

Lesson 4—Working Your Plan and Getting Out of Debt
(Matthew 6:25-34)

Key Concept: Your monthly Cash Flow Plan will only work if you allocate your money according to pay periods.

- I. Income Allocation—*How to spend your money before you get paid*
 - A. Envelope System: As explained in the previous lesson, many (if not all) of your monthly bills can be paid through the envelope system.
 1. The envelope system allocates your monthly payments using checks or cash, dividing each monthly bill by the number of pay periods you have each month.
 2. The envelope system works best for people who have a “hands on” mentality and like to see their checks/cash physically allocated to a physical place—the envelope.
 3. A complete envelope system may be difficult for some to practice immediately because you have bills *now* and the system demands you pay in advance.
 - B. Allocated Spending Plan: Those with several incomes and many bills will benefit from this “spend it on paper first” method.
 1. Record the income from each pay period on the income line. (If you receive two checks during the same period—husband and wife, for example—add them together and record the amount.)
 2. Each column represents one pay period. Determine when each bill should be paid (from which pay period) based on the amount due and the due date.
 3. Record the payment amount to the left of the slash. Subtract the payment amount from the income and record the new balance to the right of the slash. Continue the process until all the money from that pay period is spent.
 4. Incorporate the envelope system for some things where cash can be used—groceries or eating out. Get cash from your checking account, fund the envelope, and record the amount and balance on the Allocated Spending Plan.
 5. Using the Allocated Spending Plan means that you will maintain a large check book balance until you’ve paid your bills. **DO NOT** deviate from the plan, or you won’t have money for your bills.
 6. Both the Allocated Spending Plan and the Envelope System (or a combination of both) **requires** that you balance your checkbook!

Key Concept: **Getting out of debt requires a plan. If you fail to plan, you plan to fail!**

- II. Eliminating Debt Quickly *and* Psychologically
 - A. Using the Debt Reduction Plan form, list your debts in order of smallest payoff balance to largest. Do not be concerned with interest rates at this point, and do not list your home mortgage (*do list* second mortgage loan debts).
 - B. Pay the minimum monthly payment on all debts *except the smallest*.
 - 1. You want to pay off the smallest debt first, thereby giving you a sense of accomplishment.
 - 2. Review your Cash Flow Plan and Allocated Spending Plan to find extra cash to put on this debt. Be ruthless—you don't *need* cable TV.
 - 3. Example: You owe VISA \$100.00. The minimum monthly payment is \$10.00. You can find an additional \$20.00 per month to put on that bill. You will pay \$30.00 per month until the bill is paid.
 - 4. Once that debt is paid, you have freed up an additional \$30.00 per month to apply to the next debt on the list. If that debt has a minimum monthly payment of \$25.00, you will now pay \$55.00 per month until that bill is paid off.
 - 5. With each debt you pay off, the amount you can commit to the next debt increases! (Remember, you've been making the monthly payments on these debts all along. Now you're paying much more!)
 - C. Tips for Working Your Debt Reduction Plan
 - 1. Stay inspired—paying off little debts first allows you to see quick progress. Even though the initial victories are little, they are more than what you'd be doing without a plan.
 - 2. Just say “no” to debt—it is essential that you not accumulate *any* additional debt. Additional debt will derail your progress. Use your emergency fund for *real* emergencies, and learn to say “no” to the rest.
 - 3. Never use newly freed up cash for anything except the reduction of the next debt. You can celebrate only after your debt reduction plan is complete.
 - 4. Review your plan regularly and rejoice in your *progress*. Do not become discouraged if it seems slow at first. It will snowball very quickly!
 - 5. Whenever possible, accelerate your plan by adding any extra money to the debt payment you're trying to eliminate. Any small windfalls (tax return, gifts, etc.) should be applied to debt elimination.

License and Taxes	___/___	___/___	___/___	___/___
Car Replacement	___/___	___/___	___/___	___/___

CLOTHING

Children	___/___	___/___	___/___	___/___
Adults	___/___	___/___	___/___	___/___
Cleaning/Laundry	___/___	___/___	___/___	___/___

MEDICAL/HEALTH

Disability Insurance	___/___	___/___	___/___	___/___
Health Insurance	___/___	___/___	___/___	___/___
Doctor	___/___	___/___	___/___	___/___
Dentist	___/___	___/___	___/___	___/___
Optometrist	___/___	___/___	___/___	___/___
Drugs	___/___	___/___	___/___	___/___

PERSONAL

Life Insurance	___/___	___/___	___/___	___/___
Child Care	___/___	___/___	___/___	___/___
Baby Sitter	___/___	___/___	___/___	___/___
Toiletries	___/___	___/___	___/___	___/___
Cosmetics	___/___	___/___	___/___	___/___
Hair Care	___/___	___/___	___/___	___/___
Education/Adult	___/___	___/___	___/___	___/___
School Tuition	___/___	___/___	___/___	___/___
School Supplies	___/___	___/___	___/___	___/___
Child Support	___/___	___/___	___/___	___/___
Alimony	___/___	___/___	___/___	___/___
Subscriptions	___/___	___/___	___/___	___/___
Organization Dues	___/___	___/___	___/___	___/___
Gifts (inc. Christmas)	___/___	___/___	___/___	___/___
Miscellaneous	___/___	___/___	___/___	___/___
BLOW \$\$	___/___	___/___	___/___	___/___

RECREATION

Entertainment	___/___	___/___	___/___	___/___
Vacation	___/___	___/___	___/___	___/___

DEBTS (Hopefully – 0)

Visa - 1	___/___	___/___	___/___	___/___
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