

MONEY MANAGEMENT



Seven Ways To Cut Your Debt

by M.P. Dunleavey

(NAPSA)—Big debt is more common than ever. The average household has about \$8,000 in credit card debt, according to Cardweb.com.

Financial coach Steve Rhode, author of "Eliminate Your Debt Like a Pro," says people have grown used to debt. "I see many people who are comfortable carrying \$15,000 or \$20,000 in debt," he says.

The trouble is that when debt gets that high, standard debt-reduction methods simply don't work.

Financial adviser and psychologist Sharon Rich says that when gauging whether the debt you're carrying is too much, a valuable barometer is time. For example, \$3,000 may or may not be a lot of debt. If you can only make the minimum payment of \$75, with an interest rate of 14 percent it's going to take you 205 months and over \$2,700 in interest to pay it back. If you can pay \$300 a month, it will take you 11 months and \$208 in interest.

Rich suggests, "If you can't pay back [the debt] in five years, consider other options."

The dirty little secret about debt—the longer you have it, the longer it lasts. "It's the biggest Catch-22 of consumer debt," Rich says. "You built up debt because you couldn't live on what you had. Now you still don't have enough to live on—and you have the additional expense of paying back the debt. It's like quicksand."

To really get rid of debt, little spending cuts aren't enough.

"Money problems are primarily solved by lifestyle changes," says Rhode. Drastic debt calls for slashing way-of-life expenses. The top four, according to Rhode, are:

1. Where we live
2. What we drive
3. Where the kids go to school
4. Vacations, vices and other big-ticket indulgences.

Seven steps can help:

1. Reduce housing costs. Move to a cheaper abode or get a roommate.
2. Drop a car. Gas, maintenance, car payments... imagine



Consider some cutting-edge ways to downsize your debt.

the money you'd save if you gave up one car or found other ways to get around.

3. Get another job. You don't have to work nights and weekends forever, but if a part-time job gave you an extra \$300 a month, that's \$3,600 you could put toward debt a year.

4. Quit your vice. Indulgences add up. At \$7 a pack for cigarettes, giving up a pack a day will save you \$2,555.

5. Live moderately. Shift priorities and locations.

6. Let the kids go public. According to the Council for American Private Education, the average cost of private elementary and high school is about \$4,689 a year. Public school is free.

7. Tap your assets. If you have access to a nest egg, windfall or generous relatives, use that money to pay off debt. Sell some assets.

The relief felt by taking these steps can far outweigh the discomfort. Stick to your guns and stick to your plan and you can be debt-free at last.

For additional debt-reduction and budgeting resources, check out Microsoft Money personal finance software (www.microsoft.com/money). This program features a Debt Reduction Planner to help determine which credit cards to pay down first and how long it will take to pay off balances, as well as Debt Consolidator that can help reduce debt from credit cards and loans.

• Ms. Dunleavey is a columnist with MSN Money.