Dave Ramsey's Personal Finance: A Primer and Critique

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ABSTRACT

Author and radio host Dave Ramsey advises millions of people on personal finance. Starting from the assumption that people are not good at maximizing their own utility, he recommends a rules-based approach that often directly contradicts conventional instruction in personal finance. This article shows how Ramsey's recommendations follow from his behavioral assumptions and highlights some of his specific recommendations about financial products and services that are at odds with traditional personal finance. After making these contrasts, the article outlines implications for educators who, whether they agree with Ramsey's approach or not, should understand the strengths and limitations of his approach.

Introduction

Personal finance instructors may be asked what they think of Dave Ramsey, a popular talk radio show host and author with a distinctive approach to personal finance. While many instructors have probably heard of Ramsey and might have a general sense that his approach places a heavy emphasis on debt avoidance, they are likely unfamiliar with all of Ramsey's approach. Hence, this paper outlines the key themes of Ramsey's approach and relates them to more conventional economic and personal finance education.

Before turning to fully explaining and critiquing Ramsey's approach, we begin with some information on Ramsey's background and enterprise. Among the many popular offerings in personal finance (Faulkner 2017), Dave Ramsey stands out. His syndicated radio show is the highest-rated personal finance program nationally, with ratings in recent years surpassed only by two political talk radio shows (Salmon and Poppick 2013). Ramsey runs a multiproduct firm, Ramsey Solutions, Inc., but the products are all built on core teachings in personal finance from his books (Ramsey 2011 and 2013, Ramsey and Cruze 2014). Ramsey's signature "Financial Peace University" is a nine-week class mediated by local proctors, often meeting at churches. Ramsey (2011) is the official handbook for "Financial Peace University" and contains essentially all the course's analytical content and advice.

For a widely followed financial guru, Dave Ramsey had a distinctly volatile start. After becoming a millionaire in his 20s, Ramsey was dragged down by leveraged holdings in a real estate crash when he was 26. He lost everything and filed for bankruptcy, an event that affected him deeply. By his own account, he was "totally broke and completely broken" (Ramsey 2019a). The experience also left him with a strong aversion to debt and a tendency to counsel others not to file an avoidable bankruptcy (Ramsey 2019a).

We see multiple points of interest in Ramsey's published and broadcast work. First, his rule-based approach challenges economic optimizing models, both as descriptions of what people do and of what they should do. Second, his approach of telling people what to do challenges the pedagogy of traditional personal finance, which focuses instead on providing information and encouraging learners to find their own solutions. Third, Ramsey (2013, 20) claims his approach dominates optimizing models. In this paper, we relate Ramsey's work to the models he challenges and provide analysis of interest to educators.

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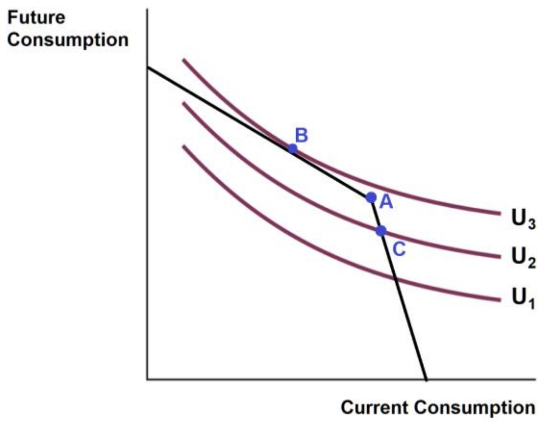
Ramsey's Fundamental Assumption

The tradition of economics is to assume that people are good at maximizing their own utility, and to treat personal finance as information and techniques that improve the maximization process. Ramsey's approach starts with the opposite assumption: that people are not good at maximizing their own utility. Ramsey's consumers stumble from mistake to mistake, with overconsumption and excessive debt chief among them.

To counter these mistakes, Ramsey recommends a variety of tricks and methods for reducing current consumption and saving more for the future. The techniques include a written budget (Ramsey 2011, pp. 54-56), a monthly cash envelope system (Ramsey 2011, pp. 68-69), and a rigid 15 percent retirement savings goal (Ramsey 2011, pp. 222-223). Ramsey frequently writes and speaks on the assumption that his callers are not optimizing. Figure 1 illustrates.

Figure 1: Current and Future Consumption

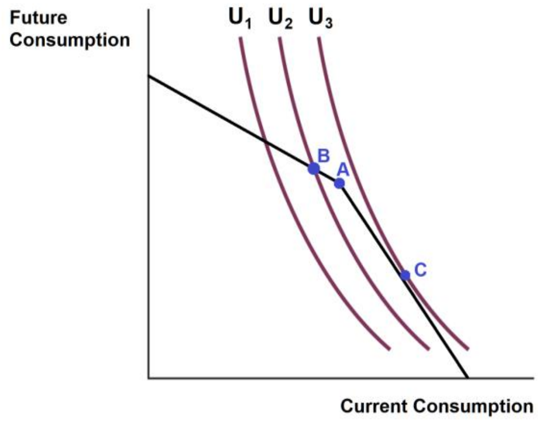


Households have preferences across current and future consumption, usually interpreted as "working life" vs. "retirement." Households start with current and future incomes that place them at point A on the kinked line. The kink comes from households facing different interest rates for borrowing and saving. Moving downward to the right from A, households get a relatively small amount of additional current consumption compared with the future consumption they will give up as they borrow at relatively unfavorable interest rates (say, 18 percent on credit card balances). Moving upward to the left from A, households face the relatively flat slope embodied in the interest rates they receive (for example, as holders of certificates of deposit.) Those who save nothing for the future remain at A and enjoy lifetime utility less than U_3. If rational optimizing households save for retirement, they achieve the highest possible lifetime utility, U_3, by moving to point B—giving up current consumption but getting greater future consumption they value more highly. Differing tastes for current and future consumption are represented by the slopes of the utility curves, with flatter curves reflecting greater patience and a willingness to defer consumption now for greater consumption in the future.

Ramsey's callers, as non-optimizers, often appear not to recognize the tradeoffs. If Ramsey's callers were thinking in terms of Figure 1, they would know that they were at a point like point C. They may not even have enough information to realize they are at a point like C. Instead of saving for the future, they have done the opposite, using credit to expand current consumption at the expense of the future. Callers could increase their utility level by getting out of debt and saving. Thus, Ramsey's techniques for getting them to cut current consumption move them toward a point they would prefer, if only they could get there.

To be sure, it is possible that some individuals do not value retirement or perhaps do not believe that they will be alive to enjoy it. A high degree of current consumption is rational for these individuals, as illustrated in Figure 2. Their steep utility curves reflect a strong desire to consume now rather than in the future. For such consumers, moving to point B by saving more for retirement would result in a lower utility level (U_2 instead of U_3). Those seeking Ramsey's advice, however, seem not to be consuming rationally, but instead to have wandered into a consumption pattern they would prefer to avoid. More generally, Americans' biggest financial regret is consistently reported as not saving enough for retirement or not starting to save for retirement soon enough (Smith 2019).

Figure 2: Current and Future Consumption with Present-Oriented Preferences



Interestingly, Ramsey's rule to save 15 percent of gross income for retirement is not just a floor but also a ceiling, derived from rough experience-based optimization (Ramsey 2011, p. 223):

> *Why not more? You need some of your income left to do the next two steps, college savings and paying off your home early. Why not less? Some people want to invest less or none so they can get a child through school or pay off the home superfast. I don't recommend that because those kids' college degrees won't feed you at retirement.*

However, Ramsey rarely needs to counsel against saving too much for retirement. This is not surprising, given both the audience for his show (unlikely to include many people who are confident in their financial future) and the imperatives of the talk radio format (with its need to get dramatic stories past the call screener and on the air).

Under Ramsey's fundamental assumptions, people are not just non-optimizing, but all too often "stupid." Ramsey (2019b) once told a caller, "When I do something stupid that costs me money, I call it stupid tax." Examples include cosigning a loan for a wasteful relative (Ramsey 2019b) and making a loan to an ex-girlfriend (2019c). The stupid tax involves spending in ways that do not increase utility and, in these examples, make relationships worse.

Consumers paying a stupid tax have no place in traditional optimizing economic theory. We do find them, however, in the increasingly prominent (Costa et al. 2018) behavioral finance and behavioral economics schools (Thaler and Sunstein 2008), doing such things as:

- Exhibiting a "status quo bias" (Samuelson and Zeckhauser 1988) that freezes them in place, preventing them from moving. Someone who says "I will always have a car payment" and therefore rules out working toward a car payoff is exhibiting a status quo bias.
- Making bad decisions on probabilistic matters (Tversky and Kahneman 1974), such as buying overpriced extended warranties. They fail to correctly weigh the low probability and limited payoff of an overpriced extended warranty compared with the up-front and certain large premium.
- Knowing credit card debt is bad, even while assuming that everyone has excessive credit card debt, falling prey to a "herd mentality." They feel secure following what they think the herd is doing, even if they are incorrect about the herd.

Ramsey does not think the caller facing a car repossession needs better optimization instructions, but instead the motivation to stop doing stupid things and then to start saving. Given Ramsey's total rejection of optimizing models, we wondered whether his work is unfamiliar to academic economists. A full-date, full-text search of the American Economic Association's ECONLIT database turned up only five total references to Ramsey. Among those, only two formally cited Ramsey–and even then, the citation was to his website and not any published work. Thus, there are millions of people taking financial advice that is virtually unknown within academic economics. We note this not to disparage the advice, but to emphasize the different knowledge sets of the two groups.

Ramsey's fundamental assumption of non-utility-maximization, influenced by his own bankruptcy, leads to an aversion to debt in all its forms, on both the borrowing side and the lending side. This aversion includes recommending an asset allocation of 100 percent stock and 0 percent bonds for investors, regardless of age, in order to avoid participation in debt. Ramsey frequently tells his audience, "The borrower is a slave to the lender," citing Proverbs 22:7 (Ramsey 2011, p. 94). Ramsey also mocks his former finance professors, optimizers who taught that debt was a tool and "were all broke" (Ramsey 2011, p. 93). Ramsey claims as his most important qualifying credential that "I have done stupid things with zeroes on the end," adding "I have a Ph.D. in D-U-M-B." (Ramsey 2013, p. xvii).

Ramsey celebrates the end of indebtedness with those following his plan using a radio programming feature called the "Debt Free Scream." The individual or household newly out of debt is led through a serious of questions (Ramsey 2019d) about how much debt was paid off and how long it took. Individual motivation tips and stories are also included. When the questioning is done, there is a countdown, "3-2-1, we're debt free!" followed by cheering and studio sound effects. To qualify for a debt free scream, the individual or household must be truly debt free, not even holding a credit card. To Ramsey, the convenience and incentives of a credit card, even one paid off monthly, do not justify the use of a debt instrument.

To fully appreciate Ramsey's aversion to debt, consider his advice on credit scores—not how to raise credit scores, but how to have no credit score at all. Ramsey explains that someone with no active credit accounts and no activity in the past six months will not have a FICO (Fair Isaac) credit score at all (Ramsey 2011, p. 108). This stands in sharp contrast to the near-universal personal finance advice to maintain a good credit score (for example, Billingsley et al. 2017 and Howard 2019). Ramsey acknowledges the inconvenience of not having credit or a credit score, but he considers being debt-free to be a sufficient offsetting reward.

Ramsey's model makes sense for consumers who do not trust their ability to manage debt or who have a moral objection to debt. It does not appear to be optimizing for other consumers. The rational consumer who can borrow at 5 percent and make a 6 percent return on assets can, over time, multiply personal wealth. Ramsey's approach gives up this potential return. This issue comes up frequently when callers balk at Ramsey's advice to sell off stocks to extinguish a home mortgage. Ramsey asks them to consider their situation if they had a paid-off home and no debt. Would they go into mortgage debt to invest in stocks? The usual answer is "of course not." Ramsey's reversal of the question relies on risk aversion and also invokes psychic benefits: "When you pay off your house and burn the mortgage, take off your shoes and walk through the backyard. The grass feels different under your feet" (Ramsey 2019e).

Evaluation of Financial Products

Starting from non-utility-maximization, Ramsey's rule-based approach calls for avoiding certain financial products and embracing others–without further analysis. Because of the difference in approaches, his advice tends to vary in tone and substance from traditional personal finance advice. Here are some financial products that Ramsey dismisses and the often-contrasting perspectives from conventional personal finance textbooks:

- Automobile leases: Ramsey says that leasing a car "is the worst possible way to acquire a vehicle" (Ramsey 2013, p. 32) and repeatedly refers to a lease as a "fleece." Typical personal financial planning textbooks (Billingsley et al. 2017, p. 164; Kapoor et al. 2019, p. 305) take a different approach. Keown (2019, p. 250) writes, "And don't forget about the option to lease," while Ramsey's message is to forget about the option to lease. Billingsley et al. (2017) concede the point that a car lease generally does increase the total cost to buyers compared to buying a car with a loan. However, the decision can be explained by rational factors that affect buyers including rising car prices, the non-deductibility of consumer loan interest, lower monthly payments, driving a more expensive car for the same monthly payments, and minimizing the down payment to preserve or invest cash. Kapoor et al. (2019, p. 305) treat the buy-or-lease decision very much as an open question for an individual consumer to determine. Other easily accessible personal finance material, including free source textbooks on the topic, treat the topic in a similar manner, in contrast to Ramsey's open-and-shut approach.
- Cash value life insurance products, such as whole life and universal life: "I want to be crystal clear here: Cash value life insurance is total garbage" (Ramsey 2011, p. 165). The advice from personal finance texts is to carefully evaluate life insurance options. Conventional personal finance textbooks (Kapoor et al. 2019, p. 434; Billingsley et al. 2017, p. 309; Keown 2019, p. 303) tend to present the advantages and disadvantages of various life insurance products. These texts point out a number of

benefits of whole life policies, including permanent coverage, savings vehicles, and some tax advantages. Of course, such books also point out the higher sales commissions and marketing fees as well as such policies having lower yields than traditional investments. However, they still leave the consumer's decision about cash value policies, open, in contrast to Ramsey's adamant opposition to such products.

- Fixed annuities: "I certainly don't use fixed annuities for anything" (Ramsey 2019f). Once again, Ramsey's advice is in some contrast to the type of advice found in typical personal finance textbooks. Traditionally, fixed annuities can be part of a recommended retirement income strategy (Kapoor et al. 2019, p 645). Billingsley et al. (2017, p. 568) point out that while fixed-rate annuities are conservative, very low risk, and essentially only promise a return of the principal plus a small rate of interest, they don't fluctuate in value as interest rates rise and fall, and so the principal is secure.
- Non-conventional mortgages, such as reverse and adjustable rate mortgages: "Focus only on conventional fixed-rate options, and never—*never*—get a mortgage term longer than 15 years" (Ramsey 2011, p. 300, emphasis in original). Thirty-year mortgages are commonly recommended as the safest and conventional choice; however, personal finance textbooks once again provide more context. Kapoor et al. (2019, p. 311) point out for those interested in debt reduction: "You might pay an additional amount each month (toward the loan principal) so your equity in the home will increase faster. Or you might choose a 15-year mortgage rather than one for 30 years." Billingsley et al. (2017, p. 202) add: "Because the borrower assumes most of the interest rate risk in these mortgages, the *initial rate of interest* on an adjustable-rate mortgage is normally well below—typically by 2 to 3 percentage points—the rate of a standard 30-year fixed-rate loan. Of course, whether the borrower actually ends up paying less interest depends on the behavior of market interest rates during the term of the loan" (emphasis in original).

To understand the financial products that are recommended by Ramsey, consider his optimal long-term investment portfolio, which is unconventional in that it is overbalanced toward growth. Specifically, Ramsey (2011, p. 209) recommends 25 percent allocations for each of four categories of stock mutual funds: (1) growth, (2) aggressive growth, (3) growth and income and (4) international. Consistent with his aversion to debt, he recommends zero percent in bonds. Notice that Ramsey's advice fails if the past high performance of such portfolios does not continue into the future. Downplaying "Past performance does not guarantee future results" and similar formulations (Newall and Parker 2019), Ramsey places a high weight on mutual funds' track records: "Always look at the track record of mutual funds before you buy one" (Ramsey 2011, p. 211).

Because consumers and investors in Ramsey's world are not rational, they need an investment advisor "with the heart of a teacher" (Ramsey 2011, p. 199) to patiently show them how their money should be managed and allocated. Ramsey has a network of local providers ("SmartVestor Pros") who subscribe to his teachings and pay him a fee. These providers in turn work on commission for clients. Ramsey evaluates providers using customer feedback but, reflecting his dismissive view of credentials, does not impose credentialing requirements for participating investment advisors. Ramsey's revenue from this part of his business model is substantial, with one back-of-the envelope calculation estimating $900,000 per month (Kelly 2017). With this and multiple additional sources of income pushing the total beyond $1 million per month (Harrison 2015), it is not surprising that Ramsey's net wealth is estimated at $55 million (The Richest 2019).

Although investment expenses associated with his approach are greater than for strategies such as buying and holding no-load mutual funds, Ramsey (2016) explains that advisors are necessary to maintain investor confidence (and to keep individuals from getting out of stocks when the market is down). The rational optimizer of economic theory does not need an advisor "with the heart of a teacher," referred by someone with a conflict of interest in recommending commission-based advising. However, someone who has repeatedly paid the "stupid tax" may do better paying high commissions, if only by avoiding stupid investment moves.

Ramsey's investment advice is at sharp odds with conventional personal finance:

- Index funds, strongly recommended in many quarters, do not play an important part in Ramsey's recommended strategy because they are not prominently featured by commission-based investment advisers. In a recent (February 2019) Initiatives of Global Markets (IGM) Survey by the University of Chicago's Booth School of Business, the following statement was evaluated: "In general, absent any inside information, an equity investor can expect to do better by holding a well-diversified, low-fee, passive index fund than by holding a few stocks." On this item, 57% responded "Strongly Agree," 36% responded "Agree," and the remaining 7% did not respond. It is clear that mainstream economists stand in sharp opposition to Ramsey's teachings on this topic.

- Adjusting an investor's asset allocation for age and risk tolerance, a commonly recommended risk reduction strategy (Kapoor et al. 2019, p 470; Billingsley et al. 2017, p. 435; Keown, 2019 p. 381), is not endorsed by Ramsey because he opposes bonds on moral grounds. A survey of dozens of financial literacy textbooks and websites was unable to find a single source in agreement with this philosophy. Every conventional financial planning resource suggests that bonds are a key component of a balanced investment portfolio.
- While traditional personal finance texts point out the advantages and disadvantages of commission-based advisors (Billingsley et al. 2017, p. 28), following the Ramsey approach means engaging a "SmartVestor Pro," typically compensated by commission. Personal finance texts tend to emphasize choosing Certified Financial Planners (CFP) or Chartered Financial Consultants (ChFC) while acknowledging CPAs, attorneys, investment managers, and other professionals may provide sound financial advice (Billingsley et al. 2017, p. 28). That said, such books and mainstream textbooks also focus on how an advisor is compensated (Kapoor et al. 2019, p 117). In most cases, the advice is to assure that they benefit when you benefit (growing your investment portfolio or providing an unbiased financial plan) rather than through commissions from buying investments or through trades.

The Baby Steps

How should people order their financial lives? The rational optimizers of economic theory continuously solve their complex life-cycle problem. Ramsey's non-optimizing consumers, in contrast, must be guided by a rigid sequence of actions. Ramsey calls his recommended sequence of actions "Baby Steps." A clear statement of the Baby Steps is found in Ramsey (2011, pp. 7-8):

- Baby Step 1: Put $1,000 in a beginner emergency fund.
- Baby Step 2: Pay off debt using the debt snowball (paying smallest principal amounts first).
- Baby Step 3: Put three to six months of expenses into savings as a full emergency fund.
- Baby Step 4: Invest 15% of household income into Roth IRAs and pretax retirement plans.
- Baby Step 5: Begin college-funding for your kids.
- Baby Step 6: Pay off your home early.
- Baby Step 7: Build wealth and give.

Ramsey rarely departs from the Baby Steps in advice to radio callers. A frequent early response to a caller's situation is "Where are you in the Baby Steps?" If, for example, a caller asks about transferring a credit card balance to a lower interest rate, Ramsey will insist that the $1,000 beginner emergency fund be complete before any debt management activity begins. Ramsey clearly believes in the rules-based approach derived from his experience in counseling individuals (Ramsey 2011, p. 6). Notice that Ramsey's approach agrees with conventional personal finance in some aspects, such as in recommending an emergency fund and systematic retirement saving. The striking contrast lies in Ramsey's aversion to debt and his insistence on adherence to rules. In the Baby Steps, only a $1,000 emergency fund is saved before an all-out assault on debt begins. Further, recall that exactly 15 percent of income is to be saved for retirement–not more and not less.

Baby Step 2's "debt snowball" provides a useful contrast of approaches. Mathematically, consumers will pay the least interest and get out of debt soonest if they tackle high-interest-rate debt first. This is the traditional advice of personal finance texts (Billingsley et al. 2017, p. 250). Ramsey's approach calls on consumers to forget the interest rate and focus on the smallest balance outstanding. Thus, a consumer following the debt snowball would pay off a $50 balance on an old store credit card before applying funds to the $2000 balance of a high-interest-rate card. The psychological lift of totally extinguishing one account, in Ramsey's view, far outweighs any disadvantages–and this advantage builds as additional small credit accounts are eliminated. Marketing research suggests (Gal and McShane 2012) that in practice, Ramsey's approach may work better despite being non-optimizing in a sense. Because home mortgages will typically be the largest debts consumers have as well as the lowest interest rate, in this case the "debt snowball" approach is likely consistent with traditional personal finance advice to pay off the lowest interest loans last.

Baby Step 7 shows a final contrast with traditional personal finance, which is studiedly neutral on the moral content of individual decisions. Ramsey's approach is specifically Biblical, relying on such texts as Psalm 24:1 ("The earth is the Lord's, and everything in it, the world, and all who live in it") and Luke 11:42 (the Christian discipline of giving away a tenth of income). It is not clear whether Ramsey's approach is consistent with optimizing models of maximizing lifetime wealth. Ramsey (2011, p. 308) sometimes seems to argue that giving wealth away will, through behavioral change, increase wealth in the long run. Sacrificial giving (Ramsey 2019g), on the other hand, would imply lower wealth but higher lifetime utility. This higher utility would come from a "warm glow" effect, inherent in the act of giving (Null 2011). Some of the utility would even come from knowing that wealth was being held by ethical people: "If you are a good person, it is your spiritual duty to possess riches for the good of mankind" (Ramsey 2013, p. 198).

Implications for Educators

Students often have been exposed to Dave Ramsey's principles before they enter our classrooms. It is important to be able to put these principles into context. The instructor who fully buys into Ramsey's approach might be tempted to discard conventional texts and just teach the Baby Steps.

However, doing that would be a disservice to students. Ramsey's approach is focused on the individual following his advice more than on learning the analytical principles of personal finance. The apprendix illustrates the issues, using the Council for Economic Education's National Standards for Financial Literacy (2013). The left-hand column contains the six major standards and the right-hand column summarizes Ramsey's treatment of that area. In some areas, such as budgeting, Ramsey's approach fundamentally agrees with the standards. In other areas, such as investment, the differences are large. In each case the national standards are detached and analytical, helping students understand how people behave, while Ramsey's approach is to command people. In other words, the standards focus on a social science approach to how people behave, but Ramsey tells people what to do. From this fundamental difference, at least three issues arise.

First, the Baby Steps, as fully implemented with associated advice from Ramsey, only work as long as the underlying rules continue to be accurate. Since the underlying rules are based on current price structures, future changes in financial services could dramatically degrade their quality. In the future, Ramsey's approach could involve giving up good deals if competition pushed pricing anomalies into line– for example, competition that made car leases or whole life insurance more favorable. The Ramsey approach avoids the informational problem (that gathering information on pricing anomalies is costly) by simply counseling adherence to the rules. Thus, Ramsey counts on a high degree of pricing inertia in financial products.

Second, Ramsey's aversion to debt is sufficiently out of the mainstream that a personal finance class would not be complete if it were the only viewpoint of debt taught. For many consumers, the temptation to overuse debt is so strong that making the case for extreme debt aversion is a useful exercise. But for many others, including highly successful builders of net wealth, the time and transaction cost of totally avoiding credit is excessive.

Third, Ramsey's evidence of success has important selection and causation problems. Ramsey (2011, p. 54) insists that a written budget goes along with success—but is that effect caused by the budget, or do people who successfully budget also have other characteristics that are associated with success? Investors who have financial advisors have larger portfolios (Ramsey 2016), but what causes what? Only studies that carefully control for endogeneity (Marsden et al. 2011) can provide useful knowledge on the value of seeking financial advice. Finally, consider how Ramsey (2019h) conducted a survey of millionaires among his audience to share their strategies. Although this approach has a long tradition and is useful for gathering success stories (Stanley 1996), self-selection by self-identified millionaires leaves it powerless to determine causality.

It is also fair to ask what motivation lies behind Ramsey's enterprises. A natural first hypothesis from economics would be that he maximizes his own net wealth–and rather successfully, at that (The Richest 2019). Ramsey himself says that his company defines success "by the number of lives changed" (Ramsey 2019i). These two goals are not necessarily conflicting.

Conclusion

It is hard to argue with Dave Ramsey's commercial success, even as reservations about some of his financial teachings apply. His Baby Steps make a great deal of sense when applied to those with significant debt who do not know where to start or what to do next. At the same time, his preferences for which financial products to emphasize and to avoid are far from the mainstream. Whether educators agree or disagree with his approach, they need to know what he is saying.

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APPENDIX

National Standards vs. Dave Ramsey's Approach

CEE Financial Literacy Standards (2013)	Dave Ramsey's Approach (2011)
I. Earning Income. Income for most people is determined by the market value of their labor, paid as wages and salaries. People can increase their income and job opportunities by choosing to acquire more education, work experience, and job skills. The decision to undertake an activity that increases income or job opportunities is affected by the expected benefits and costs of such an activity. Income also is obtained from other sources such as interest, rents, capital gains, dividends, and profits.	"Work in your strengths" because you are unlikely to change fundamentally and you will learn and grow the most in areas where you are already strong (2011, ch. 11). Take part-time and side jobs as necessary to achieve short-term goals like getting out of debt (2011, 266-267). Work hard but "you are not your job," so play hard when you are not working (2011, 269-270).
II. Buying Goods and Services. People cannot buy or make all the goods and services they want; as a result, people choose to buy some goods and services and not buy others. People can improve their economic well-being by making informed spending decisions, which entails collecting information, planning, and budgeting.	Use a written budget to control your spending, assigning every dollar of expected income a destination in advance, using only cash with a budget envelope system if necessary (2011, 68-69).
III. Saving. Saving is the part of income that people choose to set aside for future uses. People save for different reasons during the course of their lives. People make different choices about how they save and how much they save. Time, interest rates, and inflation affect the value of savings.	Save a $1000 "baby emergency fund" until you are out of debt, then an emergency fund of three to six months' income, then 15 percent of gross income for retirement plus additional amounts for children's future education (2011, 7-8).
IV. Using Credit. Credit allows people to purchase goods and services that they can use today and pay for those goods and services in the future with interest. People choose among	Do not use credit. The only acceptable use of credit is to purchase a house after you are out of debt, limiting the mortgage payment to 25 percent of take-home income on a 15-year fixed-rate

different credit options that have different costs. Lenders approve or deny applications for loans based on an evaluation of the borrower's past credit history and expected ability to pay in the future. Higher-risk borrowers are charged higher interest rates; lower-risk borrowers are charged lower interest rates.	mortgage with 10 percent down (2011, 30) Do not seek a high credit score; instead seek to have no credit score at all (2011, 108)
V. Financial Investing. Financial investment is the purchase of financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.	Allocate all of your invested funds to mutual fund (growth, aggressive growth, growth and income and international) and zero percent to bonds (2011, 207). Purchase these investments through a local professional "with the heart of a teacher" (2011, 199)
VI. Protecting and Insuring. People make choices to protect themselves from the financial risk of lost income, assets, health, or identity. They can choose to accept risk, reduce risk, or transfer the risk to others. Insurance allows people to transfer risk by paying a fee now to avoid the possibility of a larger loss later. The price of insurance is influenced by an individual's behavior.	Do not go uninsured, but instead immediately purchase homeowner's (or renter's), auto, health, disability, long-term care (for those over 60), identity theft and life insurance (2011, 149), preferring large deductibles (2011, 150); own ten times your income in term life insurance—and never cash value life insurance of any form (2011, 164-167).