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EMPLOYEE FINANCIAL EDUCATION

Debt Can Help You—or It Can Hurt You

Explore practical tips to help manage debt and harness it for financial freedom.

Debt is a common aspect of modern life, but understanding how to manage it effectively can lead to financial freedom and stability. In this worksheet, we explore key concepts of debt management and provide practical strategies to help you take control of your finances.

What kind of debt do you have?

Debt is money borrowed and paid back with interest, often categorized as "good" or "bad." Good debt typically refers to investments that increase in value over time. Bad debt includes high-interest debts that hinder financial progress.

Good Debt

- Mortgage
- Student loans
- Small business loan
- Investment loans
- Home equity line of credit (HELOC)

Bad Debt

- Credit card debt
- Payday loans
- Loans for depreciating assets
- Retail store credit cards
- Cash advances

Budgeting basics

Budgeting is the foundation of financial management. It involves tracking income and expenses to ensure that spending aligns with financial goals. Here are some basic budgeting techniques:

Track your expenses

Keep a record of all your expenses, including bills, groceries, and discretionary spending.

Set financial goals

Identify short-term and long-term financial goals, such as paying off debt and saving for retirement.

Use tools and apps

Consider using budgeting tools or apps to streamline the budgeting process and gain insight into your spending habits. Explore Apps

EXERCISE: *Make a list of everything you spend each month to assess whether you are spending more, less, or the same amount that you earn each month.* *Home Budget Analysis.*

How do I get out of debt?

There are several strategies for reducing debt. Popular and effective methods offer psychological benefits by providing a sense of accomplishment with each debt paid off.

The snowball method

Pay more than the minimum amount owed on your **smallest loan**, while continuing to pay the minimum on your other loans. For example, if the minimum for your smallest loan is $10 a month, pay $15. Once that debt is paid, take the $15 and add it to the minimum amount you've been paying on your second smallest loan. If the minimum on the second smallest loan was $12 a month, you'll now pay $27 a month ($12 + $15). Keep doing this until all your debts are paid.

The avalanche method

Pay more than the minimum amount on the debt with the **highest interest rate**. For example, if you have credit card debt at 20% interest and a student loan at 5% interest, focus on paying off the credit card first. Once that debt is cleared, roll the money from it to the next highest interest rate debt, while ensuring you always pay at least the minimum on all other debts. This method can help reduce the total interest paid over time.

EXERCISE: *Create a debt log to help understand and manage debt. Explore debt logs > English & Spanish*

Negotiating with creditors

If you're struggling to make payments, consider reaching out to your creditors. Here are some tips for negotiating:

- **Be honest and transparent:** Explain your situation honestly and provide documentation if necessary.
- **Propose a plan:** Offer a modified payment plan that you can realistically afford.
- **Ask for lower interest rates:** Request a reduction in interest rates, especially if you have a good payment history.

Preventing debt

Avoiding unnecessary debt is key to financial wellness. Consider these tips:

- **Build an emergency fund:** Save for unexpected expenses to avoid relying on credit during emergencies.
- **Use credit wisely:** Make informed decisions about when and how to use credit. Only borrow what you can afford to repay.

It's easy to get into debt—and challenging to get out of it—but you can do it.

After your debt is paid down, you can begin to build financial security by setting aside money—such as emergency savings account, starting a college savings fund, and saving for retirement.

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