

Keeping in Touch

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Managing debt: What's your plan?

Debt is one of the fixtures of modern life for most people but if you feel it's getting out of your control, it's time to act.

The Australian Psychological Society¹ says 35 per cent of Australians have significant levels of distress in their lives; 26 per cent have above-normal levels of anxiety; and 26 per cent have moderate to severe symptoms of depression. The main causes? Financial issues.

Fortunately, there are straightforward ways to regain control of your money.

Start a debt management plan

This will mean prioritising your debts in order of urgency, setting a budget, cutting expenses, consolidating and planning ahead.

1. Set a budget

Work out how much your debt repayments and discretionary spending add up to each week, and how much income you have. It's vital that you are honest, so include the cost of your morning coffee and other small daily items. From this, you can work out how much you have left after servicing your debts.

2. Save on easy things

If you can cut your spending on non-essential items, you can put more into paying off your debts. Simple ways to achieve this may include doing things yourself that you previously paid others to do, such as cleaning your house.

Eat out less. Cook at home and eat your leftovers at work. Don't buy things you don't need at the supermarket and turn off lights and computers when they are not in use. Walk more or take public transport. Even consider selling your car, particularly if you don't use it much. Find holiday options closer to home and cheaper mobile phone plans or use your phone less.

3. Stop using your credit cards

Pay cash. Put your credit cards away until you have cleared your debts. The simple logic here is that you won't be tempted to overspend if you only have cash.

4. Pay the minimum on each debt

Service each debt – be it phone, mortgage or credit card – every month. Pay off as much as you can and at least pay the minimum, which will also protect your credit score. If you can afford to pay more, choose the debt with the highest interest rate first.

5. Consider a consolidation loan

You may be able to reduce your interest charges by consolidating your debts into one low-interest loan. This may be most effective if you avoid accumulating new debt while you pay off the consolidation loan.

6. Talk to a professional

Importantly, if you have trouble working your way out of debt by yourself, consider talking to a financial adviser who can work with you to develop a debt management plan that's tailored to you. They will evaluate your current situation and take into account your financial and lifestyle goals.

But if you are feeling really overwhelmed, seek help from your doctor.

¹ <http://www.psychology.org.au/psychologyweek/survey>

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