

# 5 Steps to Paying Down Debt

Debt is a fact of life for most of us. It can be overwhelming and emotional too. It's all too easy to shop, spend, swipe your card for the short-term thrill without considering the long-term consequences.

But debts aren't always a choice. There are medical bills, car repairs and financial emergencies you can't anticipate. If you don't have a savings cushion to absorb the blow, using a credit card to pay for that new water heater may be your only option.

It's not easy to get out of debt, but there are options you can use for digging yourself out of debt and moving forward with your financial life.

Take these five steps to heart, and you can make a big dent in your debts – or even pay them off completely if you stick to the plan.

## 1. Do One Thing Now

This step might help you find the mindset you need to make progress. It's about changing habits that have gotten you into debt. Pick something on this list and get started today.

- Remove your credit cards from your wallet. Keep one for emergencies if you must, but do not use it for anything else.
- Delete credit card information from online shopping sites. Resists temptation for quick purchases starting now.
- Avoid restaurants, happy hours and delivered meals. Eat at home and shop for food bargains.
- Get a second (or third) job. Earning more means you can pay more on debts. See step 4.
- Unsubscribe from email offers. Only you can stop impulse spending.
- Postpone any tentative travel plans. Stay home and put the money toward a debt payment.
- Pay your bills on time. Late fees only add to the pain your debts are causing. Set up autopay, ask about changing due dates closer to payday, and be diligent.
- Use cash. Sounds impossible with all the alternatives. But even if you pay with cash for gas and groceries, you will gain a better understanding of where your money is going.
- Contact creditors. You may be able to negotiate lower interest rates or flexible payment options, but only if you have a history of on-time payments.
- If your debts seem insurmountable, consider credit counseling. See the credit counseling article on the Thriving in Love and Money website.

### Pay More than the Minimum

If you pay only the minimum on your credit card bills each month, you are not alone. But minimum payments are barely enough to cover the interest on your debt.

For example, say you owe \$2,000 on a credit card that charges 20% interest.

If you make the minimum 2% monthly payment of \$40, you will pay more than \$9,100 in interest and principal and take more than 30 years to pay off.

If you could double your monthly payment to \$80, your total payments will be nearly \$3,300 over 8 years.

Finding an extra \$40 per month for that bill could save \$6,000 in interest and take years off the loan.

Hypothetical example for illustration purposes. Does not reflect specific credit card or payment requirements.

## 2. Know What You Owe

This step is not easy, since it requires actually opening your bills. Too often, when the debts stack up, we hide the truth from ourselves. Today is the day you make a change. This is not a drill. It's your future we're talking about.

Gather and review your recent statements and bills. That means all of them. It's up to you to know what you owe and how much interest you are being charged on your monthly debts.

Use the chart below or something you create to document every debt you currently owe. Include name of creditor, annual interest rate, balance, minimum payment and due date. The last column is for notes such as late fees, how long you have had the debt, etc. By the way, you can do this. Keep going.

| Account/Creditor | Interest Rate | Balance | Minimum Payment | Due Date | Notes |
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## 3. Know Your Cash Flow

Another key to paying down your debt is understanding how much money you have to work with. Tracking your income and expenses can help you make progress. Use the expense planner on the Thriving in Love and Money website to get started. It will help you give shape to your **Income – Committed = Spendable** equation.

## 4. Find Money for Debt Payments

We do not mean to imply that it's easy to pay more on your debts. Finding more money to accomplish that goal is hard! But it may be worth it to you to give it a try.

As with step 3 on knowing your cash flow, finding extra money to pay on your debts will take some effort. There are basically two ways to do it: increase your income and decrease your spending.

- Can you ask for a raise at work? Request overtime hours? Get a different job that pays more or add a side gig by putting your skills to work (childcare, yard work, house cleaning, ride sharing).
- Refer to 35 Ways to Save Money on the Thriving in Love and Money website for more ideas.

## 5. Choose Your Pay-down Plan

There are many ways to approach your debt. One strategy is to pay your biggest credit card bill first and work your way down. Another option is pick a bill that bothers you the most and get after it. After all, debt is tied to your emotions and your confidence.

Here are three approaches to consider. Choose the one you like and go for it.

| Pay-Down Approach      | Highest Interest Rate   | Lowest Balance   | Emotional Debt   |
|------------------------|---|--|--|
| What to do             | Pay as much as you can on the credit card debt with the highest annual percentage rate (APR). Pay the minimum on all other debts. Once the highest rate debt is eliminated, move on to the one with the next highest APR. | Pay as much as you can on your debt with the lowest balance first. Pay the minimum on all other debts. Repeat the process with the next lowest debt. | Pay off the debt that bothers you, maybe even haunts you. Choose the debt that will give you the biggest emotional boost when it's paid off and pay the minimum balance on all others for now. |
| Why it works           | By paying off the highest APR first, you reduce your total amount of interest paid over time.   | Called the Snowball approach, you build momentum by paying off the smallest debt first. And you move on to the next debt more quickly.               | The prospect of gaining emotional relief is significant. Feeling good about your progress is worth it.   |
| What to consider       | If this debt is your highest balance, it may take awhile to pay off the debt, which may feel like you aren't making progress.   | You will have fewer bills sooner, but you may end up paying more interest over time.   | You may end up paying more interest on other debts in order to rid yourself of the debt with emotional ties.   |
| May be right if you... | Want to pay the least amount of interest to your creditors and you are patient.   | Like to see progress in the short term even if it means paying more interest.  | Have a debt that causes relationship stress or you owe money to a family member or friend.   |

## Keep Going

If you have read this far, you are serious about paying off your debts. Review Step 1 and see what you can do now. Then tally up your debts and dig deep for ways to spend less money. Choose an approach for paying down your debts and get started.

NOTE: If you believe you may need extra help, learn more about credit counseling on the Thriving in Love and Money website.