makeover. We wanted not just to be out of debt, but to become wealthy enough to give, retire with dignity, leave an inheritance and have some expensive fun.

Security means choices. You need to reach the point where your money works harder than you do. A Total Money Makeover retirement plan means investing with the goal of security. You already possess the ability to quit your job, and if you don’t like your work, you should consider doing that. If not today, develop a five-year game plan for transitioning into what God designed you to do; however, don’t wait till you’re 65 to do what you love.

It is time to get really serious about your wealth building. Remember, when you reach this step, you don’t have any payments but a house payment, and you have three to six months’ worth of expenses in savings, which is thousands of dollars. With only one payment, it should be easy to invest heavily. Even with a below-average income, you can ensure your golden years will have dignity. The rule is simple: Invest 15 percent of before-tax gross income annually toward retirement. When calculating your 15 percent, don’t include company matches in your plan. Invest 15 percent of your gross income. Growth-stock mutual funds are what I recommend investing in for the long term. Growth-stock mutual funds are lousy short-term investments because they go up and down in value, but they are excellent long-term investments when leaving the money longer than five years.

Start with any match you can get, and then fully fund Roth IRAs. Be sure the total you are putting in is 15 percent of your total household gross income. If not, go back to 401(k)s, 403(b)s, 457s or SEPPs (for the self-employed), and invest enough so that the total invested is 15 percent of your gross annual pay.

You are secure and will leave a nice inheritance when you can live off of 8 percent of your nest egg per year. There is no excuse
to retire without financial dignity in the United States today. Most of you will have well over $2 million pass through your hands in your working lifetime, so do something about catching some of that money. The investing you do systematically and consistently over time will make you wealthy. If you play with this by jumping in and out, always finding something more important than investing, you are doomed to being one of those 54 out of 100 65-year-olds still working because you have to work. Systematic, consistent investing is the tortoise that beats the hare in the race. When you keep at it, the investing compounds and explodes. Ultimately, we are not defined by wealth; however, your Total Money Makeover will affect your wealth, as well as your emotions, relationships and spiritual condition. This is a “Total” process.

Understand the purpose of a college education before you fund it. College degrees do not ensure jobs. College degrees certainly don’t ensure success. College degrees do not ensure wealth. College degrees only prove that someone has successfully passed a series of tests. If you are sending your kids to college because you want them to be guaranteed a job, success or wealth, you will be dramatically let down. Only if you mix knowledge with attitude, character, perseverance, vision, diligence and extreme levels of work will your college degree produce for you. The first rule of college (whether for you or for your children) is: Pay cash. The second rule is: If you have the cash or the scholarship, go. Student loans are a cancer. Once you have them, you can’t get rid of them. If you’ve planned your savings goals and don’t have much room in the budget for college, don’t panic. Knowledge is just part of the formula to success. With what you are able to save, those precious kids can probably get a good degree if they will suffer through lifestyle adjustments and get a job while in school. Work is good for them.

The final hurdle before you turn the corner for the last few miles is to become completely debt-free. Anytime I speak about paying off mortgages, people give me that special look. They think I’m crazy for two reasons. One, most people have lost their hope, and they don’t really believe there is any chance for them. Two, most people believe all the mortgage myths that have been spread. There are two really big “reasons” that keep seemingly intelligent people from paying off mortgages.

• Big reason No. 1: It is wise to keep my home mortgage to get the tax deduction. Truth: Tax deductions are no bargain.

• Big reason No. 2: It is wise to borrow all I can on my home (or continually refinance for cash out) because of the great interest rates; then I can reinvest the money. Truth: You really don’t make anything when the smoke clears.

BUILD WEALTH LIKE CRAZY
After years of studying, teaching, and even preaching on this subject across America, I can find only three good uses for money.

• Money is good for FUN.

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<tr>
<th>Debt Myths: Debt Is (Not) a Tool</th>
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<tr>
<td>1. Debt is a tool and should be used to create prosperity.</td>
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<td>2. If I loan money to friends or relatives, I am helping them.</td>
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<tr>
<td>3. By cosigning a loan, I am helping a friend or relative.</td>
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<td>4. Cash advance, payday loans, rent-to-own, title pawnning and tote-the-note car lots are needed to help lower-income people get ahead.</td>
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<td>5. “Ninety days same as cash” equals using other people’s money for free.</td>
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<td>6. Car payments are a way of life; you’ll always have one.</td>
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<td>7. Leasing a car is what sophisticated people do. You should lease things that go down in value and take the tax advantage.</td>
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<td>8. You can get a good deal on a new car at 0 percent interest.</td>
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<td>9. You should get a credit card to build your credit.</td>
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<td>10. You need a credit card to rent a car, check into a hotel, or buy online.</td>
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<td>11. The debit card has more risk than a credit card.</td>
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<td>12. If you pay off your credit card every month, you get the free use of someone else’s money.</td>
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<td>13. Make sure your teenager gets a credit card so he or she will learn to be responsible with money.</td>
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<td>14. Debt consolidation saves interest and you have one smaller payment.</td>
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<td>15. Borrowing 125 percent on my home is wise because I’ll restructure my debt.</td>
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<td>16. If no one used debt, our economy would collapse.</td>
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Money is good to INVEST.
And money is good to GIVE.

Most anything else you find to do with it doesn’t represent good mental and spiritual health on your part. So if you one day have $18 million, you should do all three of these things. In fact, while you are working the steps to wealth, you should be doing all three of these things.

The kid in us likes the FUN part of this equation, and since we have made this kid behave for a long time with promises of ice cream if he does so. If you like travel, travel. If you like clothes, buy some. I am releasing you to have some fun with your money, because money is to be enjoyed. That guilt-free enjoyment is one of the three reasons to have a Total Money Makeover.

The grown-up inside us likes the INVESTING of money because that is part of what makes you wealthy. You can choose to be a little more sophisticated, but until you have over $10 million, I would keep your investing very simple. Always manage your own money. You should surround yourself with a team of people smarter than you, but you make the decisions.

When selecting and working with your wealth team, it is vital to bring on only members who have the heart of a teacher, not the heart of a salesman or the heart of an “expert.”

Giving is the biggest reward of the entire workout. The most mature part of you will meet the kid inside as you learn to involve yourself in the last use of money, which is to GIVE it away. Giving is possibly the most fun you will ever have with money.

These are age-old principles, and they work. Tens of thousands of ordinary people just like you and me have become debt-free and even wealthy using this plan. It isn’t magic; it is common sense.

About the Author
When Dave Ramsey writes about going from rags to riches and back to rags, it’s from personal experience. The best-selling author, money management expert and radio personality was a multimillionaire by 26 and bankrupt four years later. Ramsey has taken his climb out of bankruptcy back to financial success and stability and transformed it into The Total Money Makeover, a step-by-step process others can follow to financial peace. Now he makes it his full-time calling to help others understand why they’re in financial distress and how to leave it behind. Ramsey, who has a bachelor’s degree in finance and real estate, is also a television host and a popular public speaker. He also created Financial Peace University, a 13-week program to help people lose their debt and establish new behaviors about money, as well as a curriculum to teach young children about working, saving and giving their own money.

Recommended Reading
If you enjoy Total Money Makeover, check out:
The Financial Peace Planner by Dave Ramsey
Rich Dad, Poor Dad by Robert T. Kiyosaki
The Millionaire Next Door by Thomas J. Stanley and William D. Danko