

An Action Plan For Eliminating Debt

Dr. Phil and Elizabeth Warren, professor at Harvard Law School and the best-selling author of *The Two-Income Trap*, and *All Your Worth*, offer a no-nonsense approach to getting out of debt.

<http://www.drphil.com/articles/print/?ArticleID=233>

Are you living above your means?

Do you only buy designer clothes, yet can't pay your electric bill? Do you forfeit necessities like groceries so you can buy luxury items? It's time to start thinking of your family's future. Think about what you're teaching your children. Would your self-esteem suffer because you didn't have designer pajamas for the baby or you didn't have a name brand tag tucked into your sweater? Do your children love you because you wear name brand clothing or because you're their parent and you love them and take good care of them?

Are you making ends meet, but just can't seem to get ahead?

Do you own a nice home, have a nice car, but just barely squeak by at the end of the month? It's time to start living a life you can actually afford. All it takes is one emergency, a few missed payments, and you could lose everything. It is your responsibility to your children to be financially stable.

For either of these scenarios, the following are tips to get caught up and start building a financially stable future:

Do something besides shop.

Find a new hobby: Go to church, get involved in community activities, sports, gardening. Teach your children how to cook. Build new traditions with your children that center around your time together, not how much money you spend.

Make Saturday a family day.

Sit down with your kids at some point during the week to discuss what to do on family day. Make family day a day filled with educational and inexpensive activities, like watching a Disney video together or cooking something new together. If you have to get away from home, go to a museum, a library, a park or a zoo — anywhere but the mall. Make a family pact not to go to the mall.

Sell the family "extras": motorcycle, big screen TV, etc.

Put the money into a savings account — it's about the family, not the toys.

Keep the roof over your head.

You've got a responsibility to your children to keep them warm and dry. Don't get behind on the rent. This should be a priority or you could end up living with parents, or worse, in a shelter.

Sell your new car and get a used one.

Eliminate the huge car payments by purchasing a used car. You'll have more money and you'll be able to get from here to there. You don't need a fancy SUV either. You can get just as many car seats into a 1980 Suburban. Keep in mind, a new car loses 20-40 percent of its value as soon as you drive it off the lot.

Put 20 percent of take-home pay toward debt repayment.

When debts are paid off, that 20 percent should go directly into savings. You need to prepare for you and your children's future: house, college, retirement, etc.

Prioritize your debt:

1) Student loans. You don't have to pay them off at once, but keep up with your regular payments. Student loans carry a huge legal obligation that can't be discharged in bankruptcy. They can come in and seize your assets in a way that other creditors can't.

2) High interest debt (credit cards, home equity loans.) If you can't be trusted to not use your credit cards, cut them up. Think about this: \$9,000 in credit card debt can take you 32 years to pay off and cost you \$22,000 in interest if you pay just the minimum payment. Try to pay three times your minimum amount until it's paid off. Then put that amount of money toward your next priority. Don't use your credit card again unless you have the money to pay the balance off immediately.

3) Other (medical bills, personal loans.)

Create emergency fund of \$1,000.

In case something unexpected happens, you'll have a backup plan.

Use your checking account for paying bills only.

Take out a set amount of cash each month for clothes, toys, and extras.

Use only cash for these items. When it's gone, it's gone. No more cash and no more extras until the first of the month.

Challenge everything. Get into a re-engineering mindset where nothing is sacred. Do you really need to live in the house you live in? Can you downsize? Can you move to a less expensive apartment/neighborhood for a period of time? Do you really need that new vehicle? Do your kids really need to have name brand clothing? If you really want your children in private school, make a choice to cut out the extras. You do what you have to do. Every time you spend money, think about what it's going toward and whether it would feel better to have that cash in a savings account. Marble counter tops look great in your home, but how would it feel to have that \$19,000 in your pocket instead?

Stay away from payday lenders. If they're living in your pockets, there's never going to be a penny left over for you or your family.

Stay away from home equity loans. There are no options for dealing with a home equity loan other than pay it or lose the house. It's not worth the risk.