DEBT REDUCTION PLAN

Getting Your Credit Cards Under Control!

So you've come to terms with the debt you have, and have decided it is time to get rid of it once and for all.

Most of us have debt, it is a part of today's society and that need for instant gratification. Only a few years ago the banks were handing Credit Cards out like lollies and if you fell into that trap you will now find yourself with more than one card and debt at high interest rates.

Am I right? They would send out letters to advise that your credit limit had been increased and of course that limit increase got spent.

It is now quite common for people with modest incomes to have over $100,000 in unsecured debts. That is scary stuff!

You may currently find yourself in the cycle of robbing one Credit Card to pay the other or you may be just paying the minimum balance on them all and not focusing on reducing your debt at all.

It is a never-ending vicious cycle that you get caught up in.

Have you actually looked at the bottom of your statement to see how long it will take you and the amount of interest you will pay if you just pay the minimum balance and that does not include any additional purchases you make on that card?

Well there is a way out of it, and I'll explain how.

There are two methods of debt reduction that are useful in reducing debt.

Snowball

With this strategy, you start by paying the minimum on all debts and allocate additional debt payments toward the debt with the **lowest balance.** This method allows for immediate gratification, motivating you to keep working on paying off your debts because the debt with the lowest balance may not necessarily be the one with the lowest interest rate, you might not be saving as much interest over time using this method. However, since a lot of financial success comes from your behaviors, this method allows for some quick wins—which may help you stay motivated over the long haul.

Avalanche

This method suggests that you allocate any additional debt payments toward the debt with the **highest interest rate** while simultaneously paying the minimums on the rest of your debts. You continue this method—adding the entire additional payments to the debt with the highest interest rate debt—until the debt is completely paid off. Then you move to the next-highest interest rate debt and allocate any additional debt payments toward it, while still paying the minimums on the rest of your debts. Mathematically speaking, this strategy will save you the most money over time, since you'll be paying the higher-interest debts before lower-interest ones. However, it may not allow for the immediate gratification of the Snowball Method.

IMPORTANT NOTE – For these methods to work, you must not continue to spend on the card you are focusing on eliminating first. All spending on that card must stop for these methods to work.

The Method

So where do you start?

Well hopefully you have devised a budget and you know how much additional money you can afford to pay towards your debt. If not, do this now!

Next, you need to do is list all your debts and include the Balance Owing, minimum payment and the interest rate.

For example:

TYPE OF DEBT	BALANCE OWING	INTEREST RATE	MINIMUM PAYMENT
Credit Card 1	$16,500.00	12.5%	$206.25
Credit Card 2	$18,000	22.5%	$540.00
Store Card	$5,000	20.69%	$104.50

Then the process for both methods is simple.

Pick the one debt you wish to pay off first, either the highest interest rate or the smallest amount. You then pay only the minimum balance on all the other debts and put all extra funds you have on that one debt you wish to eliminate first.

Once this first debt is paid off, then you use the money you were paying on that debt towards the next debt and eliminate that one and so on.

If you were choosing the Snowball Method, you would focus on the Store Card First. You would continue to pay the minimum balance on the Credit Card 1 & Credit Card 2 and then use the additional $100 per week you have available on the Store Card. So, your payment to the Store Card will be $104.50 + $400.00 ($100 extra per week from your budget).

Once the Store Card is paid off, the next card you would focus on is the Credit Card 1. So, your repayments would be $206.25 + $504.50 ($104.50 from your Store card + $400 from your budget)

Moving onto the Credit Card 2 once the Credit Card 1 is paid off, the repayments would be $540.00 + $710.75 ($206.25 from your Credit Card 1 + $104.50 from you Store card + $400 from your budget)

If you chose the Avalanche method you would focus on the Credit Card 2 first, then the Store Card then lastly Credit Card 1.

See how quickly the debt is reduced by focusing on one debt at a time!
I must iterate though that these types of debt reduction methods will only work if you stop spending on the card you are focusing on paying down

So, which is better? Well, I usually encourage clients to follow a combination of both methods. Start by paying off the debt with the **lowest balance,** then move on to the debts with the higher interest rates and continue to stick to the Avalanche Method from that point forward. And of course, it's best to work with a money coach who can help you design a strategy that is comfortable and efficient for you given everything else that is going on in your life.

I do hope this article has encouraged you to look at your debt and feel free to reach out if you need any assistance in implementing a debt reduction plan.

ALISON WALTON
MONEY COACH
0403 180 344
hello@aliceinnumberland.com