Financial IQ
The Fundamentals of Financial Well-Being

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Taking Control of Debt
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What is financial well-being?*

- Having control over day-to-day, month-to-month finances
- Having the capacity to absorb a financial shock
- Being on track to meet financial goals
- Having the financial freedom to make choices that allow one to enjoy life

*Consumer Financial Protection Bureau, Financial well-being: The goal of financial education., January 2015
Americans Are in Debt:

Total owed by average U.S. household carrying this type of debt:

- CREDIT CARD DEBT: $15,561
- AUTO LOAN: $28,033
- STUDENT LOAN: $47,671

*NerdWallet 2018 American Household Credit Card Debt Study*
Taking Control of Debt

1. Understand Your Debt
2. Classify Your Debt
3. Create a Debt Payment Plan
4. Balance Debt And Your Financial Goals
1. Understand Your Debt

Making a payment of $50 each month

$2,000 + 15% interest rate = $3,100

Original Purchase 15% Interest Rate Total Payment

About $3,100 over 4.5 years.
1. Understand Your Debt

- Be clear about your interest rate
- Know if it’s fixed or variable
- Calculate the cost of your debt
- Know the terms of your debt (e.g. fees and prepay penalties)
There is both “good” and “bad” debt.

**GOOD DEBT**
- Education
- Mortgage
- Your Business

**BAD DEBT**
- Electronics
- Costly Vacations
- Impulse Purchases
2. Classify Your Debt

Rank by priority:

Which ones:

- Have the highest interest rates
- Have the smallest balances
- Have the highest minimums
- Can help you build your credit
- Are “good debt” or “bad debt”
Create a Debt Payment Plan

The only way to truly:

- Take control
- Build momentum
- Strike a balance with other financial goals
- See the light at the end of the tunnel
Create a Debt Payment Plan

- Work within your budget

Consider setting a target of getting your debt payments down to 20% or less of your household income.*

*Excluding mortgage
• Work within your budget

• Tackle one debt and move on, based on your priorities

When one debt is eliminated, move on to your next priority.
Create a Debt Payment Plan

- Work within your budget
- Tackle one debt and move on, based on your priorities
- Develop a timeline and stick to it

Include every debt, payment amount, due date and projected end date.
Create a Debt Payment Plan

Debt Payments

- Debt with highest minimum payment
- Debt with lowest minimum payment

Time (Months)

Debt 1
Debt 2
Debt 3
Debt 4
Balance Debt And Financial Goals

Take advantage of compound growth and future savings
4 Balance Debt And Financial Goals

Saving vs. Paying off Debt

Dollar Amount

Time

DEBT

SAVINGS
Save while paying down debt: **Which strategy is better?**

**Person A:** Pays $200/month toward debt, then begins saving*

**Person B:** Pays $175/month toward debt while saving $25/month*

* Assumes annual earnings of $40k and a 2% annual interest rate on debt.
Putting Your Plan Into Action

Reflect on how you got into debt.
Putting Your Plan Into Action

Change bad spending habits.
Putting Your Plan Into Action

Minimize taking on new debt.
Renegotiate where you can.
Putting Your Plan Into Action

Build your credit history and manage your credit score.
Putting Your Plan Into Action

Make sure you save!

Balance is the key to financial well-being.