

# WEEK TWO

## Curb Credit Card Spending

This week, you can

- Confront your total credit card debt
- Better understand how credit card purchases get out of hand

THERE IS PROBABLY NO GREATER waste of money than maxed-out credit cards, especially those with a high interest rate. If you pay only the minimum, it will be years before the card returns to a zero balance. When you factor in the interest, the price of every purchase will be much higher than the original sales slip indicated. And don't forget that this interest isn't like that accrued on your mortgage: You can't deduct it. It's just eating away at your financial security.

How much will it be eating away? Glad you asked! Suppose you have a balance of \$1,000 on your credit card, and you are paying an annual interest rate of 18 percent. You pay the minimum amount each month, \$24.85. It will take you 114 months (9.5 years) to pay down that debt. In the end, you will have paid the credit card company \$932.32 in interest. Many Americans do just that. What a waste!

No, I didn't do that calculation in my head. I went to the credit card calculator on Bankrate.com, and so can you, at <http://www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx>. Plug in your credit card balance, the minimum payment, and the percent you're being charged, and you'll instantly see why paying off credit card debt sooner rather than later is a wise move.

Just think—instead of making those monthly payments, you could be building your savings and your investment portfolio. Suppose you didn't have that \$1,000 debt, and instead invested that same \$24.85 every month into a diversified portfolio earning you 8 percent on an annual basis. After 114 months, instead of being \$932.32 in the hole, you'd have a portfolio worth \$4,275.83!

Let's devote this week to getting a handle on your credit card debt. It's worth it.



This is a good time to stop unwanted solicitations from credit card companies. Go to [www.optoutprescreen.com](http://www.optoutprescreen.com).

## DETERMINING YOUR TOTAL CREDIT CARD DEBT

Grab your statements from the last few months. By the way, aren't you glad that you set up a working file system? There was a time you might not have been able to put your hands on these papers. Now it's a snap. I hope you're beginning to see the value of the work you've accomplished to date. Budgets, file systems, and bill paying aren't exciting tasks, but they make the work required for the remainder of the year that much easier.

If you didn't add your total credit card debt when you worked on your budget, be sure you do so now. Very often when you're in credit trouble, the only number you see is the minimum amount due. The total may shock you, but it's the reality. Paying only the minimum required each month will keep you tied to your debt for years to come, as we saw in the preceding example. Bankrate.com has a nifty calculator that enables you to see exactly how long it will take you to pay off your credit card debt if you pay the minimum each month. When you pick yourself up off the floor, you'll be ready to continue reading the material for this week!

## DISCOVERING THE REASONS FOR CREDIT CARD DEBT

High balances generally accumulate for one of three major reasons: unconscious spending, illness, and what I call magic money. In this section, we look at all three reasons in turn.

### Unconscious Spending

The most common way that credit card debt grows is through unconscious spending. You see something you want and the idea of checking your budget goes right out the window. You feel empty inside and the void gets temporarily filled with this purchase. Here's my advice. Leave the credit cards at home if you know you have little or no self-control. When you see something you want, go home and think about it. How important is it to your health and safety? Will it improve your life? Is it a status purchase? Are you trying to impress your friends? Take out your financial notebook and make a list of the pros and cons of this purchase.

Then, before you make a final decision, give yourself a cooling-off period of at least a day or two. Make a wise decision based on the financial reality of your situation. You can do it.



Getting financially sober is a choice. If you feel that overspending is a serious personal issue for you, consider attending a few Debtors Anonymous meetings, which

are part of a twelve-step program. You can find a meeting by consulting your local phone book or the Yellow Pages online ([www.yellowpages.com](http://www.yellowpages.com)).

### Illness

Another major source of credit card debt is medical expenses. If it's an urgent medical matter for you or a loved one, these charges are more than understandable. Try and negotiate the fee before the charge is made. I realize that this isn't always possible in an emergency. Let's say you are overwhelmed with debt from a hospital stay. You have insurance but the portion that isn't covered is astronomical. Don't hesitate to call the business office at the hospital and ask to have the total amount due lowered. Then ask for a payment plan that suits your budget. We tend to think of hospitals as places we visit to get well, but the hospital is in fact a business. And like all businesses, it is in quest of a profit.

Never hesitate to negotiate. And don't accept no for an answer the first time you call. If the finance office can't help you, consider going to the top of the corporate food chain. Find out where the decision-making buck stops. If this kind of phone call isn't your forte because you feel shame or embarrassment or you run from confrontation, find a trusted, polite colleague, friend, or family member who can negotiate on your behalf. We're going to talk about medical advocates later in this book (October, week one).

In addition to asking friends and family for help, you can find a professional advocate to speak on your behalf. They not

only interface with medical personnel, they can negotiate with insurance companies and business offices. You will find them at most large metropolitan hospitals. If your local hospital doesn't have any on staff, ask to speak to a social worker. They aren't likely to negotiate for you but they often can direct you. Don't ruin your financial life because you are too proud to ask for help. Trust me: You won't be the first person who needed help. Nor will you be the last.

Let me share a personal experience I had negotiating a reduced payment. When I had cancer surgery more than seven years ago, I had no medical insurance. I was so busy dealing with the emotional upheaval of a cancer diagnosis and the need to negotiate the basic expenses that I forgot about the pathology report. When it arrived, I nearly fell over. I had assumed it would be a few hundred dollars. The report was ten pages long and cost roughly \$1,000 a page!

When I called the lab, they weren't happy to receive my request. They wondered why I hadn't called before the report was made. I explained that I had no clue how expensive these reports were and that I had assumed I could handle it. The gentleman I dealt with wasn't very kind to me. He treated me as if I were trying to pull a fast one. However, I didn't have a spare \$10,000 under my mattress, so I had to swallow my pride and soldier on. The financial office eventually reduced the fee and gave me a low monthly payment plan. Three years later, I received a call from a rep at that office. I had never missed a pay-

ment, so they were forgiving the rest of the debt! Speak up for yourself.

### **Magic Money**

Finally, the least likely but occasional candidate for out-of-control debt is paying bills by credit card. Automatic bill payments through credit card are a good idea in theory: It can be wonderful if, say, your car payment is automatically charged on the same day every month. You don't want to be late with such an important bill. And it's great if this is a credit card with perks. Charging the expenses you have to pay anyway could help you rack up the frequent flyer miles, maybe enough miles for a long flight by the end of the year. The problem arises when you cannot afford (or don't remember) to pay the credit card amount charged each month. Credit cards can often feel like magic money. If you're building your debt with bill payments, however, you're not only asking for trouble, you're tacking on interest. Your car just got a lot more expensive. See whether you can avoid charging your bills to credit cards. Maybe you need to get a less expensive car as a way to lower your payments.

If you do use credit cards, always shop

for the best deals and pay off the balances as soon as possible. If you find you must carry a balance, remember that you are never wed to one credit card. If you find a lower interest rate elsewhere, you can always shift your balance on one or more cards to the cheaper card. Check to see if the offer includes a fee to transfer a balance. You might want to shop around for one that waives that transfer fee or find a lower fee.

Before switching companies, however, call your existing credit card companies and ask them to lower the interest rate or reduce the yearly membership fee, if there is one. If you have a good payment history, you can usually make a request every six months. Try making your call midweek rather than on weekends because you are more likely to encounter a more experienced crew member.

Some people ask whether they should be paying down credit if it means they can't save for retirement. A diversified portfolio in your retirement account might be expected to grow at a rate of perhaps 8 percent a year. Chances are that you'll be "making" much more than that by paying off your credit cards first.