Reducing Debt Takes Commitment and Patience

Debt: It is something that no one wants but just about everyone has. It is easy to get into and hard to get out of.

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The good news is that regardless of the cause and amount of your debt, there are steps you can take to manage and overcome it.

First, you need to remember that there is generally no quick way to get out of debt – solving your debt dilemma typically requires time and effort. Additionally, you may want to address your debt sooner so that you may not be paying more later.

When trying to reduce debt, consider the following eight-point game plan:

1. Take control right now

There may be no better time than the present to reduce your debt. But before you do anything, evaluate your financial records to determine your income and your expenses.

In one column, list your regular monthly income, such as salary and pensions. In a second column, list all your expenses. Start with your major expenses, such as mortgage or rent, utilities, food, transportation and credit card payments. You should also include any additional cash expenditures, as well as any expenses that occur other than monthly, such as property taxes and insurance.

2. Create a budget

"If you fail to plan, then you plan to fail" is a common expression, and it applies to your finances.

Based on your income and expenses, you should plan and establish a budget that helps you allocate money for all of your categories of spending.

Look over everything and consider eliminating unnecessary costs. You might want to ponder the following questions:

- Why not eat at home instead of dining out?
- How about renting movies rather than going to the theater?

As you go about creating a budget, include the entire family in the process so they will better understand your financial situation.

KEY POINTS

- The sooner you address your debt, the sooner you can begin to do something about it.
- Developing a budget and sticking to it is a good way to get a handle on your finances.
- You need to pay particular attention to your credit cards – how many you have and how much debt you accumulate on each.

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Reexamine the numbers with them and look for ways to increase income while trimming expenses. For instance, can another member of the family take on a job? If you are renting, is it feasible to move to less-expensive housing?

For more tips on budgeting, see the MFS Heritage Planning® infosheet "Creating a Household Budget."

3. Pay off your credit cards

Consider eliminating credit card debt as one of your top priorities, because paying it off can give you flexibility. If you are stretched to the limit now, that means you have no margin for error, no room to maneuver in an emergency. Paying down the debt allows you to free up some of your cash flow for other things.

One great way to reduce credit card debt is to pay more than the minimum. Do not settle for that nice low number on your bill. Can you pay more? If you can, then you should consider doing so. Also, remember to pay your credit card bills on time. Paying late is another debt sin that you want to avoid, or you will be hit with unnecessary late fees.

4. Reduce the number of credit cards you have

You should also consider having only a few credit cards and making sure they have the lowest rate available. Do not be afraid to shop around and consolidate your credit card debt by transferring to one or two cards to get a better rate.

5. Consider not taking on additional debt

Remember what got you into trouble. Handle what you have first before you start adding to your debt. You can do this by resolving that you will only use your credit cards for emergencies over a certain time period, say six months. For other purchases, you can use cash or a debit card. Finally, credit card debt should be distinguished from so-called good debt, such as a mortgage, which can be seen as more beneficial because it is tax deductible and can also be a financial asset.

6. Contact your creditors

If you find yourself in dire consequences, speak directly with the organizations to which you owe money because they may be willing to arrange a payment schedule that could enable you to temporarily reduce monthly contributions. If you own your home, ask your mortgage company about a forbearance agreement, which can lower or eliminate payments for a set period of time.

7. Consider credit counselors

You may opt to get help with your situation rather than handling the details yourself. Assistance is available for little or no cost through government programs or credit counseling services that will work with you to develop a long-term plan to pay off debt. However, using these services may have a negative impact on your credit rating. You may want to consult a financial advisor or investment professional for input and advice. Ask friends and relatives for recommendations on financial advisors or investment professionals or contact professional associations, such as the Financial Planning Association.

8. Stay vigilant

Once you have reduced or even paid off your balances, remember to guard against incurring debt again. If you lack self-discipline, consider phasing out credit cards and using debit cards instead.

Debt management is a continual process, so stay on top of your situation and try to keep more of your money!

Resource

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