**Five Bonus Articles on Debt**

**How to Get Out of Debt As Painlessly as Possible**

Reducing household expenditures has been a strategy millions of people have employed to weather the current recession. Most of us make purchases each month that are unnecessary, sometimes even extravagant; this means it is possible to reduce expenditures and still have a reasonable standard of living. Cutting back may seem like a depressing task to many consumers, but for companies, budget cutting is a way of life, something that is done anytime the business cycle turns down. It's not considered depressing or negative; it's just a part of business life.

Consumers can approach the process the same way companies do, and hopefully make it as painless as possible. The first step is to get a handle on your current spending. Look back over the last 3-4 months and make a list of every single expenditure you made, even ones that may seem small, like the $5 cup of coffee you purchase from the vendor near your office. If you pay cash for some of these expenditures, try to think back about the typical week and what you typically buy. Make an estimate if need be. The point is to figure out exactly where you are spending your money.

Now, organize the expenditures into categories. Food (groceries), food (eating out), recreation, clothing, home repair, auto maintenance and repair, insurance, pet care, office supplies (if you have a home office), kids' allowance, these are all key categories. But you may some others you think of as well. You can of course list your fixed costs such as mortgage or auto payments. But we're really trying to discover categories where it is possible to cut back.

Now, set a goal for how much you want to cut back. A 10% reduction in expenditures might do just fine as an initial goal. If you spend on average $5,000 a month, this means your goal would be to spend $500 less.

Next comes the more difficult part, prioritizing where you are going to make the budget cuts. Companies sometimes decide to cut costs 5% across the board, meaning in every category and every department, and then assign accountants and financial analysts to make specific recommendations about where the cuts will be made.

You could try this approach as well. Or you could set your own priorities based on your family's lifestyle. Make sure to keep some items in your budget that reflect what you and your family derive pleasure from. In difficult times, we need to make sure we do things to cheer ourselves up and keep a healthy, positive attitude.

Eating good meals, for example, makes most of us happy. But three simple tactics to reduce food expenditures are: prepare more meals at home, order less take-out, and learn new recipes that require less expensive ingredients. You can make a delicious, even gourmet-style, pizza at home for much less than the same quality pizza would cost from a restaurant or delivery store.

Another key aspect of making this as painless a process as possible is to have all family members participate in the process. Set the goals together and have everyone make suggestions about where cuts can be made. A father or mother dictating what is to be done can cause resentment from the other family members. Working on budget cutting together is sometimes referred to as the "buy-in" in the corporate world, meaning everyone buys in, or agrees to the goals with as little resentment or grumbling as possible.

Once you have set your goals, and figured out how much to save in each category, the next step is to chart your progress. You might even consider putting a chart in a visible location, such as on a bulletin board on the kitchen wall. As you reach your goals, you can then have a visible reward that everyone in the family can take credit for.

Cutting back is never "fun," but it doesn't have to be approached with feelings of dread or despair. If you hit your target for the month, you could even treat family members to something they really enjoy. Make it an occasion to celebrate a little bit, and then remind everyone that difficult times never go on forever.

**Improve Credit Score by Rebuilding Your Discipline Using Your Credit Cards**

The road to financial health is a journey that can begin with simple, relatively painless steps. One way to get started is to apply a systematic approach to making your credit card payments. Improve your credit score by rebuilding your discipline.

If you find your credit card balances are growing uncomfortably large, the first step to reducing them is to make sure they stop building. First, hold the balances constant, and then when you are able to accomplish that, you can begin to work on getting out of debt altogether. One of the evils of credit card debt, besides the high interest rate, is that the lender charges interest on interest. They apply a finance charge to this month’s balance, then next month if you haven't paid the balance off, last month's interest becomes part of this month's principal balance, which in turn they apply the finance charge to.

You can stop this problem in its tracks by doing the following: To calculate the payment you want to make, add up the current month's expenditures on the card, this month's finance charges, and whatever contribution you want to make to reduce the principal balance. The contribution could be minor, $20 at first. The point is, you are not allowing the principal balance to build up any longer. And you are beginning to learn the discipline of paying for what you purchase each month. In the end that's your goal: to have no finance charges at all to pay, because you do not carry over and debt from month to month.

Another way to stop credit card build up is to review what you usually spend on lunches, coffee, groceries, etc using your credit card. Put the monthly amount in cash in marked envelopes. Each week take out one fourth of the amount for that week's expenses. If you run out of money before the week's end you'll just have to make do by bringing your lunch rather than buying it, or stretching out the groceries you already have in the house.

If you apply this method, over a few months it will become automatic. And having to pay the current charges each month will have the subtle effect of getting you to reduce the number of purchases you make, because you want to have a monthly payment as low as possible.

This goes back to the original concept of credit cards: a means to facilitate purchases where it was inconvenient to use cash. Credit cards, by virtue of their high interest rates, have never been ideal sources of long-term credit. They are best thought of as something to use in emergencies, for expenditures that are unforeseen.

The best approach to your regular monthly expenditures such as going out to lunch, or putting gas your vehicles, is to regard these purchases in the same way as cash expenditures, except you pay for them in a group several weeks after the expenditure was incurred.

Improve your credit score by paying for all your purchases every month.

**Budgeting for Average Income over a Period of Years**

The road to financial health is a journey that can begin with simple, relatively painless steps. One way to get started is to apply a system to how you approach your household budget. Of course, the step before that step is to actually create a household budget, which unfortunately many individuals do not. How to improve your credit score by budgeting is relatively painless and the payoff can be a healthier financial lifestyle.

Americans are inherently optimistic people; we expect tomorrow to be better than today, including the amount of money we earn. This positive expectation has been one of the reasons for our decades of prosperity and economic growth. But when applied to our financial management, this expectation can cause trouble, particularly for individuals whose income is variable. And for most of us, our income does vary from year to year, up and down, even if we don't remember it that way. Suppose you made $88,000 last year. You could reasonably expect to earn $95,000 this year, perhaps because the company you work for has cost of living increases, and you might get a merit pay raise. So what happens? You begin to spend as though you're already earning that $95,000, ignoring the possibility that your income could actually drop next year.

In this recession, we've seen millions of people fall into this trap. As the economy contracts, so do the earnings for many of us. It doesn't have to be as drastic as getting laid off. It might be something as minor as our company not being able to afford paying us a bonus. Or we have to offer our customers discounts to keep them buying from us, in the case of a retail store, or even a service provider.

People whose income is variable, such as commission salespeople, or people who work on a contract or project basis, are particularly vulnerable to falling into this trap. The extreme case would be people who, temporarily, earn the most money they possibly can over the course of their lives, such as pro athletes. They might earn $5 million a year for a few years, and unfortunately spend at that rate as well. It can be disastrous for them when their career ends, their income drops, but their spending habits stay the same.

One way to avoid this financial pitfall it to think of your income as a moving average of several years' earnings; three years might be a good place to start. Maybe our person who made $88,000 last year, for example, earned $58,000 the year before, and $70,000 the year before that. Averaging these three years, we see that number comes out to $72,000. If this person made out his budget with this number being his assumed income level, he would be building up cash surpluses during good years that could carry him through lean years. Perhaps this recession would have been hardly painful at all, in terms of changes he would have to make to his lifestyle.

Improve your credit score by budgeting your expenses.

**Budget Your Way Out of Debt**

Money management is sort of like dieting: it’s not a topic most people approach with enthusiasm. It seems like it will involve sacrifice and pain. And personal finance doesn’t have perky spokespersons who seem vaguely familiar that come on TV and exclaim: “I lost $20,000 in credit card debt using the amazing ‘Tightwad Terry's Budget’ program!!!” Many times it seems we’re all on our own when it comes to managing our money.

Financial health—lower debt--requires just as much discipline as losing substantial amounts of weight. We gain weight either because of excess consumption of food or because we do not get enough exercise. Excess consumption—reckless spending—is of course the primary cause of that unsightly buildup of debt. When starting a dieting and exercise program, one of the first things you are advised to do is figure out your current calorie consumption, and then set goals for reducing it.

In personal finance, a budget is your tool to help you figure out where the financial flab is located. If you enjoy working with computers a simple Excel spreadsheet can be used to help you build your budget. Otherwise, a pad, pencil and calculator will do just fine.

First, you want to determine exactly what you spend each month, by category (mortgage, utilities, food, etc.). And also you want to separate your expenses by these additional categories: essential, non-essential and extraordinary items. Essential things are those items you have to pay each month, such as your house payment. In business, these would be called your fixed costs. Non-essential items are those things you have a choice about. It doesn’t mean they are luxuries; it could be that cup of premium coffee you pick up each morning on the way to work. These are discretionary expenses that you could consider cutting to meet your goal of debt reduction.

The last category, extraordinary items, is the one that trips up so many of us. Extraordinary in this case means expenses that crop up on an irregular basis but typically occur each year, or maybe several times a year. We may think our monthly expenses are say, $5,000, but because of these extraordinary expenses, the real monthly nut may be closer to $6,000. This is why your detailed analysis of current expenditures can be so revealing. You may forget the cost of repairs and maintenance on your home, or your car, over the course of the year.

We might also overlook medical expenses or veterinary bills. It’s hard to budget “trip to the emergency room for my cat” but if you see over a period of years that you have these types of bills each year, you need to include them in your budget. If you don’t, these end up being unwanted additions to your credit card balances.

In our example, you might envision your monthly expenses to be:

Essential $4,000

Non-essential $1,000

Extraordinary $????

Total: $5,000

But the reality turns out to be:

Essential $3,000

Non-essential $2,000

Extraordinary $1,000

Total: $6,000

You’re course of action, then, is to cut $1,000 from your non-essential expenditures and bring your household expenses back into balance.

Budget your way out of debt and into a healthier financial status.

**Pay Down Debt by Kicking the Credit Card Habit and Avoiding Statement Shock**

Problems with credit card usage aren't usually something that happens overnight. They are the result of bad habits accumulated over the years. And just as it can be extremely difficult for long time smokers to quit, even if they know their health is at stake, so too good credit card management doesn't happen without a change in behavior. After all, people don't really abuse credit, the credit card charges end up abusing them. Here are some techniques to use to pay down debt and improve your financial health:

Don't let small purchases pile up into your credit card balance. The convenience of credit cards is one of the reasons they are so dangerous. We end up using them for the myriad of purchase we make, particularly those smaller ones, such the trip to the gas station, the video store, the restaurant. It can be quite a shock to get your monthly statement and find all those little nickel and dime expenditures added up to an $800 balance—that the credit card company is now cheerfully applying finance charges to. In our hectic lives it is easy to forget how many expenditures we make each month.

Two easy ways to address this problem are:

1) Get in the habit of using your debit card instead. This card takes the cost of the purchase right out of your bank account, so there is no credit balance incurred at all, and no finance charges. You are forced to only purchase what you can pay for. If you use this card frequently, however, be sure to deduct all the transactions from your checkbook right away, while the expenditure is still fresh in your mind. You don't want to end up overdrawing your bank account and perhaps bouncing checks you have written.

2) Get in the habit of using boring old—CASH. If you're the type of person who never carries cash, think about reacquainting yourself with it. You don't need the old fashioned gold money clip with a thousand bucks in it. You could just make sure you always have $50 or $100 with you to use for all those minor expenditures, those $20-$50 items that add up to the sizeable credit card balance at the end of the month. These days, there are ATMs where you can make cash withdrawals nearly every place you spend money. And again, you can only spend the cash you have in your bank account. You are therefore implementing better financial discipline.

What these techniques allow you to do is start to retool your credit card to be something used for emergencies or big ticket items. You may lose track of 10 minor $40 purchases you make during the month. But it's doubtful you'll forget the big screen TV you bought, or the trip to the emergency room.

The nice thing is, you will no longer have a nasty shock when you open your credit card statement. Pay down debt and remember: Credit, used wisely, can be an indispensable tool for managing your finances with greater ease.