



# MONEY SPROUTS

## Be Debt Free: 3 Simple Steps

The average U.S. household now owes \$6,741 in credit card debt and \$58,468 in student loans, according to NerdWallet. Carrying consumer debt can be a serious threat to a successful retirement for thousands of Americans. If you're struggling with debt, here is a 3-Step Debt Reduction Plan — often referred to as "Snowball Debt Elimination". It is really very simple; just follow these three easy steps:

### Step 1: List Your Debts – from the smallest outstanding balance to the largest

List your consumer debts, such as credit card debt, personal loans, revolving store loans, and possibly auto and student loans. In other words, debts that eat away at your available cash every month. For now, list those debts that are \$10,000 or less. Depending on the type of debt, there are other strategies to reduce larger balances.

While many strategists recommend paying off the debt with the highest interest rate first, clients have found that the motivational benefits of seeing several smaller debts quickly eliminated— often within the first month — far outweigh saving a small amount of extra interest throughout the process. However, if you have really wide range of interest rates with some very high, the "Avalanche" method may be better for you. There are some [free debt reduction calculators](#) online that can make this process VERY easy to test which is method best for you.

### Step 2: Find Extra Cash

The next step is to free up some extra cash to pay more than the minimum payments each month for the next 6 to 12 months. Some possible strategies include using "[Your Money-Saving Checklist](#)" to find more money, using the [IRS Withholding Calculator](#) to adjust deductions from your paycheck, or considering a short-term part-time job. Add your minimum monthly payments to the money you've freed up to arrive at the total to apply toward eliminating your debts each month.

### Step 3: Paint a "Picture"

The final step is to lay out your plan to eliminate your consumer debts for up to 12 months. List debts from the smallest to the largest outstanding balance. Then, simply apply the minimum monthly payments each month on the larger amounts and apply the extra toward the first debt until it is paid in full. Continue by applying the extra toward the second debt until it is paid, etc. This debt picture can be very eye-opening by helping to visualize how numerous debts can quickly disappear. *By eliminating six of their seven debts, this couple freed up \$345/month (over \$4,000/year) within one year!*

Once you have eliminated these debts, you can continue to apply the extra amount every month to reduce larger debts, save for college education for the kids, invest for retirement, or use for other goals. Becoming debt free will open a whole world of new options!

	TOTAL DEBT AMOUNT	Minimum Monthly Payment	January	February	March	April	May	June	July	August	September	October	November	December	TOTALS
1	\$ 140	10	140	0	0	0	0	0	0	0	0	0	0	0	\$ 140
2	\$ 230	15	220	10	0	0	0	0	0	0	0	0	0	0	\$ 230
3	\$ 460	230	230	230	0	0	0	0	0	0	0	0	0	0	\$ 460
4	\$ 600	50	50	400	150	0	0	0	0	0	0	0	0	0	\$ 600
5	\$ 1200	15	15	15	505	655	10	0	0	0	0	0	0	0	\$ 1200
6	\$ 2500	25	25	25	25	25	670	670	670	370	0	0	0	0	\$ 2500
7	\$ 3500	20	20	20	20	20	20	20	20	330	700	700	700	700	\$ 3270
<b>Total</b>	<b>\$ 8630</b>	<b>365</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>700</b>	<b>\$ 8400</b>

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