

Smart Ways to Manage Debt and Get Ahead

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It's hard to have peace of mind if debt is weighing you down. Learning how to manage debt can put you in the driver's seat. February's Wealth Management Insights outlines ways for you to understand and control your debt.

What you should know:

- 1. Have a good understanding of your monthly income and expenses, including debt payments.**
 - Make sure you know how much money you have coming in and going out each month. Create a budget and regularly monitor it to make sure your spending matches your resources. You can reap financial and personal rewards by living within your means.
 - Understand the details of your debt. What is the loan's payment schedule and when are monthly payments due? What are the prepayment policies, late charges and interest rates? When is the debt expected to be paid off? Understanding this information can help you identify ways to repay your loans more quickly and at less cost.
 - Consider the total cost of debt. Monthly interest-only payments may seem affordable, but they really drive up the cost of the loan. Avoid the cycle of taking out additional loans or credit card debt to cover payments, which can result in lower credit scores and higher payments.
- 2. Pay down existing debt.**
 - Be smart with credit card payments. Know which of your credit cards has the highest interest rate and pay that card off first. By making an additional monthly payment or paying more than the minimum, you'll be able to drive down costs and pay off your debt faster.
 - Understand the tax treatment of the interest you're paying, as the new 2018 tax rules have limited ▶

or eliminated many deductions. For example, interest on home equity loans that weren't used to buy, build or improve your home is no longer tax deductible.

- Have a specific plan for paying off your debt. Instead of paying just the standard payment, commit to paying an additional amount each month. Additionally, some employers now offer student loan reduction programs as a benefit – check and see if this is available where you work.

3. Consider how debt impacts your overall finances and how you handle it.

- According to a recent Federal Reserve survey, credit card balances surpassed mortgages as the highest form of household debt. Pay more than the minimum payment each month – the faster you pay the accrued interest (and subsequently the principal), the quicker you'll reduce outstanding debt and expenses over time.

- Work to improve your FICO credit score. The higher your FICO score, the more inclined lenders will be to approve you for low interest rate loans at high credit limits. Increase your score by making payments on time, reducing debt and improving your credit ratio, which is your total debt outstanding compared to your total amount of available credit.
- Debt can affect people in different ways. Studies indicate that money concerns can cause anxiety and stress, which may in turn affect personal and work relationships. Digging out from debt with a sound financial plan can help alleviate these issues and avoid them in the future.

What you should do now:

Understanding how debt affects your finances is an important first step in learning how to manage it. Your Baird Financial Advisor can discuss the best strategy to handle debt and guide you on a path to financial success. ■