

Resolutions 2014: Kill Your Debt and Then Write Its Obituary

January 2, 2014

By Donna Freedman

(<http://www.moneytalksnews.com/author/donnafreedman/>)

- @DLFreedman (<http://twitter.com/DLFreedman>)

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Plenty of people make New Year's resolutions for the same reason they send out holiday cards — because it's something you're supposed to do every December.

Keeping those resolutions is a different matter entirely. In fact, some of us joke ruefully about how quickly we'll stop getting up for that 6 a.m. workout, or how soon we'll ditch the patch in favor of a fresh pack of Marlboros.

Of all resolutions, weight loss and money gain are probably the easiest to break. Crawling from a warm bed into an icy January gale is tough, and getting ahead financially can seem impossible if debt is nipping at your heels.

(According to TransUnion, the average credit card borrower owes \$5,235.)

Make this the year you *keep* your get-out-of-debt resolution. Easier said than done, right? Here's what Money Talks News founder and money expert Stacy Johnson (<http://www.moneytalksnews.com/author/stacy/>) has to say on the subject. Check it out, and then read on for more details.



Do you know how much you owe? List every outstanding balance: mortgage, student loans, credit card balances, auto loans and any other place you owe money. (Yes, including the bucks your brother lent so you could put new tires on that lemon you're still paying off.)

List every balance and, if applicable, every interest rate. Then figure out which debt dragon to slay first. Some recommend the lowest balance because it's easiest to kill and the act of quickly paying off one entire balance means a psychological boost.

One basic rule?

Or so the theory goes. Myself, I'd aim for the debt with the highest interest rate. So would personal finance author Jean Chatzky, who refers to this as the "one basic rule" of credit card repayment.

"You pay off your highest-rate debts first because those are the ones that are costing you the most," she says in her book "Pay It Down! From Debt to Wealth on \$10 a Day (http://www.amazon.com/s/ref=nb_sb_noss?url=search-alias%3Dstripbooks&field-keywords=%22Pay+It+Down%22&tag=montalnew-20).

However, there are a few exceptions. For instance, if you've borrowed against your retirement plan and feel your job is at risk, then pay that bad boy down, stat. That's because if you lost your job you'd have to repay the debt relatively quickly or risk having it termed a "withdrawal," which comes with a big fat tax bill.

Narrowing your focus

Incidentally, personal finance expert Liz Weston, author of "The 10 Commandments of Money: Survive and Thrive in the New Economy (http://www.amazon.com/10-Commandments-Money-Survive-Economy/dp/0452297621/ref=sr_1_1?s=books&ie=UTF8&qid=1387848273&sr=1-1&keywords=%22The+10+Commandments+of+Money%22&tag=montalnew-20)," thinks it's OK to pay off a "small" balance on a lower-rate credit card first, if you feel overwhelmed. "Knocking out at least one bill can give you the motivation to keep going," she writes.

Since even the experts disagree, do what works for you.

Whatever tactic you choose, narrow your focus onto that debt. After you've met your basic expenses for the month, make the minimum payments on other obligations and throw as much cash as possible at the targeted debt.

Something to keep in mind: Even if your student loan rates are higher than your credit card rates, pay down the cards first. Doing so frees up credit for future emergencies (car repair, medical treatment) whereas money paid toward an educational loan is not recoverable.

You'll want to pare expenses way down. Every dollar you *don't* spend needlessly is a dollar that will help clear your financial decks.

Not sure how to cut costs? Start by tracking them. A free service like PowerWallet (<http://www.moneytalksnews.com/rates/powerwallet/>) will tell you where your dollars are going, which can be a real eye-opener. Next, use the Money Talks News archives for ideas on how to save money in every aspect of your life.

Here lies debt

Once you've paid off a debt, you can "snowball" it – that is, add all the money you were paying toward it to the next obligation on your hit list. Again, you'll make minimum payments on all the others in order to focus on paying one off quickly.

Don't just kill these debts, though. Write their obituaries. Certified financial planner Kimberly Foss suggests posting all paid-off debts where you'll see them – the bathroom mirror, say, or the front of the fridge.

Highlighting the zero balance with yellow or pink marker drives home the point: *I have paid down X dollars – look how much closer I am to my goal!*

"That gives you momentum," says Foss, founder and president of Empyrion Wealth Management in Roseville, Calif.

Foss also suggests that rewards credit card holders apply those reward points toward their balances, versus trading them in for gift cards or airline tickets.

Keep your eyes on the prize

Momentum matters, but don't be surprised if your anti-debt resolve wavers a little now and then.

Think about the last diet or exercise regimen you tried. At first you felt confident and strong, and happy to be taking charge of your health. After a while, though, you really wanted to sleep in or to go out for burgers and fries.

That's natural. It's also fatal, if you want to make any kind of progress. If you want this to be the year you really *do* take charge of your money, remember two things:

- You didn't get into debt overnight.
- It won't go away that quickly, either.

Wishing you hadn't spent all that money doesn't do you much good. Instead, focus on the progress you make. Snowball those debts. Write their obits. And stay away from the Marlboros.

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