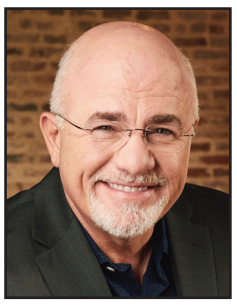
Dave Says

By Dave Ramsey



Dear Dave: How do you handle a situation where someone needs financial help, but has misspent money you've given them in the past?

My wife and I have been trying to help a young man we recently met. He told us he was trying to get his life together after a divorce and job loss, and he just needed a little money for groceries and household items. He has asked us a couple of times since for more money, but we discovered he was buying alcohol with most of the cash we gave him. We learned from friends what he said about losing his job and being divorced was true, but we are unsure what to do next. — Andrew

Dear Andrew: This young man's problem sounds as much like a mismanagement of money as it is a lack of money. He seems to have an issue with lying, and possibly an addiction problem, too.

I've never been against helping people who have good hearts and just need a break. But if someone is bold enough to ask for your money, you have every right to attach requirements to the help you give— especially when it's for their own good. If he really needs food or household things, you can just buy them for him. At least that way, you'd know you were providing necessities.

But in many cases, truly helping someone is a lot more work than just giving them money. Sometimes, you have to get down in their mess, get real with them and walk with them. If you haven't been put off by what has already happened, and you still really want to help, I'd suggest getting to know this young man and his situation a little better. Be straight with him, and let him know you've learned he hasn't been honest with you in the past. Hopefully, as a result he'll apologize and start making better choices. If he does, you might even offer to arrange for him to talk to a good pastor or counselor.

This whole situation is much bigger than helping someone with a little cash. This guy needs someone who cares enough to help him get his life back together. — Dave

Dear Dave,

The other day, my wife and I discovered a Thrift Savings Plan (TSP) we'd forgotten about for over 10 years from my time in the Army. There's a little over $3,200 in there. We're both in our thirties, and we're trying to save up our starter emergency fund in Baby Step 1 of your plan. We were wondering if we should withdraw the money and use it toward Baby Steps 1 and 2, or just leave it in there. Todd

Dear Todd,

The best thing to do is roll the money over into an IRA. Otherwise, you're going to be hit with a 10% penalty—plus your tax rate—and end up paying 30% to 40% of it to the government. That's kind of like asking, "Would it be a good idea to borrow $3,200 at 30% interest to pay off debt?" Of course not! That would be a really dumb idea. And in a sense, that's what you'd be doing by just taking the money out of the TSP.

It's not a ton of money, but conceptually, I hate the idea of giving the government 30% to 40% of my money just to get my money out. So yeah, do some research, find a good investment professional near you—one with the heart of a teacher—and roll it into an IRA.

Congratulations to you and your wife for deciding to take control of your money. And thank you for your service to our country, Todd. I hope this helped. — Dave

Dear Dave,

I'm an anesthesiologist, and I make between $260,000 and $270,000 a year. My wife is a stay-at-home mom who takes care of our preschool-age kids. We have about $50,000 in a retirement fund, $50,000 in consumer debt, $220,000 in student loan debt, and we owe $280,000 on our house, which is worth around $500,000.

We're thinking about using our retirement fund to pay off credit cards and such, then selling the house and using the money to pay off the student loans. After that, we'd live in an apartment for a while, save up to 20% or more for a down payment on the next home, and do things right financially moving forward. What do you think about this game plan? Jake

Dear Jake,

Wow, I really appreciate your motivation, man. You're willing to do whatever it takes, and that's pretty cool. Not many people have the determination to do the kinds of things you're talking about.

I almost never tell people to sell their homes. If you actually can't afford it, that's one thing—and in that case, we'd sell the house. If it's the only way to avoid bankruptcy, we'd get rid of it in a heartbeat. But in your case, things are a little different. You're in a pretty deep hole, but your income as an anesthesiologist gives you a really big shovel you can use to carve out some steps, get up out of that hole, and fill it in so you never fall in again.

Now, this is going to mean some real lifestyle changes for a few years. I'm talking about beans and rice, and no vacations. There's no more living like a rich doctor because you're not a rich doctor—you're a broke doctor. We're going to temporarily stop adding to your retirement fund, not cash it out, and we're going to start living on a written, monthly budget where every single dollar is given a name and a purpose.

Cleaning up $270,000 of debt sounds scary. But with a $260,000 income and the other changes we talked about, you could put $90,000 a year toward all this and have it completely cleaned up in just three years. That's what I'd do if I woke up in your shoes. It will set you free for the rest of your lives to invest and save.

Get on it, doc. You can do this! — Dave

Dave Ramsey is CEO of Ramsey Solutions. He has authored seven best-selling books, including The Total Money Makeover. The Dave Ramsey Show is heard by more than 14 million listeners each week on 600 radio stations and multiple digital platforms. Follow Dave on the web at daveramsey.com and on Twitter at @DaveRamsey.