5 Simple Steps to Get Out of Debt

Take control of what's holding you back. Start making progress today.

Maybe you charged a few more things than you should have on your credit card. Perhaps you needed to take out student loans to help pay for college. Or it could be that your bum transmission totally caught you and your budget off guard. You've got some debt to pay off — and that's okay.

> 77% of Americans have an average of $38,000 in personal debt.

Truth is, most Americans deal with debt: According to the 2018 Northwestern Mutual Planning and Progress study, 77 percent of Americans have it, and those that do carry an average of $38,000 in personal debt.

The good news: You're committed to chipping away at your balances, and this guide can help. Here are a few simple steps on how to get out of debt without throwing your budget out of whack.

1

UNDERSTAND THE TWO TYPES OF DEBT

Debt sounds like something you should avoid at all costs. But not all debt is bad. In fact, if used wisely, some debt can be a good thing. Knowing the difference between the two can help you decide which debts to focus on paying down first.

GOOD DEBT

This is debt like a student loan or home mortgage — in other words, debt that provides future economic value. For instance, having an advanced degree could help you earn a higher salary over time. Likewise, with a mortgage, you're investing in a home that could grow in value in the years to come.

So when it comes to good debt, paying it off rapidly may not always be the best course of action. Here's why: many forms of good debt have low interest rates — so low that making extra payments could save you less than you could make in interest had you put that money into a savings or investment account. And debts like home or student loans can have tax advantages, too. You can typically deduct the interest you pay on these debts if you itemize deductions on your taxes.

BAD DEBT

Bad debt has two key characteristics: high interest rates, and the fact that you typically don't get any future economic value from it. The most common type of bad debt is credit card debt; the average new credit card comes with an interest rate that tops 17%. But it can also include other types of consumer debt, like payday loans — some that charge annual interest rates of nearly 400 percent. Ouch! This is why you'll likely want to prioritize paying down bad debt first.

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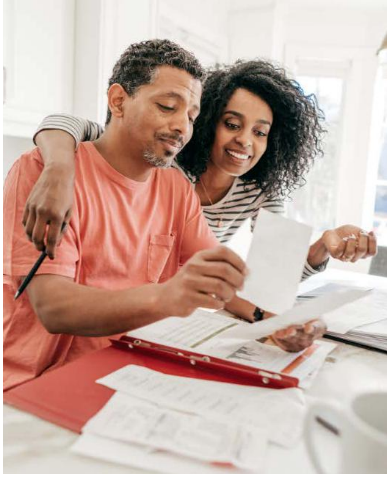
GET ORGANIZED

Before you start to pay off your debt, it's important to get a clear picture of where you stand. Put together a list of all your debts. For each one, list the type of debt (credit card, auto loan, etc.), the lender, your outstanding balance, the interest rate, fees (annual fee, finance charge, etc.), and your required minimum payment amount. Note whether the debt is good or bad.

Be sure that you include both your individual debt and any joint debts on which you're named as a borrower — a mortgage for a home owned with your spouse, a business loan you took out with your partner, or a student loan on which you're listed as a cosigner.

Once you've completed your list, it's time to get down to the fundamentals of debt repayment.



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FOLLOW SOME BASIC RULES

If you're sick of being in debt or hate shelling out interest, you may be itching to throw as much money at your debt as possible. But don't lose sight of these principles:

- **Always pay your minimums.** Don't pay extra on one debt while failing to pay the required monthly minimum on another. Underpaying your bill can tank your credit score and result in late fees or other additional charges.
- **Always pay on time.** While you may have a grace period or get a one-time reprieve for a past-due bill, in general, late payments put a black mark on your credit report and subject you to costly fees. (If you have trouble remembering to pay on time, set calendar reminders or create automatic bank transfers to your creditors.)
- **Cover your basic expenses.** Before putting extra money toward your debt, make sure that you have a good monthly budget to cover the things you need to live — food, clothes, housing, transportation, etc.

> Throwing as much money as possible at your debt is not always the best decision.

- **Continue funding other financial goals.** It's tempting to throw every dollar that you don't need to live at your debt. But when you fail to balance repaying your debt with saving for other goals, you're likely to wind up back in debt when life happens. Make sure you're still putting money away for emergencies like an unexpected bill, retirement or other big financial priorities.
- **Keep doing the things that make you happy.** Two vacations a year may not be in the cards while you're repaying your debt. But being financially miserable isn't going to help either. Find ways to reward yourself as you're paying off your debt. Maybe it's a nice dinner out with friends once a month or a staycation when you reach a goal.

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FIND THE MONEY

You're probably spending money every month that you could be putting toward your debt instead. Here are some common ways you may be able to free up cash that you can put toward paying down your debt.

- **Reduce your interest rate**. Debt costs money — sometimes a lot of money — in the form of interest payments. Start with a good, old fashioned negotiation. Call your credit card company to see if they're willing to negotiate a lower annual percentage rate (APR) on your card.
- **Refinance your debt.** You can typically open a new credit card with a low introductory rate and transfer debt to the card. While this can be a great option, you'll want to check a couple of things before you go this route. First, see how long the rate will last. Many cards offer low rates for 12 to 18 months. If you won't be able to pay the debt prior to the rate increasing, you may wind up owing more. You should also be on the lookout for balance transfer fees, which could land you with a big up-front cost just to move your debt. Look for cards with no balance transfer fees.

TIP
From refinancing to cutting the cord, there are lots of ways to free up cash. You just need to know where to look.

- **Consider a personal or home equity loan**. If you're paying a high interest rate on credit debt another option to reduce your interest rate is to take a personal or home equity loan from your bank, which often has a lower rate than what you're paying on your card.
- **Clear your clutter.** Sift through that closet or basement that's jam-packed with possessions you no longer need. Advertise them online, organize a garage sale, or put them on consignment at a brick-and-mortar retailer.
- **Find budget-friendly options**. Cut the cord on your pricey cable package and opt for a combination of budget-friendly streaming services. Break up with your barista and whip up your morning coffee right at home. Family outings don't have to cost a fortune. In fact, get the whole gang involved in brainstorming activities that are free or close to it. And check local event calendars for inexpensive community activities in your area.
- **Bump up your income**. Monetize your off-work hours by adopting a side hustle. Earn from an existing hobby like blogging, knitting, or photography. Grab some weekend hours at a coffee shop. Or sign up to drive on your schedule for a ride-share service.

5

USE A STRATEGY TO PAY OFF YOUR DEBTS

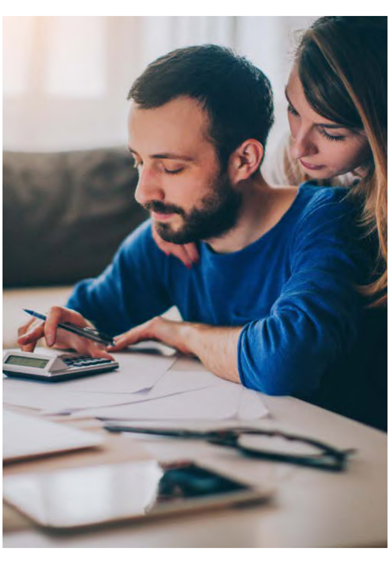
You've budgeted for the basic rules and found some extra money, now it's time to start paying down your debts. Where do you start? Consider using one of these two strategies:

DEBT AVALANCHE

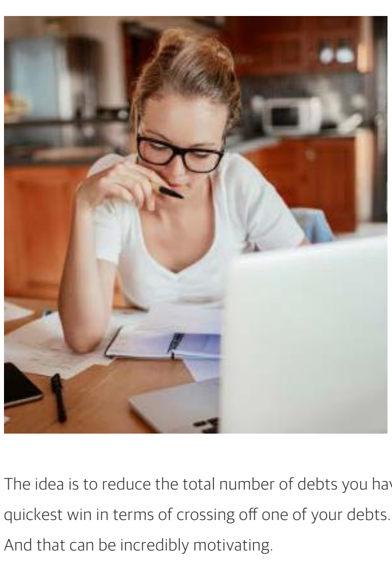
If you're looking for the quickest way to eliminate your debt — and the one that lets you pay the least amount of interest — the debt avalanche is the way to go.

Remember that list of debts you created? Sort your list from highest to lowest interest rate. Now, while you continue to pay your monthly minimums for each debt, put your extra cash toward the debt with the highest interest rate. Keep it up every single month until that high-interest debt is gone. Congratulations! Celebrate and cross that debt off your master list.

Now shift that extra money — the bonus cash you'd been putting toward that list-topping debt, plus the minimum payment you'd been shelling out for it — and add it to the debt with the next highest interest rate.



However, when you do this, consider skipping any good debts that you may have. Keep at it until debt #2 is completely wiped out. Then rinse and repeat until every single debt is crossed off that big list.



DEBT SNOWBALL

If you're looking for small, quick wins to increase your motivation, build momentum, and get you high-fiving yourself in the mirror each morning, consider the debt snowball approach.

Revisit your debt list. Sort by the amount of your outstanding balance on each debt — from smallest to largest. Now, while you continue to pay your monthly minimums, put the extra money toward the debt with the smallest total balance until it's paid off. Then move to the next smallest and so on. Again, skip over the good debts to pay the bad ones first.

The idea is to reduce the total number of debts you have as quickly as possible. By tackling the smallest debt first, you get the quickest win in terms of crossing off one of your debts. While your overall debt may not get smaller any faster, that list will. And that can be incredibly motivating.

Staring your debt in the face can be stressful. But you've got this. With these simple steps, you can get organized and start tackling your debt. Before you know it, you're going to be ready to start planning what you'll do with all the money you'll have each month when you're finished making debt payments.

WHAT'S NEXT?

Paying down debt can be one of the most rewarding choices you'll ever make, but you don't have to do it alone. Reach out to your financial professional to build a plan that will help you live the life you want.