

### By the numbers

- Average U.S. household carries more than **\$8,000** in credit-card debt.<sup>1</sup>
- American consumers now owe **\$1.7 trillion** in debt.<sup>2</sup>

<sup>1</sup>Source: CardWeb.com

<sup>2</sup>Source: National Public Radio

## Reducing debt takes commitment, patience

Debt — it's something that no one wants but just about everyone has. And while acquiring debt is easy, shedding it is typically much more difficult.

The good news is that regardless of the cause and amount of your debt, there are steps you can take to manage and overcome it.

First, you need to remember that there is no quick fix to getting out of debt — solving your debt dilemma requires time and effort. Additionally, you'll want to address your debt situation sooner rather than later — start now, so that you're not paying later.

When trying to reduce debt, consider the following eight-point game plan:

### 1. Take control — right now

There's no better time than the present to reduce your debt. But before you do anything, it is first recommended that you evaluate your financial records to determine your income and your expenses.

In one column, you should list your regular monthly income, such as salary and pensions. In a second column, you should list all your expenses. Start with your major expenses such

as mortgage or rent, utilities, food, transportation, and credit card payments. You should also include any additional cash expenditures as well as any expenses that occur other than monthly, such as property taxes and insurance.

### 2. Create a budget

"If you fail to plan, then you plan to fail," is a common expression, and it applies to your finances.

Based on your income and expenses, you'll need to plan and establish a budget that allows you to allocate money for all of your categories of spending.

Look over everything and consider eliminating unnecessary costs. You might want to ponder the following questions:

- Why not eat at home instead of dining out?
- How about renting movies rather than going to the theatre?

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### Key points

- The sooner you address your debt, the sooner you can begin to do something about it.
- Developing a budget and sticking to it is a good way to get a handle on your finances.
- You will need to pay particular attention to your credit cards — how many you have and how much debt you accumulate on each.

As you go about creating a budget, include the entire family in the process so they'll better understand your financial means. Reexamine the numbers with them and look for ways to increase income while trimming further expenses. For instance, can another member of the family take on a job? If you are renting, is it feasible to move to less-expensive housing?

For more tips on budgeting, see the MFS Heritage Planning info sheet "Creating a household budget."

### 3. Pay off your credit cards

Credit card debt continues to plague Americans, as the average U.S. household carried more than \$8,000 in credit card debt (non-mortgage and, as a result, non-tax deductible) in 2001 and has 12 credit cards, according to CardWeb.com.

In fact, American consumers now owe about \$1.7 trillion in credit card and other debts — an amount roughly equal to the gross national product of England and Russia combined, according to National Public Radio.

Eliminating credit card debt should be one of your top priorities because paying it off gives you flexibility. If you are stretched to the limit now, that means you have no margin for error, no room to maneuver in an emergency. Paying down the debt allows you to free up some of your cash flow for other things.

One great way to reduce credit card debt is to pay more than the minimum. Don't settle for that nice low number on your bill. Can you pay more? If you can, then you should. Also, remember to pay your credit card bills on time. Paying late is another debt sin that you'll want to avoid as you'll be hit with unnecessary late fees.

### 4. Reduce the number of credit cards you have

You should also consider having only a few credit cards and make sure they have the lowest rate available. Don't be afraid to shop around and consolidate your credit card debt to one or two cards to get a better rate.

### 5. Don't take on additional debt

Remember what got you into trouble. Handle what you have first before you start adding to your debt. You can do this by resolving that you will only use your credit cards for essentials over a certain time period, say six months. For other purchases, you can use cash or a debit card.

### 6. Contact your creditors

If you find yourself in dire consequences, speak directly with the organizations to which you owe money, as they may be willing to arrange a payment schedule that could enable you to temporarily reduce monthly contributions. If you own your home, ask your mortgage company about a forbearance agreement, which can lower or eliminate payments for a set period of time.

### 7. Ask credit counselors

You may opt to get help with your situation rather than handling the details yourself. Assistance is available for little or no cost through government programs or credit counseling services, which will work with you to develop a long-term plan to pay off debt but may have implications on your credit history. You may want to consult an investment professional for input and advice. Ask friends and relatives for recommendations on advisers or contact professional associations, such as the Financial Planning Association.

### 8. Stay vigilant

Once you've reduced or even paid off your balances, remember to stay vigilant about remaining debt free. If you lack self-discipline, consider phasing out credit cards and using debit cards instead.

Debt management is a continuous process so stay on top of your situation and keep more of your money!

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## Resources

### Literature

Daskaloff, Alexander. *Credit Card Debt: Reduce Your Financial Burden in Three Easy Steps*. (Avon, 1999, \$5.99)

Gabriel, Gwendolyn D. *Become Totally Debt-Free in Five Years or Less*. (Brown Bag Press, 2000, \$14.95)

Mundis, Jerrold. *How to Get Out of Debt, Stay Out of Debt and Live Prosperously*. (Bantam, 1990, reissue edition, \$7.50)

Strauss, Steven D. and Jaffe, Azriela. *The Complete Idiot's Guide to Beating Debt*. (Alpha Books, 2003, \$18.95)

### On the Internet

[www.quicken.com/planning/debt](http://www.quicken.com/planning/debt)

This interactive planning tool will help you create an action plan for reducing debt.

[www.debtadvisory.net](http://www.debtadvisory.net)

This debt and credit resource center offers information, resources, and tools to help you take control of your finances and eliminate debt. In addition to these self-help tools, the site also offers referrals to debt reduction professionals.

[www.fpanet.org](http://www.fpanet.org)

The Financial Planning Association

Contact your investment  
professional for more information.

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