



DEBT CONTROL

Getting out of debt is simple, but not easy

IF YOU'RE LIKE MOST AMERICANS, you have debt. But have you ever actually sat down to figure out how much debt you have and what it's costing you? How much it will impact your future?

If your debt involves using credit cards and other forms of installment debt to finance a lifestyle you couldn't otherwise afford, you should be concerned. High-interest credit card debt will impact your take-home pay for years to come. It will leave you with less money to live on, less to save for your children's education, and maybe even less for your own retirement. Compounded interest works for you when you save and invest, but with credit cards, it just puts you deeper in debt.

Consider the following two scenarios of savings vs. debt:

1. You save \$75 every month at 5 percent interest. After five years, you have

\$5,100 in emergency savings.

2. Over the same five years, you come up short \$75 per month, on average, and routinely cover the difference with a credit card. At the end of those five years, you'll have more than \$7,200 in debt, assuming an 18 percent credit card interest rate. That's an extra \$2,100 in debt beyond the \$5,100 earned by saving \$75 per month!

This is the difference between saving money and paying down debt—a difference that just keeps on getting bigger as time goes by. If you're using credit to live beyond your means during your working years, you'll be in trouble when you retire, and your debt could very well drain your retirement nest egg.

Compared to most money management topics, getting out of debt and staying out of debt is pretty simple. It amounts to spending less money than

you make on a consistent, long-term basis. Nothing else will get the job done. At the same time, getting and staying out of debt demands a lot of willpower over a long period of time. The following steps can serve as a guide to help you get out of debt and, ultimately, achieve a more financially secure future.

Set Up a Budget

The key to getting out of debt is knowing what you're spending your money on. So your first step is to write down what you spend. After you have recorded it for a month, categorize your spending into logical groups. Write down the amount you spent in each category last month as your budget for spending the next month.

As you look at your new budget, you'll see areas where you can cut back. Are you paying money for a gym mem-

bership you never use? Could you eat in more than you eat out? Only you know what's essential and what can be cut. Be realistic and honest with yourself. Chances are, you will be able to take money out of your spending to pay against your debt, without ever missing it.

To stay within your budget, keep track of what you spend in the categories you are trying to cut back. This will give you a clear idea of how you're doing and may help you decide to hold back on a purchase that would put you over your budget. When you do shop, look for deals, bargains, and savings.

Pay Down Your Debt

Now it's time to take the amount you cut from your budget and start applying it to debt repayment. Since unpaid credit card balances are the worst kind of debt, make paying off credit cards a priority. Pay off the balance on the credit card with the highest interest rate first. Repeat this process until you reach the credit card with the most favorable terms and keep that one only. (Keep in mind that with credit card debt, the last thing you want to do is add to it—so stop using your cards.) Your goal should be to carry only one or two credit cards with balances paid in full every month.

Pay more than the minimum balance—much more. Your payments include both interest and principal. When you pay only the minimum payment, most of it goes toward interest, which is why it takes so long to pay off the original debt.

To avoid temptation, stop the flood of credit card offers. Force credit card bureaus to stop selling your name and address. Dial 1-888-5-OPTOUT to get the forms. If you're searching for a low interest card, check out Web sites like cardweb.com or bankrate.com and do your own research.



The 28/36 Rule

In the financial industry, especially among mortgage lenders, there is a rule of thumb for making sure loan applicants do not take on too much debt. It's called the "28/36 rule" and looks at two important aspects of your finances—how much you spend on housing and your overall debt.

The 28 (Housing Costs)

Your monthly housing costs (principal & interest, property taxes, and insurance) should add up to no more than 28 percent of your monthly gross (pretax) income. Even though you may "qualify" for a larger loan, 28 percent is the target to aim for. Otherwise you risk overextending yourself; with the potential for reduced savings and credit card debt.

The 36 (Total Debt)

Your total monthly debt payments (mortgage, car & student loans, credit cards, and any other debt) should equal no more than 36 percent of your monthly gross income. Spending above that amount could negatively impact your future. You may be paying too much interest, living beyond your means, and running the risk of defaulting on your bills if you encounter difficult times.

You could also try negotiating with your credit card company for more favorable terms, particularly if you've had your card for a while. Call and demand a low-

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er rate. You could bring your 16 to 20 percent rate down to 11 or 12 percent. It might be easier than you think.

Consider other resources to pay down debt. Would a friend or relative lend you money? The interest rate should be low or non-existent. Do you have equity in your home? A home equity loan carries a low interest rate and, in most cases, the interest is tax-deductible. That certainly isn't true of high-interest credit card debt. But remember that credit card debt

is unsecured debt, while home equity loans are secured debt. That means that with a home equity loan, your house is now at risk.

Don't consider debt consolidation or consumer credit counseling agencies your first stop. These should be a last resort. If you're going to get your finances in order, doing it on your own will help you learn the skills you need to solve your problem and avoid getting yourself into this situation again.

Look for extra ways to make money. Could you work part-time? Do you have a skill or hobby that you could use to earn some extra income? If you do, this money could be put directly toward your debt and give you additional income potential in the future.

Look to the Future

When you get past credit cards, keep reducing your other debt aggressively, but be sure to plan ahead. You also need to start saving. Try to budget beyond the



Tapping Retirement Savings

At first glance, tapping into your retirement savings to reduce debt seems like an ideal solution. But taking an outright withdrawal or a loan could cost you more than you realize.

Withdrawals

If you withdraw funds from a retirement account balance, you'll pay income tax and, if you're under age 59½, add a 10 percent federal tax penalty for early withdrawal. For instance, if you withdrew \$10,000 and are in the 28 percent tax bracket, you would be left with just \$6,200. As you can see, the costs of an outright withdrawal are high.

Loans

Some employer-sponsored retirement plans allow you to borrow against your account balance. But this should be done only in an extreme emergency because you potentially accumulate less funds over your lifetime, and your loan and any interest charges will have to be repaid with after-tax dollars. Also, if you change jobs and your plan requires full payment before you leave, your outstanding loan will have to be paid off quickly or it will be considered a withdrawal, subject to taxes and penalty.

monthly must-pay bills to cover things like future appliance needs, vacations, and next year's tuition payments. Failure to set up such a fund can lead to a step backwards—to credit card debt—just when you were starting to get ahead.

Planning for emergencies, like losing a job or an extended disability, is also a key element of debt control. The general rule is to have three to six months of living expenses set aside for emergencies.

Finally, don't neglect saving for retirement. Get your debt under control, and then save for the future. The benefits of compounded interest over time is no secret, and you will probably need this growth to enjoy a comfortable retirement. The last thing you want to do is deal with debt for the rest of your life.

Benefit from NMB's Bi-Weekly Plan

Paying off your mortgage a little faster can save a surprisingly high amount of interest over time. That's the idea behind a bi-weekly mortgage payment program.

For instance, if your traditional 30-year mortgage payment was \$1,000 per month, you would pay \$500 every other week with a bi-weekly mortgage. This adds up to two extra half-payments per year. When this amount is applied to the principal, it can cut years off your mortgage and save thousands of dollars in future interest payments.

The Bi-Weekly Mortgage Life Insurance Benefit Plan, available through National Mutual Benefit, enhances this

**NMB's Bi-Weekly Plan
will not only increase
your financial security,
it could help you save
even more!**

concept by putting the "extra" half-payments (two per year) towards a universal life insurance policy. With NMB's plan, you gain life insurance protection and

accumulating policy cash value. This cash value can be used to retire your mortgage early or for other needs, such as educational expenses, home improvements, emergencies, or retirement. And that's not all . . .

The plan will work with your current mortgage and is transferable if you refinance or purchase a new home. It can be initiated without refinancing or credit approval, and features convenient, electronically drafted mortgage payments every two weeks.

NMB's Bi-Weekly Plan gives you added protection and flexibility. It's a proven concept and the plan is uniquely ours. To find out how it can benefit you, call your local NMB district representative or the agency office in your area (see directory on page 3). In any case, complete the attached postage-paid reply card and return it to the Home Office or call us at 1-800-779-1936 for answers to any questions you may have.

Keep on Track

As you keep working at it, controlling debt gets easier and easier. Hopefully, the guidelines presented here will not only help you get out of debt, but help you stay out of debt.

As you refine your budget over time, you will increase the amount you can put toward debt and the amount of money you can save. You might also want to consider the benefits of NMB's Bi-Weekly Plan. It will not only increase your financial security, it could help you save even more!

People don't get into debt in one day, and it takes more than one day to get out of debt. Quick fixes don't work. But learning how to manage your money can bring great peace of mind and allow you to focus your mental energies on enjoying life. ♦