

## Making a Game Plan to Get Out of Debt

### A financial game plan with punch

If you are looking for a financial game plan with punch, you might start by building a firm foundation. If you are like millions of Americans, one big move could make all the difference in the world for years to come. One move could restore hundreds of dollars to your monthly income and save you thousands in lost purchasing power, financial flexibility, and financial security.

Tina and Joe decided to make their big move three years ago. They were going to get out of debt. Not all debt, of course. They agreed to maintain their 8% mortgage loan and their 10% auto loan. But they decided it was time to stop dragging behind them what they referred to as their "large barge" of expensive credit card debt. Dragging this barge had continually hampered their financial progress. It had to go.

### Tina and Joe's credit card accounts

Credit account	Interest rate (%)	Unpaid balance	Current payment
Card 1	22	\$ 5,224	\$ 150
Card 2	16	3,644	110
Card 3	18	1,139	35
Card 4	21	774	25
Totals		\$ 10,781	\$ 320

### Recognizing the costs of credit

Each month Tina and Joe paid \$320 on their credit balances. But these balances never seemed to go down, partly because the couple made additional purchases and partly because the amount of interest kept accumulating. Even when their balances remained static, the barge was costing them \$5,940 in monthly debt payments, \$2,100 of which was interest. This was money deducted from current income that could not be spent on current purchasing.



Tina and Joe decided something had to be done. They stored their credit cards and committed an extra \$100 per month, which they diverted from their savings plan, to pay off their credit balances. Vowing to make no new purchases on credit until they could pay each balance in full every month, the couple set out to reclaim their "lost" income.

### Steps to regaining lost income

They began by contributing the extra \$100 to the debt payment on the account which charged the highest rate of interest. After they paid this account off, they took the money that was being paid on it (including the extra \$100) and added it to the payment going toward the account charging the next highest rate of interest. They repeated this process of paying off each account in the order of the highest interest rate until all balances were paid in full.

It took 34 months of dedicated work to fully reclaim their "lost" income. But the couple can now joke about it, saying it was no worse than buying an invisible car. Considering the amount of money that was previously consumed by credit payments, the couple now has \$320 more per month to spend and \$100 to save. They can now use this money to buy the things they need and to save towards goals that once seemed impossible. And what about that heavy barge? It is just a distant memory.

Remember that the best game plan is the one you start right now and that getting out of debt will free more of your income for the things you really want and need. If you would like help in dealing with credit problems or developing a debt reduction plan, call Consumer Credit Counseling Service at 532-3225 (Oahu) or 1-800-801-5999 (Neighbor Islands). Counseling services are free, and they really want to help you to help yourself.

*Ron Wall*

*Extension Specialist in Family Economics and Management*