WANNA BE A

MILLIONAIRE?

STEP 3: DIGGING OUT OF DEBT

DEBT BUSTERS
An Overspent America

Americans are carrying more debt now than ever before—about $1.35 trillion altogether, and that figure doesn't include mortgages. What's more, credit card balances average a staggering $5,000 per household.

It's no wonder debt is growing at such an alarming speed when you consider the myriad of credit options available. From titanium credit cards and expedited loan approvals to guaranteed checking accounts and even margin trading, spending money—lots of money—has become all too easy.

Financial experts recommend that personal debt, not including a mortgage, should be less than 20% of your annual take-home pay. Unfortunately, this is rarely the case. To be sure, many Americans have more money going out than coming in. Reversing this trend would truly simplify the management of personal finance. If you're struggling with debt, review the action steps and helpful resources below to find out what you can do to take back your financial life.

Take Action
Digging out of debt

Digging out of debt is not an insurmountable challenge. While it may feel like the deck is stacked against you at times, if you play your cards right, you can eliminate the detrimental effects of debt and reduce the overall amount of debt you carry. Here's what you can do.

Get a plan. In order to dig out of debt or even just avoid excessive debt, you're going to need to put together a budget. A sound budget will enable you to get a handle on exactly how much is coming in and how much is going out. For more information, refer to the previous handout entitled "Step 1: Putting together a budget."

Use your savings to pay off debt. The best investment you can make is paying off debt—especially high interest debt. This is true because the interest rate charged on debt, almost without exception, is higher than interest earned on other investments.

"If your family's annual take-home pay totals $40,000, your debt, not including a mortgage, should be no more than $8,000."

If you have some money put away, the place to start paying off debt with these funds is obvious—pay off the debt with the highest interest rates first. If you have credit cards, they're a prime suspect. To find out how much interest you're paying, check your monthly statement or call your card provider.

Transfer debt from high interest loans to lower rate loans. This process is known as refinancing and can be enacted on most personal debt. It, of course, makes most sense to refinance those loans with the highest interest rates.

Again, the most likely candidate is the credit card. Many times, it's worth the hassle to switch cards and transfer existing balances in order to lock in a lower APR. Just remember to read the terms of agreement and to always make informed decisions.

But remember this, refinancing high interest loans to lower rate loans and spending more is nothing short of foolish.

Get a copy of your credit report. Collecting and reporting credit information is a billion-dollar-a-year industry that keeps track of literally millions of credit histories. What's more, your lenders, landlords, realtors, and credit card companies are all itching to get the "inside story" on your credit.

Since so much rides on your credit history, it's important for you to stay in the loop—especially before applying for a major loan or credit offer. You can obtain your report by contacting one of the three national credit systems.

– **Equifax.** Call 1-800-685-1111 or go to www.infocheck.co.uk

– **TRW.** Call 1-800-422-4879 or www.trwsfcu.org

– **Trans-Union.** Call 1-800-888-4213 or www.transunion.com.

The approximate cost for obtaining a copy of your report ranges from $2.00 to $8.50 depending on the state in which you live.

Avoid the debt boomerang. Once you've gone to the work of paying off and refinancing your debt, you'll want to make sure you do everything possible to avoid getting buried in expense a second time. Here's what you can do.

- Stick with an established budget.
- Start saving money every month.
- Make sacrifices.
- Watch your expenses.
- Cut up extra credit cards—one is more than enough.
- Comparison shop.
- Periodically review your spending habits.
- Meet with a financial advisor—they can help you stay on top.

Financial Lifelines
Where to go for more info

Web Sites That Can Help

Center for Financial Well Being
www.healthy.net/wellness/healthycash/center/index.html

Money Magazine
www.money.com

The Wall Street Journal's Finance magazine
www.smartmoney.com

Books That Can Help

1001 Ways to Cut your Expenses by Jonathan P. Pound

Wall Street Journal Guide to Understanding Personal Finance

The 9 Steps to Financial Freedom by Suze Orman

Credit Card & Debt Management: A Step-By-Step How-To Guide for Organizing Debt & Saving Money on Interest Payments by Scott Bilker

Brochures and Pamphlets That Can Help

Personal Finance: Tricks of the Trade
Wellness Councils of America
Just for You Brochure Series
To order call 1-402-827-3590 or go to www.welcoa.org

What You Should Know About Financial Planning
Federal Consumer Information Center
Title Number: 584G
To order call 1-888-878-3256 or go to www.pueblo.gsa.gov

Planning Financial Security
Federal Consumer Information Center
Title Number: 586F
To order call 1-888-878-3256 or go to www.pueblo.gsa.gov

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QUESTION 3:

Joe Smith's annual take home pay is $43, 735. According to the formula presented in the handout, not including Joe's mortgage, his debt should be no higher than:

- ❑ **A) $4,373**
- ❑ **B) $6,560**
- ❑ **C) $8,747**
- ❑ **D) $10,933**

NAME

Sample Debt Worksheet

INCOME

Annual occupational income (after tax)	___________
Annual investment income, such as interest, earnings, and dividends (after tax)	___________
Other annual income (after tax)	___________
TOTAL ANNUAL INCOME (AFTER TAX)	___________
TOTAL INCOME MULTIPLIED BY .20	___________

DEBT

Car loans	___________
Student/educational loans	___________
Credit card debt	___________
Other loans	___________
TOTAL DEBT NOT INCLUDING A MORGATAGE	___________

The Bottom Line

Compare the figure on this final line to your "TOTAL INCOME MULTIPLIED BY .20" to see if your debt is less than 20% of your annual take home pay. If it is, congratulations—you're within the debt limits prescribed by financial experts. If, however, your debt is higher than 20% of your annual take home pay, you'll need to seriously consider taking action in order to reduce your debt.