



# Managing Debt

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September 2020*



# Agenda

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- Debt – Good vs. Bad and How Much is Too Much?
- Understanding the Impacts of Good and Bad Credit
- Debt Management Strategies
- Key Takeaways
- Tips to Help Educate Younger Generations



## Debt – Good vs. Bad and How Much is Too Much?

# Good Debt & Bad Debt

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**Good debt has potential to increase your net worth once paid off, for example:**

- Mortgage
- Education
- Auto loans
- Secured, lower rate loans for things like home renovations



**Bad debt is accumulated through the purchase of items or services that do not appreciate in value, for example:**

- Credit cards
- Store cards
- Unsecured, higher rate loans for things like a recreational vehicle

# Americans and Bad Debt

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- Americans owe over **\$1.04 trillion** in credit card debt
- Approximately **60%** of Americans have some amount of credit card debt
- The average American owes **\$6,354** on bank issued credit cards

Sources: [USA Today](#), [creditcard.com](#)



# How Did We Get Here?

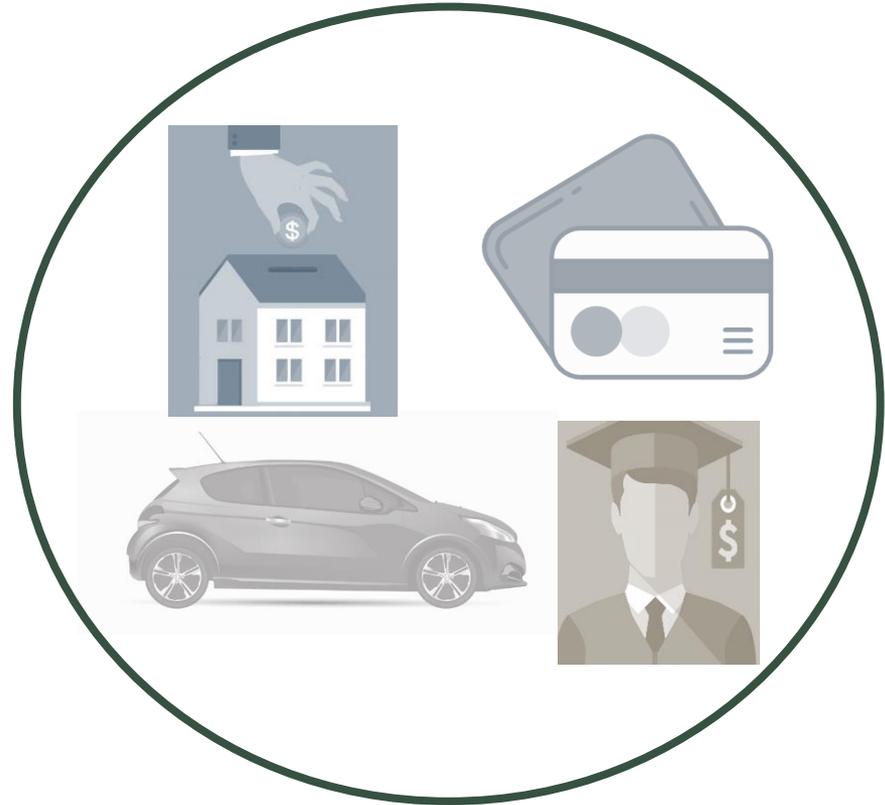
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- Great stock market run during 80s and 90s
- Home values appreciated
- Education and medical expenses increased rapidly
- A change in societal norms
- Lack of financial education through schools and at home
- Credit card offers targeting financially uneducated and vulnerable college students

# How Much is Too Much?



**30%**



**36%**

# Debt-to-Income Ratio

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- Debt-to-income ratios look at how much you owe in comparison to how much you earn
- It usually gives a good picture of your financial well being
- The lower your debt-to-income ratio, the more money you have to spend on things other than your monthly bills

# Debt-to-Income Ratio Calculation



## Example:



# Complete a Household Budgeting Worksheet



## Household Budgeting Worksheet



Enter monthly expenses for the following items. Total each category and calculate monthly expenses.

Housing/Utility	
Rent/mortgage	\$ 1025
Heating	\$ 75
Electricity	\$ 75
Water/sewage	\$ 50
Renter/homeowner insurance	\$ 75
Trash service	\$ 25
Telephone and cell phone	\$ 75
Home maintenance	\$ 200
<b>TOTAL</b>	<b>\$ 1600</b>

Transportation	
Gas	\$ 100
Car payment(s)	\$ 250
Car insurance	\$ 80
Car maintenance	\$ 50
Car registration	\$ 20
Public transportation	\$ 50
Parking and tolls	\$ 50
<b>TOTAL</b>	<b>\$ 600</b>

Insurance	
Health	\$ 100
Life	\$ 25
Disability	\$ 25
<b>TOTAL</b>	<b>\$ 150</b>

Food	
Groceries	\$ 600
Work related (lunch/snacks)	\$ 100
<b>TOTAL</b>	<b>\$ 700</b>

Medical	
Doctor visits	\$ 50
Dental & Vision	\$ 50
Prescriptions	\$ 50
<b>TOTAL</b>	<b>\$ 150</b>

Childcare	
Daycare/babysitting	\$ 0
Child support/alimony	\$ 0
<b>TOTAL</b>	<b>\$ 0</b>

Education	
Tuition	\$ 0
Books/supplies	\$ 0
News & media subscriptions	\$ 0
<b>TOTAL</b>	<b>\$ 0</b>

Personal	
Barber/salon services	\$ 100
Toiletries/cosmetics	\$ 100
Children's allowances	\$ 0
Tobacco products	\$ 0
Beer/wine/liquor	\$ 100
Clothing	\$ 200
Laundry/dry cleaning	\$ 38
<b>TOTAL</b>	<b>\$ 538</b>

Entertainment	
Sporting events/concerts/etc.	\$ 50
Movies	\$ 25
Restaurant/take-out	\$ 150
Internet service	\$ 75
TV subscription	\$ 50
Gambling/lottery	\$ 0
Fitness/social clubs	\$ 50
Vacation/travel	\$ 200
Hobbies	\$ 100
<b>TOTAL</b>	<b>\$ 700</b>

Debts	
Student loan	\$ 50
Credit card	\$ 50
Medical bills	\$ 0
Personal loans	\$ 0
<b>TOTAL</b>	<b>\$ 100</b>

Savings	
Emergency fund	\$ 300
Down payment fund	\$ 0
<b>TOTAL</b>	<b>\$ 300</b>

Net Monthly Income	\$ 4,688.00
- Total Monthly Expenses	\$ 4,838.00
= Cash Flow (disposable/deficit)	\$ (150.00)



**Parent / Financial Educator Tip:** Teaching budgeting concepts at a young age can help children develop healthy financial habits. A simple budgeting worksheet is a great tool to help them save for bigger purchases like a bike or video game.



# Understanding the Impacts of Good and Bad Credit

# What is Credit?

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Credit is when **goods, services or money is received in exchange for a promise to pay** a definite sum of money at a future date.

# Credit Scores

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## Parent / Financial Educator Tip:

Help children understand the concept of a credit score by relating it to the grading system in school. The higher the score, the better.

# Free Credit Report Available Annually

**Website to request your free report:**  
[www.annualcreditreport.com](http://www.annualcreditreport.com)



**Check for mistakes!**



**Parent / Financial Educator Tip:**  
Consider sharing a sample credit report with your child so they understand what information and value it provides.

# Who Cares About Your Credit?

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- Creditors/Lenders
- Insurance Companies
- Landlords
- Employers
- Utility Companies
- Government Agencies
- YOU!

# Effects of Having Bad Credit

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- **Denial** of credit card or loan applications
- **Higher interest rates** on loans and credit cards
- **Difficulty securing** rental housing, utilities and a cell phone
- **Denial** of employment
- **Higher** auto insurance costs
- **Less** purchasing power
- **Stress and anxiety** due to an unfavorable financial situation

# Benefits of Having Good Credit

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- Better chance of approval for **credits cards and loans** and **lower interest rates** when approved
- More **negotiating power** when financing large purchases
- Likely to get approval for **higher limits**
- Easier approval for **rental housing**
- Easier to purchase or secure things like a cell phone and utilities **without a security deposit**



**Parent / Financial Educator Tip:**

Consider helping your older teenage children build good credit by co-signing for a credit card that has a low spending limit. Monitor usage to ensure that it is used responsibly and paid off monthly.



# When to Take Action & Debt Management Strategies

# Signs Your Debt is Becoming a Problem

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- ✓ Lost sleep
- ✓ Problematic credit score
- ✓ Carrying a credit card balance
- ✓ Spending money for interest and late fees
- ✓ Not able to save for future purchases
- ✓ Increase in money arguments with partner
- ✓ Only making minimum payments each month
- ✓ Late payment penalties
- ✓ Using your credit card to pay regular expenses (groceries, gas, etc.)
- ✓ Total debt payments exceeds 36% of gross income

# Debt Management

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Debt management is simply creating a plan to repay debt in a meaningful way.



Before implementing a debt management strategy, **freeze** all credit card spending.

# Debt Management Strategies

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**1** Single Card Payoff

**2** Snowball Method

**3** Avalanche Method

**4** Debt Consolidation

**5** Debt Settlement

# 1 Single Card Payoff

## DID YOU KNOW?

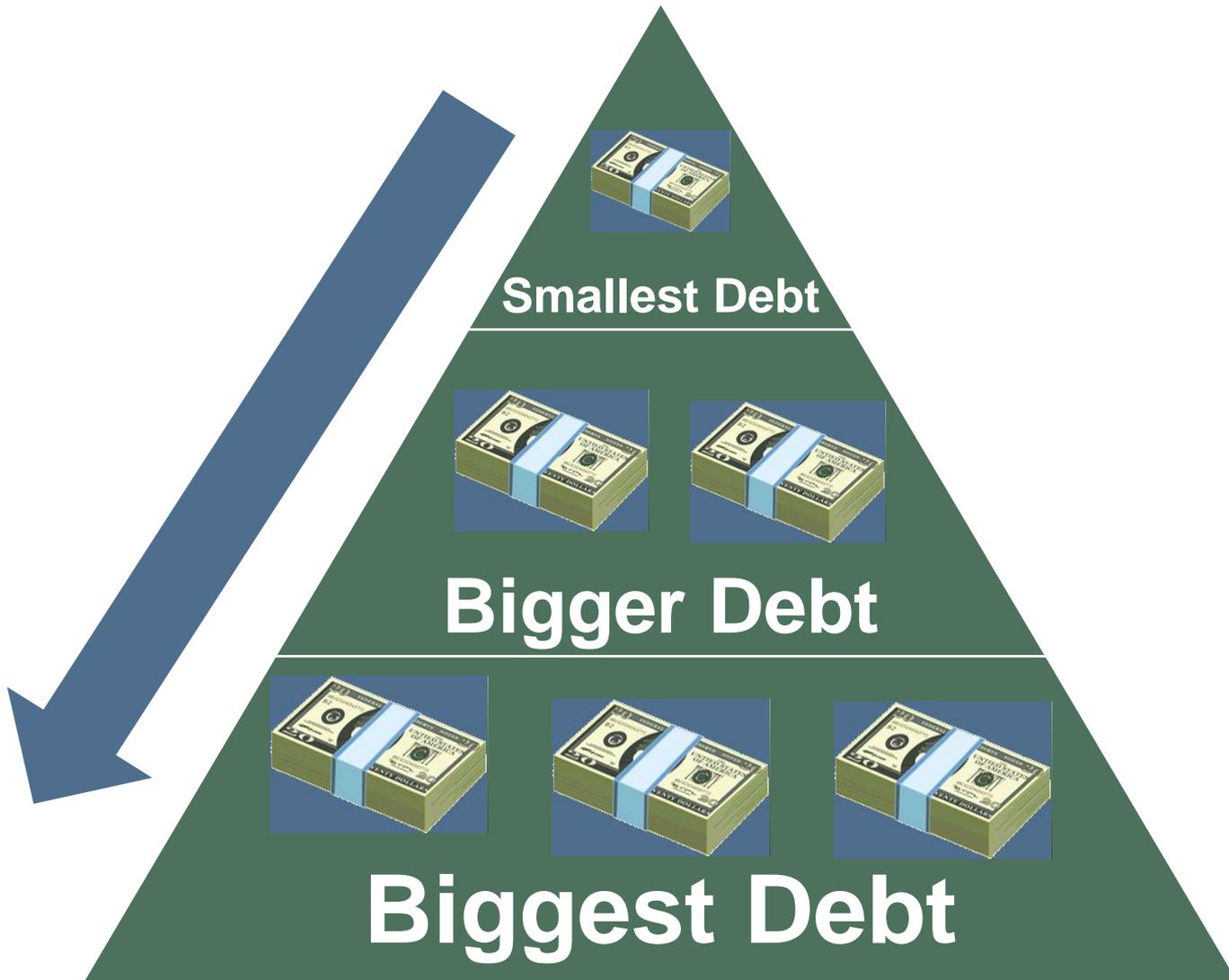
Paying even just \$25 over your minimum monthly payment can have a big impact on the time it takes you to pay off your credit card bill.

### Example:

Joe has \$4,000 in credit card debt with a 15% interest rate

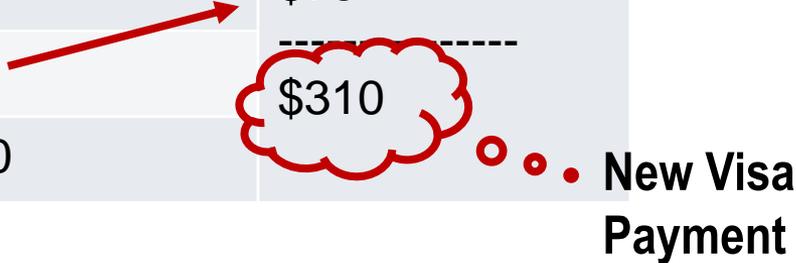
Monthly Payment	Time to Pay Off Card (if no additional purchases made)	Total Interest Paid
First Payment of \$120, then Minimum Payment (3% of balance or \$25 whichever is greater)	Over 11 years	\$2,513
\$145	2 years 6 months	\$935
\$220	1 year 9 months	\$566

# 2 Snowball Method



## 2 Snowball Method in Action

Debt	Amount Owed	Minimum Payment	New Payment
<b>Kohls</b>	\$200	\$35	\$235 + \$75
<b>Visa</b>	\$2,500	\$75	----- \$310
<b>Boat loan</b>	\$10,000	\$200	



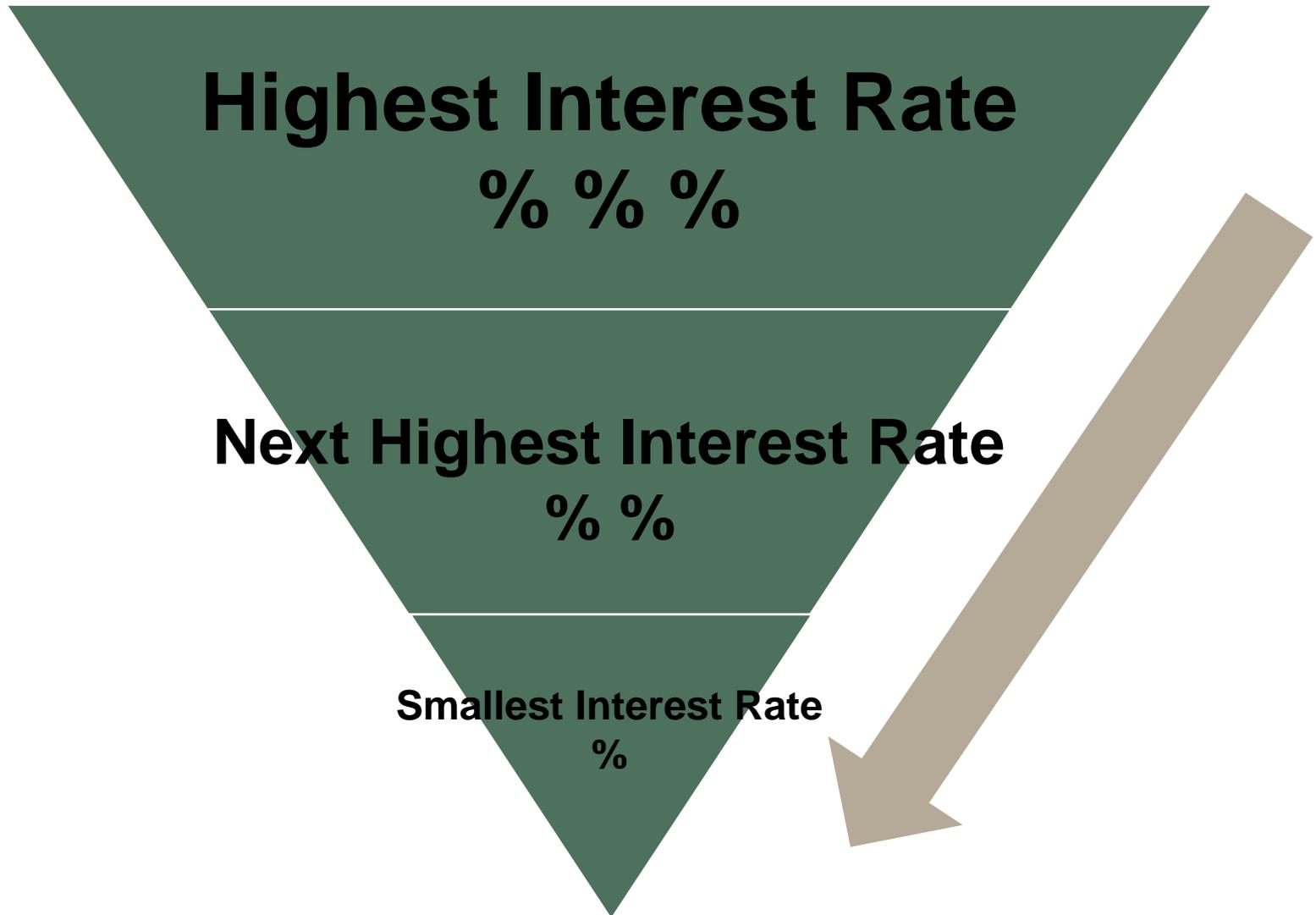
# 2 Snowball Method in Action

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Kohls	<del>\$200</del>	<del>\$35</del>	<del>\$235</del>
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Boat loan	\$10,000	\$200	\$510

**New Boat  
Loan  
Payment**

# 3

## Avalanche Method



# 4 Debt Consolidation



- Combining debts into one loan in an attempt to lower monthly payments and interest charges
- Can make a lot of sense for people with a high level of debt or paying multiple bills



**National Debt Relief: [www.nationaldebtrelief.com](http://www.nationaldebtrelief.com)**

# 5 Debt Settlement

- Can eliminate all or a portion of your outstanding debt
- Programs are typically offered by for-profit companies and involve a company negotiating with your creditors to pay a settlement resolving your debt
- Avoid doing business with companies which:
  - Charges fees before it settles your debts
  - Touts a "new government program"
  - Guarantees it can make your debt go away
  - Guarantees your debt can be paid off for pennies on the dollar
  - Tells you to stop communicating with your creditors, but doesn't explain the serious consequences
  - Tells you it can stop all debt collection calls and lawsuits



# Wrap-Up

# Debt & Credit Tips

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- **Do not** take on any new debts, if possible
- If you need to take on a loan or other type of debt, **read the fine print** carefully and try to negotiate the lowest interest rate possible
- **Don't wait** too long before getting help if you are experiencing problems dealing with your debt payments
- Have a plan in place to **pay your bills on time, in full**, every month
- **Stick to your plan!**

# Contacting MERS of Michigan

## **MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM**

1134 Municipal Way  
Lansing, MI 48917

800.767.MERS (6377)

[www.mersofmich.com](http://www.mersofmich.com)



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