

Watch out for debt! When you're on the road to financial security, too much debt means a detour that could cost you both time and comfort in your retirement years.

When you owe money, you're in debt. There are several types of debt. The most common ones are probably a mortgage, a home equity loan or line of credit, a car loan or personal loan, and a credit card balance. When these bills, along with your usual living expenses, add up to more than you can pay every month, it's a warning sign that you need to stop the slide into more debt.

If you're not sure how well you're managing your debt, ask yourself these questions:

- Am I spending more than my income on a regular basis?
- Do I spend more than 20 percent of my monthly income on debt other than my mortgage?
- Do I carry a balance on at least one credit card?
- Do I tend to pay only the minimum required on credit card bills?
- Have I maxed out any credit cards?
- Do I borrow money from one credit card to pay on another one?

Out-of-control debt can have long-term effects on your future: You could lose your home, get a bad credit rating that prevents you from getting loans or other credit you may need in an emergency, and you could end up without enough retirement savings. So a yes answer to one or more of the questions above means you need to get your debt under control as soon as possible. To get control, you need a clear picture of your current debt and the options for lightening the load.

Add Up Your Debt

Get on the road to managing your debt by making a list of what you owe, and how much you're paying out each month. Use a worksheet to track your

monthly spending (see sample inside). Follow the tips below:

- **Mortgage**—An adjustable rate mortgage (ARM) for example, can go up on a schedule that you agreed to when you took the mortgage.
- **Auto loan**—The finance charge is usually a fixed rate.
- **Home equity loan or line of credit**—Your home equity loan will have a fixed interest rate, but if you have a Home Equity Line of Credit (HELOC), the rate may have risen since the last time you looked.
- **Personal loans**—Be sure to check the rate on loans you may have from a bank, credit union or other financial institution. Keep up the payments so you don't end up with late fees.
- **Credit cards**—Credit card rates can also vary tremendously. They may range from the special offer of zero percent you received when you applied for a new card, to 20 percent or more.

Look at your monthly statements to see what interest rates (finance charges) you're paying on each of these. If you haven't paid attention for a while, you may find you're paying higher rates than you thought.

Prevent More Debt

If you realize you're in debt, search for ways to cut your expenses right away. Breaking habits such as eating out a lot, driving the car when you could take the bus, leaving the lights and the heat on when you're not in the house, and buying clothing or other things you really don't need, help prevent your debt from growing.

For people who depend a lot on plastic to pay their

Spending Worksheet

First, **write down your expenses**. Column A: *fixed expenses*—monthly cost, if the payment varies, write in an average. Column B: *flexible expenses*—costs that can vary month to month, and that you have some control over.

Expense Category	Expense Item	Column A Fixed Expenses	Column B Flexible Expenses
Samples			
<i>Entertainment</i>	<i>Restaurants</i>		\$200
<i>Home</i>	<i>Rent</i>	\$600	
<i>Home</i>	<i>Water/Sewer</i>	\$ 50	
Housing	Rent/Mortgage/Taxes		
	Maintenance/Condo fee		
	Lawn/Garden		
	House Cleaning		
Utilities	Electric		
	Gas/Oil		
	Water/Sewer		
	Garbage		
	Phone		
	Internet Account		
Food	Groceries (average)		
	Restaurants		
	Snacks (coffee, etc.)		
	Entertaining (food/beverages, etc.)		
Transportation	Car payment/Lease		
	Gas		
	Car Insurance		
	Subway/Bus/Parking		
Medical	Health Insurance		
	Regular Prescriptions		
	Out-of-Pocket		
	Fitness Programs		
Appearance	Clothing Purchases		
	Dry Cleaning		
	Hair Care		
	Miscellaneous		
Other			
Childcare			

Expense Category	Expense Item	Column A Fixed Expenses	Column B Flexible Expenses
Entertainment	Movies/Videos		
	Newspapers/Books		
	Cable TV		
	Sports (Golf, etc.)		
	Theatre, Concerts		
	Travel, etc.		
Savings	Retirement Contributions		
	Other Savings		
	Reserve Fund Contributions		
Creditors	Credit Cards		
	Other		
Other	Business expenses/ Alimony		
TOTAL			
Now, write down what comes in every month. Make sure to enter after-tax income:			
Income Source	Your Income	Your Spouse or Partner's Income	Total
Salary/Wages from employment			
Income from Self-Employment			
Rental Property Income			
Alimony			
Monthly Investment Income			
Social Security Retirement Benefit			
Social Security Widow/Survivor's Benefit			
Pension Benefit			
IRA Income (distribution)			
Veteran's Pension			
Annuity Income			
Inheritance/Trust			
Gifts			
Other			
Total			

Now, **do the math**. Add Column A and B from the first table, and subtract the total from the second table: (Income – Expenses = Potential Savings to help reduce debt)

Your To-Do List:

- Make a list of your monthly expenses** and income using the tools at www.aarp.org/money.
- Find creative ways to cut your spending.**
- Pay down high-interest credit card debt.**
- To learn the impact that debt can have on your credit rating,** read this pamphlet www.consumerfed.org/pdfs/yourcreditscore.pdf on how credit scores work on the website of the Consumer Federation of America.
- Learn how to select the right credit card(s)** for you at the Federal Reserve Board website www.federalreserve.gov/Pubs/shop/.
- Start an emergency fund** after you've paid down the high-interest credit cards.
- Use a debt reduction planner** to help you figure out how to pay off your debt at <http://cgi.money.cnn.com/tools>.
- If you need help with debt problems, learn how to choose a reputable credit counseling service at www.aarp.org/money/personal/articles/creditdebttoomuchdebt.html.
- Check to see if you are eligible** for one of the "Making Home Affordable" options if you are struggling with your mortgage at www.aarp.org/money/personal/articles/above_water.html.
- Order other Money Matters Tip Sheets** to share with friends at www.aarp.org/orderfinancialpubs.

daily expenses, the best way to cut spending is to simply get rid of the credit cards and pay with cash. If you can't afford to pay cash for necessary, large purchases shop carefully to make sure you get the best deal. (For more suggestions on how to reduce your expenses, see the *AARP Tip Sheet, "Cost Cutting."*)

If you are struggling with your mortgage, you may be eligible for special help under the "Making Home Affordable" plan. Visit www.aarp.org/money/personal/articles/above_water.html for information on refinancing and mortgage modification.

Tips for Reducing Credit Card Debt

The average American has \$11,000 in credit card debt. Here are some steps to take to reduce this type of debt:

- Call the credit card company and request a lower interest rate.
- Pay more than the minimum required every month.
- Put all of the debt on one card with the lowest interest rate you can find. Moving the debt from one card to another is called a "balance transfer." To make sure a balance transfer really lowers your payments, ask these questions:
 - Is there a service fee for the transfer?
 - Will they charge you the lowest rate for the money transferred?
 - How long will the current rate last?
 - What is the rate for new purchases?
- Before getting a new credit card for any reason, compare rates on your options, and ask how long the rate will be in effect.
- Never be late or miss a payment. Your interest rate may go up, and you may be charged a late fee.
- When you cancel a card, do so in writing and keep a record of the cancellation.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice. *Special thanks to The Actuarial Foundation for their expertise on this project.*

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