

# Money & You®

## Access To Cash

### **7 Ways to Get Out of Debt**

by Nicola Smith Jackson

I can remember being a small child and seeing how my grandmother use to manage her bills. She would take envelopes and write down the name of each payee on the front and then she would go downtown to the bank once a month and she would distribute the money into the envelopes. When it was time to pay the bills or make purchases, she would just reach for an envelope. This simple, but effective system helped my grandmother to manage her debt. Although we are more sophisticated in today's time with technology, we can all still learn something from my grandmother.

I'm sharing this story because debt is a huge problem that many people don't have a solution to. It's keeping people awake at night, people are losing their homes, cars and even their families. Even as generations progress, it doesn't appear to be getting any better.

When a person is in excessive debt, it's easier to get behind on their payments. Also, it negatively impacts their credit score (credit card debt is counted 35% of your credit score calculation) and while working to improve their score is very important, it's more important to work on the habits that got them in debt in the first place.

Part of the problem is that we have become an instant gratification society. This means many things that we purchase are not needed, bought on an impulse and we really can't afford it. Using credit cards play right into this, because most people don't think about the fact that they are spending their hard earned cash when they present plastic to pay for their purchases. The "plastic" causes a temporary memory lapse until the bill comes!

A lot of impulse spending is on food according to a Zagat survey on the "State of Dining in 2015". The survey shows that on average Americans eat out 4.5 times weekly and spend about \$39.40 per person, per meal! I should add that the survey didn't include what people are spending on breakfast. So, that comes to about \$175 per person weekly and most pay using a credit card. So, let's say it's a husband and wife both eating out all of the time. Well, that could come to a whopping \$350 weekly or \$1400

monthly plus interest !! SAY WHAT??? Yeap, you read that right! If you don't pay attention to this you could be spending a house note monthly.

The above scenario is a good example of why some people can't pay their bills or get ahead financially, because the money is misappropriated and therefore causes late payments, interest penalties and yes, even negative credit reporting.

So, what's the solution to getting out of debt? The answer is simple and yet a challenge for many and that is to **Stop Creating New Debt and Create a Plan for Eliminating the Current Debt**. Although there are some situations where people have "good debt" to create a profit in order to increase their financial status. This is not the type of debt I'm talking about. I'm talking about perpetual debt where you are digging a hole deeper and deeper. Oftentimes people add to their debt problems, because they don't stop the habits that got them there in the first place. So creating new habits to support getting out of debt is essential. Below are 7 Ways to Get Started:

1. **Organize Your Debt.** It's not uncommon for people in debt to be totally unaware of the debt they actually have, so, it's important to organize your debt. Create a spreadsheet or purchase a ledger book from your local office supply store. List all of your bills, how much you owe and the interest associated. The interest is a big deal, because over time it can add up to a large amount of money.
2. **Set A Budget.** Gather all your bills including your checking account statements. You can use a spreadsheet program or you can simply 1). Write down all monthly income coming in and then total. 2). List all of your monthly expenses (i.e, utilities, mortgage or rent, food, clothing, childcare, tuition, medical insurance, car insurance, and entertainment etc.) and total the expenses amount as well. 3). Subtract your expenses from your income and this will give you the net cash amount you have left.

Now for some there will be a negative amount, which means that you have more going out than you have coming in and for some there will be a positive amount left. If you're in the negative, it means that you will have to decide on which expenses can be immediately eliminated. This could include, cable bill, cutting food expenses, eliminating dining out, and other type expenses that could help with getting you out of the negative. If you're too far in the negative, you might have to figure out additional ways to bring in income, such as a part-time job or business opportunity.

3. **Eliminate Unnecessary Spending.** Let's face it, it's so easy to stop by the coffee shop and buy that \$5 mocha latte or dine out for lunch and dinner or

impulse spend while out at the mall. However, it's this type of spending habit that must be eliminated. The small purchases that most people don't even stop to think about are getting many in trouble, because when you add those purchases up monthly they can total in the hundreds or even thousands monthly.

4. **Stop Using Your Credit Cards.** Credit cards were meant to leverage your spending and to be paid off in a timely manner. They are not bad if used for their original purpose. Your credit cards or revolving credit represent 35% of your credit score, so it's not only hurting your pocket, but your overall credit score. The more you pay down the debt the higher your credit score will become. So, it's important to stop using your cards until you get your debt under control and you can confidently pay them off monthly.
5. **Establish An Emergency Fund.** As you start getting out of debt, it's not money for you to start spending again. You now need to have money saved that you can use to hold you over for emergencies, unexpected layoffs and expenses. It's not about how much money you have, but how long you can go without working. So start with working towards 1 month equivalent to your monthly income then 2 months, 3 month and grow your fund to 1 or 2 years of reserve. It's very smart to build your emergency fund in an interest bearing vehicle. This way interest begins to work for you rather than against you.
6. **Prioritize Your Lifestyle.** Getting out of debt doesn't mean that you have to live like a pauper forever, but you do have to execute the way you spend your money. Moderation will keep you out of trouble and out of debt. Start incorporating activities in your life that help make you money. For example, an additional stream of income. Debt is all about having more bills than money, but now it's time to start thinking in terms of having more money than bills.
7. **Use the Cash Only System.** Perhaps using cash only for a while and implementing the Envelope System like my grandmother just might help to keep your spending habits in check. Some people might think this is old fashion, but ain't nothin old fashion about having more money!

For example, you could set a budget for eating out, entertainment, kids allowance, etc. and then place the budget amount in each marked envelope. When it's gone you make a hard commitment not to use any credit cards and that includes your debit card! This will help to stop the cycle and actually assist you in restoring your credit score, because you are guaranteeing that no new items or issues will show up on your credit report.

So, I guess my grandmother was on to something. The envelope system not only helped her to stay accountable to paying the bills, but it helped her to

manage the money she had and that's what I call being financially responsible. This is also a good system to teach your kids and it's a good way to get back on track and getting out of debt!

Following the 7 Getting Out of Debt Tips above will help you to start brainstorming on other ways you can cut your budget and better manage your debt. Remember, getting out of debt requires, commitment, time and a willingness to take immediate action.

I didn't always know the information I'm sharing with you above. However, I learned much of it from much of this from being intentional about properly managing my debt and credit. The main tool I still use to this day to help with this is called the **Protection Plan Membership**. It not only helped me to eliminate my debt in half the time with the "Debt Zero" Program, which has saved me thousands of dollars! It also helped to restore my credit, organize my finances and keep my will, trust and medical power of attorney updated. It gives me peace of mind that I have a real system to manage my debt.

Nicola Smith Jackson is a Wealth, Lifestyle and Leadership Coach and has shown hundreds how to get out of debt and increase their credit score. For more information on implementing your Get Out of Debt System, please visit [www.DominateMyFinances.com](http://www.DominateMyFinances.com) or click here <http://bit.ly/credit-restoration-consult> for a FREE Consultation.