HOW TO PAY OFF AND PREVENT DEBT

Do you have debt? To keep it manageable, a rule of thumb suggests that you keep total monthly debt payments to less than 36 percent of your gross income.

But even if you're within that limit, that doesn't ensure you're in good financial shape. Debt costs you real money in the form of interest you have to pay, limiting your flexibility to spend and save for your future.

So, outside of a manageable mortgage and education loans, aim to be debt free. And have a plan to pay down all debt.

STEPS TO PAY OFF YOUR DEBT

1 First, get organized. Identify the:

- **Amounts you owe**
- **Minimum payments due each period**
- **Interest rates, and whether they are fixed or variable**
- **Payoff dates, and if prepayment penalties apply**

2 Next, see if you can restructure your debts:

CREDIT CARDS: Ask the issuer for a lower rate – if you're a good customer, they may do so to keep your business. Or, if you're facing a financial hardship, they may work with you.

Another option: transferring sizable credit card balances or other debt to a promotional 0 percent or low-rate card. You may save a bundle if you can make all required payments before the deadline, even after subtracting any fees. But proceed with caution – if you don't meet all the terms, you may face steep interest charges.

FEDERAL STUDENT LOANS: Explore income repayment and loan forgiveness programs, which cap your payments and forgive whatever debt remains after making qualifying payments for a period of time *(10 years for public sector employees).*

These programs may not make sense for those with manageable debt, since they may extend the loan terms and result in you paying more interest over time than you otherwise would.

LEARN MORE: www.studentaid.ed.gov/repay-loans

HOUSING, AUTO, PRIVATE STUDENT LOANS: If you can find a lower rate by shopping around, evaluate refinancing.

Just factor in any prepayment penalties associated with the old loan and any refinancing costs of the new loan. And remember if you extend the loan term, you may ultimately pay more over time.

If you are struggling to make your mortgage payments, you may qualify to refinance or modify your mortgage through a federal government program.

LEARN MORE: www.makinghomeaffordable.gov

MEDICAL DEBT: See if you can negotiate a payment plan to lower the costs. Also, be sure to check all medical bills carefully for errors.

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3 Next, prioritize your debt. In addition to making all minimum payments due, order it by either:

INTEREST RATE: economically, it makes the most sense to focus on the highest-rate debt that is costing you the most.

Note: you might also make it a priority to pay down variable rate debt (or refinance it to fixed-rate debt), even if it is manageable now; the more you pay off now, the lower the balances subject to potentially higher rates later.

AMOUNTS OWED: psychologically, paying the smallest first can give you needed confidence boosts to keep going.

4 Then, review your budget.

Where can you cut spending to free up more cash to pay down debt?

5 As you pay debt down, follow these steps:

1. Make sure the lender applies any excess payments to principal and not future interest.
2. Keep records of what you paid and owe.
3. As you eliminate debt or for each sizable set amount you pay, treat yourself! The anticipation can give you a healthy boost of confidence.

See how to lower the total cost of debt by paying it off sooner, getting a lower rate, or minimizing it to begin with, at www.icmarc.org/debtcalc.

6 Finally, whether you're in the process of paying down debt or have eliminated it, aim to prevent new debt.

SPEND SMART. Continue to monitor your spending, cutting what you don't truly need or want and follow some form of a budget to keep you on track. Do this not to limit your fun or convenience but to focus on what really matters to you.

SAVE IN ADVANCE for major purchases.

For example, if you estimate you'll need $15,000 for a major purchase in five years, try to save about $3,000 a year.

Year	1	2	3	4	5
Savings	$3,000	$3,000	$3,000	$3,000	$3,000

BUILD AN EMERGENCY FUND to cover those unexpected big expenses or losses of income.

What if after all your best efforts, you need help? Two additional avenues include:

1. Credit counseling organizations that may secure a more favorable repayment plan than you might get on your own and help you with budgeting. Just be cautious: many disreputable companies exist.
2. Bankruptcy, which can provide a clean slate but at the cost of serious damage to your credit, potentially impacting your finances and employment opportunities. If you are considering, consult a qualified attorney.

LEARN MORE ABOUT CREDIT COUNSELORS AND BANKRUPTCY:
www.consumer.ftc.gov/topics/dealing-debt

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To learn more about managing your personal finances, visit www.icmarc.org/education or contact your ICMA-RC representative.

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