



Make a Plan to Reduce Your Debt

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Keep Track of Your Spending

It's hard to reduce your spending if you don't have a good idea of how much you are spending. Keep track of your typical monthly expenses for three months to find out where your money is going. To get an even more realistic idea, factor in some unexpected expenses -- such as auto and home repairs. Once you have a record of your spending, compare your average monthly outlay with your monthly income. If you have a surplus, this is the amount you can apply each month to paying down debt and building savings. If you have a shortfall, you'll need to examine your expenses more closely to see what you can potentially cut back or cut out.

Keep Saving

One way to establish good saving habits is to make saving even easier than spending. A handy tip is to set up separate savings accounts with separate goals attached to them. Here are three suggestions that can help you better allocate your savings.

- **Emergency Account:** Your goal for this account should be to build up at least three to six months of living expenses. This way, if you lose your job or need a lump sum to pay for a significant expense, you may not have to tap into your other savings or ring up more debt.
- **Family Account:** This account can help fund your children's school expenses (such as class trips and team uniforms) or vacations.
- **Investment Account:** This account should be reserved for general or long-term saving goals. Hopefully, you already have a retirement savings account (either through your workplace or on your own) and perhaps a college savings plan. But having another account to save for other

longer-term goals -- maybe to start your own business or remodel your home -- can be a smart move.

Keep a Tight Watch on Your Credit Cards

If you've accumulated significant credit card debt, you've first got to stop the bad behavior. Paying off debt is easier once you stop using your credit cards.

- Pay off your highest interest credit card debt first, making sure you avoid the "minimum balance trap." Paying more than the minimum can make a big difference.
- Consolidate your debt by transferring outstanding balances to lower-rate cards. If you don't want to transfer your balances, you may be able to get your current credit card company to match the interest rate of a competitor.
- Cancel all cards except for the one that offers the lowest interest rate.
- Finally, set up a realistic payment timetable and stick with it. If you have trouble keeping pace, talk to a professional. The counselors at the nonprofit National Foundation for Credit Counseling can help develop a more structured plan for you. To find the nearest location, call 800-388-2227 or visit <http://www.nfcc.org>.

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