



## REDUCING DEBT

Nearly everyone has debt. But if you take on too much debt, it can stand in the way of reaching your goals. These steps can help you:

- Know what you owe.
- Choose an option to reduce your debt.
- Find extra dollars to apply toward your debt.

It will take some work and focus to reduce or pay off your debt, but the financial results are worth it. That's not all. Paying off debt can relieve stress and help you have a more positive outlook on life knowing that you have more financial freedom.

### Step 1: List all of your debts

- Gather and review your recent statements. Write the most recent statement balances and minimum payments **in the table on page 2, including:**
  - Account/creditor.
  - Annual percentage rate (APR). This is the rate that is charged for borrowing. It's expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan. This includes any interest, fees or additional costs associated with the transaction.
  - Balance.
  - Minimum payment.
  - Any other information you may find helpful.
- If you're uncertain about whether or not you have all of your statements, you can obtain a credit report as a way to double check.
  - All of your creditors will be listed, so you can make sure you have all of them on your list. The report provides a detailed summary of your past credit use and repayment activity on your accounts with banks, credit card companies, retailers and other lenders.
  - Three companies (Experian, Equifax and TransUnion) keep your credit report. They have set up a centralized service that will provide you three free copies (one from each company) of your report each year. You can request copies from [AnnualCreditReport.com](http://AnnualCreditReport.com). It is the only authorized source for the free annual credit report that's yours by law.

Account/creditor	APR	Balance	Minimum payment

## Step 2: Know your cash flow

Before you can address your debt, you need to know what's happening with your cash flow. Documenting the money coming in and going out will help provide answers. For example:

- Are you breaking even each month?
- Do you have money you can immediately begin putting toward your debt?
- Are you losing ground?

If this sounds like a budget, you're right. You need to know how much of your money is going to pay bills each month and how much you spend day to day. Refer to the Budget Spreadsheets resource provided by your financial coach to help you create a budget and track where your money is going.

## Step 3: Find money to help pay down debt

Once you know your cash flow, ask yourself if you have money left over that can be put toward your debt, and how much. In general, there are two ways to find money to save and to help pay down debt:

### 1. Increase your income.

You may be able to increase your pay by:

- Getting a raise or a bonus or working overtime.
- Selling things you own but no longer need (e.g., books, furniture).
- Offering a service for a fee (e.g., babysitting, cleaning, yard work).

### Debt reduction and savings

Paying down debt and building emergency savings go hand in hand. Money set aside specifically for emergencies can help prevent additional debt when something unexpected happens (e.g., vehicle or major appliance repairs).

Check out the Emergency Savings resource sheet for helpful information, tips and tools.

## 2. Decrease your spending.

For example:

- Wait until something you need is on sale before buying it.
- Eat at home or bring lunch to work vs. dining out.
- Negotiate lower rates with your creditors. The interest rate on your credit card affects the amount you pay in finance charges when you carry a balance. (Finance charges are interest fees charged on revolving credit accounts, like credit cards.) The higher your interest rate, the higher your finance charges will be. These and other online resources provide ideas on how to handle this type of phone call:
  - [Credit.about.com/od/creditcardbasics/qt/lowerrate.htm](http://Credit.about.com/od/creditcardbasics/qt/lowerrate.htm)
  - [Fool.com/personal-finance/credit/get-it-done-negotiate-with-your-lender.aspx](http://Fool.com/personal-finance/credit/get-it-done-negotiate-with-your-lender.aspx)

## Step 4: Choose your pay-down plan

Review the table below and decide what debt you'll begin to pay down first: debt with the highest annual percentage rate (APR), the lowest balance or the biggest emotional ties.

Pay down debt with the:	Highest APR	Lowest balance (snowball)	Greatest emotional ties
<b>What to do</b>	Pay the minimum on all credit cards, but pay as much as you can on the credit card debt with the highest interest rate.  Once this debt is eliminated, move on to the next highest annual percentage rate.	Pay the minimum on all credit cards, but pay as much as you can on the lowest balance first.	Pay off the one that gives you the biggest emotional boost when paid off. Just pay your minimum balance on all other credit cards.
<b>Why it works</b>	By paying off the highest APR first, you reduce the amount of interest paid.	By paying off the smallest debt first, you build momentum, allowing you to move on to the next debt more quickly. Repeat the process with the next lowest debt.	This is about psychology and feeling good about yourself regarding a debt you dread paying every month.
<b>Considerations</b>	<ul style="list-style-type: none"> <li>• Pay less interest over the years.</li> <li>• If this is your highest balance, it may take a while to pay off this debt, so you may not feel like you're making enough progress.</li> </ul>	<ul style="list-style-type: none"> <li>• Have fewer bills to pay off each month.</li> <li>• May end up paying more in interest over the years.</li> </ul>	<ul style="list-style-type: none"> <li>• Feel better about yourself when you're free from the negative emotions connected to this debt.</li> <li>• May end up paying more interest because the emotional debt may not be the highest interest rate.</li> </ul>
<b>May be ideal if you ...</b>	Have patience for a long-term goal and want to pay the least amount of interest to your creditors.	Like to see progress in the short term and are OK paying more interest in the long term to have fewer bills to pay.	Have taken out a debt that you wish you hadn't, or you have a debt that causes relationship stress, like owing a family member money.

## Step 5: Follow through

Here are some additional ways to help you reduce your existing debt. Put a checkmark by those you plan to use, and talk with your coach about the actions steps for these strategies.

- Make a list of financial goals. This can help you make intentional choices about how you save, share and spend your money.
- Contact creditors to discuss lowering the interest rate. Also ask about flexible payment options, especially if you're unable to meet all of your obligations. Some lenders may reduce your minimum payment or let you make interest-only payments for a period of time.
- Follow through with the pay-down method chosen in step 4.
- Continue to work on spending habits and sticking to a budget. You can use the free online Home Budget Calculator ([Thriventcu.com/resources/calculators/dinkytown/HomeBudget.html](http://Thriventcu.com/resources/calculators/dinkytown/HomeBudget.html)) to get you started. Just enter your income and monthly expenditures and see how much you have left to save and where your money is being spent.
- Contact your financial coach to find out about other savings and debt reduction options.
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When it comes to taking control of your debt, a little knowledge can go a long way. Don't wait to put what you've learned into action. Start today. If you need guidance, your financial coach is a great resource to have on your side.



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