

Ten Suggested Steps for Debt Elimination and Financial Peace: From an LDS Perspective

Don L. Milne—2005 BYU Campus Education Week

Step 1 Pay a full tithe, a generous fast offering, and donate to charities

- Blessings of tithing—“windows of Heaven” (Malachi 3:10)
- Generous fast offering—“unto one of the least of these...” (Matt. 25:40)
- Other worthy charities—many good causes

Step 2 Save a \$1,000 emergency fund and a one month food storage

- Make minimum debt payments until \$1,000 emergency fund is saved
- Set up a monthly zero budget and an envelope system
- Sell unneeded goods/possessions
- *Temporary* extra job, if necessary

Step 3 Teach your children good financial management

- Children earn commissions rather than receive allowances (money or family coupons)
- “Teach children to make money decisions in keeping with their capacities to comprehend...children should earn their money needs through service and appropriate chores” (Elder Marvin J. Ashton, “One for the Money,” *Ensign*, July 1975, 72).
- The 20-40-40 Rule for Children’s Commission Earnings
 - 20% Giving (10% Tithing—10% Other Charities)
 - 40% Savings (Not used unless parents approve)
 - Open a savings account
 - 40% Spending (Child decides unless age or content inappropriate)

Step 4 Pay off consumer debt

- Identify all your debts from smallest to largest.
- Make minimum payments on all but the smallest debt.
- Throw all your debt payment resources at paying off the smallest debt.
- As soon as this smallest debt is paid off, use all the money you had been applying each month on this now deceased debt and apply it to the next smallest debt.
- Use this system to work through all of your consumer debt. As each debt is paid off, the amount of money available to attack your next debt goes up. The more debt you pay off, the more money you have to pay off the next debt.

Step 5 Be a financial management advocate and example to others

- Be an example to others, let people feel your financial peace and teach them the skills to do the same

Step 6 After paying off consumer debt, save 3-6 months of expenses and one year of food storage

- “Begin in a small way...and gradually build toward a reasonable objective. Save a little money regularly, and you will be surprised how it accumulates” (President Gordon B. Hinckley, “The Condition of the Church,” *Ensign*, May 2003, p. 4).
- If your financial situation is more stable, you can be closer to 3 months. If it is less stable, you should save 6 months of expenses.

- Food Storage—For every month of emergency savings you set aside, acquire 2 months of basic food storage. By the time you have your 3-6 months of emergency savings built up; you will have 6-12 months of food storage.

Step 7 Save 10-15% of income for retirement/pay for missions

- At this point you have no debt except the house, a year supply of food storage, and \$5,000 to \$10,000 or maybe more sitting in your emergency savings fund.
- Retirement savings—preferably 401(k)s with high percentage matching from employers. If you max out what your employer will match on your 401(k), invest the rest in Roth IRA Mutual Funds.
- Assist in paying for children’s missions.

Step 8 Save for children’s mission funds and college education

- *If you can get to this step early enough*, you won’t be tempted to cut back on retirement funding to help out on missions and education. Once you have your 10-15% set up for retirement funding, you should look at your budget and fit this in.
- If you can start really early, investing \$10 a month at an 8% after inflation rate would result in \$4,800 in 18 years.

Step 9 Pay off home mortgage early

- If at all possible, use a 15-year mortgage. The problem with a 30-year mortgage is that for the first few years you are basically renting from the bank. For example, in the first two years of a 6%, 30-year mortgage, 82% of your payments are interest payments. Compare this to the first two years of a 5.5%, 15-year mortgage, where only 54% of your payment goes to interest.
- “When I was a young man, my father counseled me to build a modest home, sufficient for the needs of my family, and make it beautiful and attractive and pleasant and secure. He counseled me to pay off the mortgage as quickly as I could so that, come what may, there would be a roof over the heads of my wife and children” (President Gordon B. Hinckley, “The Times in Which We Live,” *Ensign*, Nov. 2001, 72).

Step 10 Build wealth and give to others

- Most Latter-day Saints look forward to the ability to bless the lives of others as a result of being wise stewards over the money with which they have been entrusted. We want to be like the first two servants in the Parable of the Talents and hear the words, “Well done, thou good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord” (Matt. 25:23).

Recommended Sources

1. *Provident Living*→*Resource Management* at www.lds.org
2. *One for the Money—Guide to Family Finance*, Elder Marvin J. Ashton, 1992, Published by The Church of Jesus Christ of Latter-day Saints, Salt Lake City, Utah; *Ensign*, July 1975, 72.
3. *Financial Peace*, Ramsey, Dave, pub. Viking Adult, Jan. 2003, ISBN: 0670032085
4. Financial Peace University at www.daveramsey.com