FPA FINANCIAL PLANNING PERSPECTIVES

Moving Toward a No-Debt Lifestyle: Steps to Consider

Any financial planning process begins with necessary changes in financial behavior. The degree of change varies based on financial priorities, but in the end, it's about adopting good habits and abandoning bad ones.

Before you take any of the following steps, it makes sense to talk to an expert who can help you see your whole financial picture. A financial planning professional can examine all your sources of income and expenses and find the most efficient ways to cut expenses, pay off debt and boost the money you have for saving and investing.

In the meantime, here are some ideas:

Start with nickels and dimes: You can't wish your way out of debt – it takes cash. And recovery literally can start with loose change. If you've never done a real budget, it's time. That means tracking every cent of your spending either online (Mint.com is a free online website that offers some unique expense-tracking tools) or on paper. Once you see what's left your wallet in the last month, start cutting non-essential spending like designer coffee, carryout and deluxe cable and start applying that extra cash to the highest-rate, non-deductible debt you have. Seeing everything you spend in black and white is the first step in changing your relationship with money for a lifetime.

Attack the highest-rate debt first: In most households, this means attack the credit card balances. While February's credit card reform law has given borrowers a slight boost by applying monthly payments to highest-rate balances within every credit card statement, it won't matter much unless you begin paying more each month than the minimum balance. Zero in on your highest-rate cards first, pay more than the minimum and then work downward.

Refinance if you can: Mortgage rates are still at historically low levels. You'll need at least 10 percent equity in your home and a credit score exceeding at least 740 (out of 850) to qualify for the best rates, but negotiating with your current lender first is a great place to start. Be sure to inquire about the various government programs and how they pertain to your specific situation.

Make debt-fighting a family lesson: When you're talking to kids about budgeting and lowering your expenses, you have to walk a fine line between discipline and fear. But setting money priorities is part of growing up, and it's essential to discuss and agree upon them as a family. Generally speaking, it helps to solicit the input from others as they feel involved in the decision making process.

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Set some post-debt money goals: Getting out of debt means you'll be in for an extended period of frugality, and that might be a bit depressing. But as you battle your balances, make some time to really think about what you want to do with your life after the debt is gone. Having a debt-free lifestyle doesn't stop at having zero balances (though that might call for a celebration!). Being debt-free is the gateway to better money management that will help you reach your dreams. A financial planner can get the conversation started on what those dreams and aspirations are and what permanent savings, spending and investment philosophies will be necessary to achieve them.

Shop differently: The retail explosion of the last generation – and its implosion of the last 2-3 years – have revealed to a wider audience what money-smart people have always known. Happiness is not measured in what you wear, what you drive, or even where you live. If there is a cheaper solution to find both necessities and luxuries, adopt it. If used or wholesale options are available for food, clothing, housewares or services, why pay retail? Internet retailers, price-comparison shopping sites and online coupon sources are popular for a reason – they almost always offer lower-cost paths to savings. Use them and compare. Here's another suggestion – keep a centralized shopping list on a big sheet of paper that lets you see *all* the spending you feel you have to do, and then try to handle it during one organized trip. Seeing everything in front of you will make it easier to prioritize what you really need and what you don't.

Do-it-yourself or barter repairs and services: The do-it-yourself movement is in a new phase with the downturn. For any home or auto maintenance chores you may have during the year, learn as much as you can about those tasks and estimate the cost of materials and your time before doing them yourself. Previous generations made do-it-yourself a necessity. See if that option is right for you and you might save considerable money doing it. Also, for more complicated jobs, partner with friends and family and you can help each other save money.

Rebid your home and life insurance: Most everyone knows that bundling home and auto insurance with one carrier saves money. Increase your deductibles if you can afford to. But ask your agent specifically about changes in behavior that can save you money. See what taking mass transit most of the week can do for your insurance rates. See if you can benefit from age-related discounts. And check whether it might be worth beefing up your home security or adding more protection against weather-related disasters (storm shutters, shatter-proof glass, etc.) or upgrades to appliances, plumbing or electrical systems. Lastly, be tax-smart about improvements – EnergyStar.gov lists rebates and other breaks for upgrades around your home.

Go debit: Debit cards wearing a bankcard logo are typically welcome at most stores where credit cards are accepted. This way, you pay cash without carrying cash. If you don't have such a card, you can probably get one from your bank to replace your traditional ATM card, but remember to tell them to limit your buying power on the card to only what you have in your account. And use overdraft protection to avoid fees.

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