Three Keys To Defeating Debt Now

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(NAPSA)—Money may not buy happiness, but it can buy freedom, flexibility and independence.

That's the whole point of saving for retirement. Trouble is, most people never get this message.

As soon as they get a job, or even before, they get a credit card. Instead of saving and investing, they buy stuff—usually stuff that doesn't last as long as the payments on it.

If they manage to contribute to a 401(k), they either borrow from it or cash it out when they change jobs. As their homes increase in value, they take out home-equity loans—offsetting most or all of the potential rise in their wealth with more debt.

Debt is a national epidemic, but it would be naive to lay all the blame at the feet of consumers. Lenders have done their part by loosening loan standards and chasing after people with poor credit in an ill-fated attempt to boost their profits. But on a personal level, it's pointless to blame the rope salesman for selling you rope if you use it to hang yourself.

Consider the average credit card-carrying household, which is holding more than $8,000 in credit-card debt. At a typical 17 percent interest rate, that means paying about $1,400 a year in interest. Think about that: $1,400 a year—just for the privilege of not paying immediately. If instead, the $1,400 each year had been invested and earned an average eight percent annual return, the savings would add up to nearly $160,000 after 30 years.

It's hard to spend less money, regardless of how much you make.

But the Internet is full of great ideas for saving money—and moral support—for those trying to live within their means. Check out MSN Money's message boards for a community of like-minded folk.

If you're ready to tackle your own debt pile, here's the plan:

Get intimate with your debt. You should know everything relevant: your balances on every account, the interest rates you're paying, whether that interest is deductible, when and how those rates can change and whether you'll face any kind of penalties for paying an account early. Call your lender and ask questions if you're not sure. Write it all down.

Paying off your debt (without accumulating more of it) is key for financial independence.

Prioritize your debt. Divide your debts into deductible and nondeductible piles. Credit cards, car loans and personal loans are nondeductible debt; you get no tax break on the interest. Mortgages, home-equity loans and some student loans (depending on your income) are usually deductible.

Once you know which is which, rank the debts in each pile, from highest interest rate to lowest.

Eradicate your debt. You can start with your highest-rate, nondeductible debt—or the nondeductible debt with the smallest balance, if you need the sense of satisfaction from wiping out a bill as soon as possible. Either way, put as much money as possible toward your first debt-eradication target.

Once that account is paid off, take the same amount of money and apply it to your next target.

Keep doing this until all your nondeductible debt is gone. Then you can start tackling your deductible debt, or boost your investing, or both. By the way, this plan only works if you stop adding to your debt pile. In other words, cut up those credit cards and don't apply for any more loans.

For more information and tools that help you gain a better handle on your credit situation, visit the Planning Center on CNBC on MSN Money (http://money.msn.com), or use the debt reduction tools within Microsoft Money software.

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