

Financial
basics

By the numbers

- The average U.S. household carries nearly \$15,788 in credit card debt.¹
- American consumers are now more than \$2.4 trillion in debt.¹

¹ Source: Federal Reserve Statistical Release: Consumer Credit, 2010

Reducing debt takes commitment and patience

Debt — it is something that no one wants but just about everyone has. And while acquiring debt is easy, shedding it is typically much more difficult.

The good news is that regardless of the cause and amount of your debt, there are steps you can take to manage and overcome it.

First, you need to remember that there generally is no quick fix to getting out of debt — solving your debt dilemma typically requires time and effort. Additionally, you will want to address your debt sooner rather than later — start now, so that you are not paying more later.

When trying to reduce debt, consider the following eight-point game plan:

1. Take control — right now

There is no better time than the present to reduce your debt. But before you do anything, it is recommended that you evaluate your financial records to determine your income and your expenses.

In one column, list your regular monthly income, such as salary and pensions. In a second column, list all your expenses. Start

with your major expenses such as mortgage or rent, utilities, food, transportation, and credit card payments. You should also include any additional cash expenditures as well as any expenses that occur other than monthly, such as property taxes and insurance.

2. Create a budget

“If you fail to plan, then you plan to fail,” is a common expression, and it applies to your finances.

Based on your income and expenses, you will need to plan and establish a budget that allows you to allocate money for all of your categories of spending.

Look over everything and consider eliminating unnecessary costs. You might want to ponder the following questions:

- Why not eat at home instead of dining out?
- How about renting movies rather than going to the theater?

(continued on page 2)

Key points

- The sooner you address your debt, the sooner you can begin to do something about it.
- Developing a budget and sticking to it is a good way to get a handle on your finances.
- You will need to pay particular attention to your credit cards — how many you have and how much debt you accumulate on each.

This material should be used as helpful hints only. Each person’s situation is different. You should consult your investment professional or other relevant professional before making any decisions.

(continued from page 1)

As you go about creating a budget, include the entire family in the process so they will better understand your financial situation. Reexamine the numbers with them and look for ways to increase income while trimming expenses. For instance, can another member of the family take on a job? If you are renting, is it feasible to move to less-expensive housing?

For more tips on budgeting, see the MFS Heritage Planning® infosheet “Creating a household budget.”

3. Pay off your credit cards

Credit card debt continues to plague Americans, as the average U.S. household carried more than \$15,788 in credit card debt in 2010, with the average American owning five credit cards, according to CardWeb.com.

In fact, as of 2010, American consumers owe about \$2.4 trillion in credit card and other debts — an amount roughly equal to the gross national product of England and Russia combined, according to National Public Radio.

Eliminating credit card debt may be one of your top priorities because paying it off can give you flexibility. If you are stretched to the limit now, that means you have no margin for error, no room to maneuver in an emergency. Paying down the debt allows you to free up some of your cash flow for other things.

One great way to reduce credit card debt is to pay more than the minimum. Do not settle for that nice low number on your bill. Can you pay more? If you can, then you should consider doing so. Also, remember to pay your credit card bills on time. Paying late is another debt sin that you will want to avoid, or you will be hit with unnecessary late fees.

4. Reduce the number of credit cards you have

You should also consider having only a few credit cards and making sure they have the lowest rate available. Do not be afraid to shop around and consolidate your credit card debt by transferring to one or two cards to get a better rate.

5. Consider not taking on additional debt

Remember what got you into trouble. Handle what you have first before you start adding to your debt. You can do this by resolving that you will only use your credit cards for emergencies over a certain time period, say six months. For other purchases, you can use cash or a debit card. Finally, credit card debt should be distinguished from so-called good debt, such as a mortgage, which can be seen as more beneficial because it is tax deductible and can also be a financial asset.

6. Contact your creditors

If you find yourself in dire consequences, speak directly with the organizations to which you owe money, as they may be willing to arrange a payment schedule that could enable you to temporarily reduce monthly contributions. If you own your home, ask your mortgage company about a forbearance agreement, which can lower or eliminate payments for a set period of time.

7. Ask credit counselors

You may opt to get help with your situation rather than handling the details yourself. Assistance is available for little or no cost through government programs or credit counseling services, which will work with you to develop a long-term plan to pay off debt. However, using these services may have a negative impact on your credit rating. You may want to consult a financial advisor for input and advice. Ask friends and relatives for recommendations on advisors or contact professional associations, such as the Financial Planning Association.



(continued from page 2)

8. Stay vigilant

Once you have reduced or even paid off your balances, remember to guard against incurring debt again. If you lack self-discipline, consider phasing out credit cards and using debit cards instead.

Debt management is a continual process, so stay on top of your situation and try to keep more of your money!

Resource

www.fpanet.org

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The Association’s staff is dedicated to creating an unparalleled membership experience. FPA seeks staff who embody the organization’s core values.

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