

## Simple Steps to Help Reduce Credit Card Debt

The U.S. has a cumulative revolving debt of more than \$850 billion, according to the Federal Reserve. A whopping 98% of that figure is comprised of credit card debt -- with 54 million households in arrears for an average balance of \$15,788.1

If you are contributing to staggering sum of outstanding credit card debt in America, you need to start digging your way out, and the sooner the better. Debt can stand between you and your financial goals, such as buying a home and being able to fund your retirement. Here are some simple steps to help you start paying down those charges.

**Step 1: Consolidate and pay aggressively.** The best approach to paying off debt is to become systematic and aggressive. If possible, try to consolidate your balances into one card with the lowest interest rate. Then cut out some of your indulgences -- lay off the morning coffee fix and brown bag your lunch. The \$50-\$200 a month you can save by making a few small sacrifices should go right into your credit card payment. If you can't consolidate your debt, start with the card with the highest interest rate, and double or triple your monthly payments until you eliminate your balance. Then do the same thing with the next highest interest rate card, and so forth.

**Step 2: Pay debt first, invest later.** Conventional wisdom states that if you can earn a higher after-tax return on your investments than the interest rate you are paying on your debt, you should invest. Otherwise you should pay off your debt.

As an example, say you have a credit card balance of \$8,000 with a 14% interest rate. Given current market performance, paying off the card before investing is a no-brainer. But even if the stock market was experiencing an annual gain between 8% and 9%, paying off debt would still be your better bet.

**Step 3: Ask for a lower rate.** You can accelerate the pay-down process by calling your card issuer and asking for a reduced interest rate. According to a survey conducted by the U.S. Public Interest Research Group, more than half (57%) of those who called and requested a lower interest rate were successful. On average, the rate was lowered between seven and 10 percentage points.

It may take months or even years, but becoming debt free is your first step to true financial freedom. It is also a prudent move for individuals who are nearing retirement.

### **For More Information**

These Web sites offer information on competitive rates and more. Be sure to shop around for the best rates.

- <http://www.creditcards.com>
- <http://www.lowcards.com/CreditCardIndex.aspx>
- [http://www.bankrate.com/brm/rate/brm\\_ccsearch.asp](http://www.bankrate.com/brm/rate/brm_ccsearch.asp)

<sup>1</sup>Source: Federal Reserve, G-9 Report on Consumer Credit, March 2010.

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