GETTING OUT OF Debt— FOR GOOD

By Luke V. Erickson
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Alex* took a deep breath as he drove down Main Street, his pulse and mind racing with bittersweet exhilaration. With the windows down and wind blowing through his hair, he shifted into third gear and savored the seamlessness of the gear transition in his brand-new car. It felt good to be rid of that ancient beast of an automobile he had inherited from his parents. Alex thought to himself—not for the first time—that his purchase might even help him get a few more dates. Besides, he was 24 and had just one year of school left. "I deserve it," he thought. But the next thought wasn't quite as pleasant: "The car may impress some people, but what would they think if they knew how much debt I'm dragging around with it?"

It wasn't only the debt of the new car that worried him. His credit card statements, maybe five or six of them, had a balance of a few hundred dollars each. One even had a balance of more than $1,000. He had done the math and knew that even if he applied every cent he made at the part-time job he had taken to get through school, it would take months to pay off those credit cards, and that wasn't including any interest or other potential fees. To top it all off, he had several student loans he had used to pay for tuition, books, and some living expenses.

This reminded Alex of a newspaper cartoon he had seen that showed a 90-year-old man telling his wife after mailing a letter, "Now that we've finally paid off our student loans, we can start saving for retirement." Alex smiled. It was only a joke, right? It couldn't really turn out that way, could it?

You Will Be Happier

Like Alex, more and more people today are drowning in unmanageable debt. President Thomas S. Monson has warned against excessive debt. He says it is commonly accepted in today's culture, but we will be happier by living within our means than we would be if we were "constantly worrying about how to make the next payment on nonessential debt."[1] Elder Marvin J. Ashton (1915–1994) cited statistics showing that nearly 90 percent of divorces could be traced back to quarrels and accusations over finances.[2] When a single adult accumulates debt and later brings it to a marriage, the debt is likely to become an instant wedge between spouses.

Of course, because of the Atonement of Jesus Christ, we understand that there is always a path of redemption, as long as we make a firm and unyielding commitment to follow the path He would have us follow. A later reprinting

of Elder Ashton's talk included a debt-elimination calendar that can help us quickly and permanently rid ourselves of the bondage of debt.[3]

The car may impress some people. But Alex wondered what they would think if they knew how much debt he was dragging around with it.

Where to Begin

The first step, and the most important factor in debt elimination, is a firm commitment to reject debt.[4] A debt-elimination calendar will simply not work if new debts continue to be added to the old. This change in attitude is not subtle or gradual but rather resembles the flip of a switch—it's a resolute determination to make a clean break from the culturally accepted addiction to debt.

As a personal finance educator, I find it tremendously rewarding to see this light "switch on" in others. For instance, a student who attended a series of community-education finance classes announced enthusiastically on the last day of class that during the previous month she had taken some extra jobs and used tax-return money to pay off five credit cards and two department store cards. She had also opened a certificate of deposit and started a savings account at her bank. This student became a living embodiment of the wise statement that those who understand interest earn it rather than pay it.[5]

A Simple, Effective Method

Although there are many approaches to debt elimination, my own experience with teaching has shown that the debt-snowball method, which arranges debts from lowest to highest balance rather than highest to lowest interest rate, can be an extremely motivating way to confront and eliminate debt. This method is simple. Arrange your debts from smallest to largest. Make the minimum payment on all debts each month except for the smallest one: on that one, pay as much as you can. Once it is paid off, roll the regular payment you had been paying on that debt to the next-largest debt until it is paid off. Continue the process until the payment "snowball" has grown so large it quickly knocks out debts that stand in its way.

The following example shows this method. The last line indicates that the total debt payment will always be $646, but as the smaller debts are eliminated, more and more of that amount is applied to the next-largest debt.

ILLUSTRATIONS BY CASEY NELSON

AN EXAMPLE OF HOW THE "DEBT-SNOWBALL" METHOD ELIMINATES DEBT

Arranged from smallest to largest balance.

July 2011

DEBT	BALANCE	PAYMENT	RATE
Family Loan	$150	$50.00	0
Credit Card 1	$323	$8.00	17.9
Credit Card 2	$356	$8.00	24.9
Credit Card 3	$402	$12.00	19.9
Credit Card 4	$435	$13.00	18.9
Credit Card 5	$629	$17.00	14.9
Credit Card 6	$1,350	$30.00	13.9
Student Loans	$2,360	$58.00	4.7
Auto	$18,670	$450.00	7.5
Totals	$24,675	$646	

October 2011 (3 months later)

DEBT	BALANCE	PAYMENT	RATE
Family Loan	$0	$0	0
Credit Card 1	$313.31	$58.00	17.9
Credit Card 2	$354.12	$8.00	24.9
Credit Card 3	$385.73	$12.00	19.9
Credit Card 4	$416.26	$13.00	18.9
Credit Card 5	$601.09	$17.00	14.9
Credit Card 6	$1,306.41	$30.00	13.9
Student Loans	$2,213.16	$58.00	4.7
Auto	$17,663.80	$450.00	7.5
Totals	$23,253.88	$646	

Eliminating the smallest debts first increases motivation and has a "snowball" effect that is highly successful.

April 2014 (33 months later)

DEBT	BALANCE	PAYMENT	RATE
Family Loan	$0	$0	0
Credit Card 1	$0	$0	0
Credit Card 2	$0	$0	0
Credit Card 3	$0	$0	0
Credit Card 4	$0	$0	0
Credit Card 5	$0	$0	0
Credit Card 6	$0	$0	0
Student Loans	$620.34	$196	4.7
Auto	$6,496.26	$450.00	7.5
Totals	$7,116.60	$646	

Using the numbers in this example, the snowball method could save someone $1,173 and reduce the time it took to pay the debts by almost seven years.

No matter what approach we take to debt reduction, an attitude change and firm commitment to reject debt is the most valuable action we can make. It's about overcoming the accepted cultural norm of attaching debt to everything we buy. Words of our prophets[6] that are decades old are now being verified by the opinions of countless personal finance experts who agree that only three types of debt are wise or economically justifiable:

- A mortgage on an affordable house.
- Loans for college degrees or training that are accompanied by higher expected earning increases.
- Loans for certain well-thought-out business plans.

Even in situations where debt may be economically justifiable, you will likely be better off including the debt in your debt snowball and paying it off sooner rather than later.

We live in a day when the adversary is using his most cunning tools in an effort to destroy our spirituality. Debt could put us into predicaments of choosing either to honor debts to our

FREE YOURSELVES FROM BONDAGE

"Since the beginnings of the Church, the Lord has spoken on [the] matter of debt. To Martin Harris through revelation He said: 'Pay the debt thou hast contracted with the printer. Release thyself from bondage' (D&C 19:35).

"President Heber J. Grant spoke repeatedly on this matter from this pulpit. He said: 'If there is any one thing that will bring peace and contentment into the human heart, and into the family, it is to live within our means. And if there is any one thing that is grinding and discouraging and disheartening, it is to have debts and obligations that one cannot meet' (*Gospel Standards*, comp. G. Homer Durham [1941], 111).

"We are carrying a message of self-reliance throughout the Church. Self-reliance cannot obtain when there is serious debt hanging over a household. One has neither independence nor freedom from bondage when he is obligated to others.

"In managing the affairs of the Church, we have tried to set an example. We have, as a matter of policy, stringently followed the practice of setting aside each year a percentage of the income of the Church against a possible day of need.

"I am grateful to be able to say that the Church in all its operations, in all its undertakings, in all of its departments, is able to function without borrowed money. If we cannot get along, we will curtail our programs. We will shrink expenditures to fit the income. We will not borrow.

"One of the happiest days in the life of President Joseph F. Smith was the day the Church paid off its long-standing indebtedness.

"What a wonderful feeling it is to be free of debt, to have a little money against a day of emergency put away where it can be retrieved when necessary. . . .

"I urge you . . . to look to the condition of your finances. I urge you to be modest in your expenditures; discipline yourselves in your purchases to avoid debt to the extent possible. Pay off debt as quickly as you can, and free yourselves from bondage.

"This is a part of the temporal gospel in which we believe. May the Lord bless you . . . to set your houses in order. If you have paid your debts, if you have a reserve, even though it be small, then should storms howl about your head, you will have shelter for your [families] and peace in your hearts. That's all I have to say about it, but I wish to say it with all the emphasis of which I am capable."

President Gordon B. Hinckley (1910–2008) "To the Boys and to the Men," *Ensign*, Nov. 1998, 53–54.

fellow men or to pay tithing, for instance. No man can serve two masters (see Matthew 6:24), and in trying to do so, we can hinder our spiritual growth.[7]

On the other hand, as we permanently remove debt from our lives, we will find that a portion of our agency has also been restored. Our Father's plan of salvation is also a plan of agency. We should never willingly forfeit even a portion of that agency by being bogged down by unnecessary debts. ■

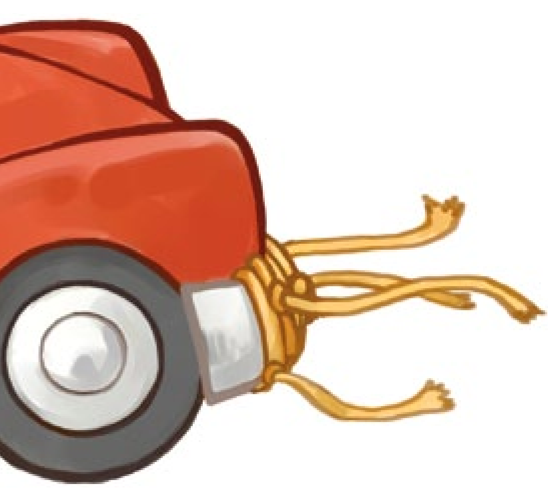
Editors' note: For more ideas and tools—including a debt-elimination calendar and other family finance resources—to help you get and stay out of debt, please visit providentliving.org.

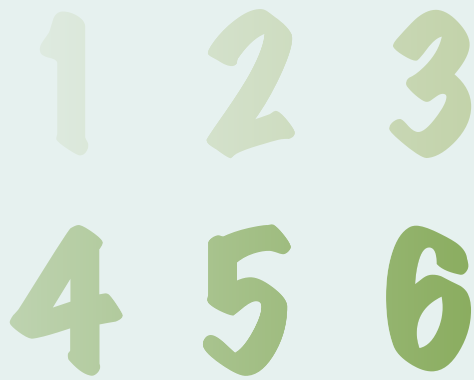
In addition, listen to an interview with the author, Luke V. Erickson, on the Mormon Channel at radio.lds.org/programs/mormon-identities. Look for episode 56, "Living Debt Free."

** Alex is not a real person, but his character is a composite of individuals with whom I have had personal counseling experience.*

NOTES

1. Thomas S. Monson, "True to the Faith," *Liahona* or *Ensign,* May 2006, 19.
2. Marvin J. Ashton, "One for the Money," *Ensign,* July 1975, 72.
3. Marvin J. Ashton, "Guide to Family Finance," *Liahona,* April 2000, 42–47.
4. See Orson Scott Card, "Family Finances," *Ensign,* June 1978, 15.
5. See L. Tom Perry, "Becoming Self-Reliant," *Ensign,* Nov. 1991, 66.
6. Articles that reference the teachings of early Church leaders include Joe J. Christensen, "Q&A: Questions and Answers," *New Era,* Aug. 1971, 35–36; Max W. Brown, "I Have a Question," *Ensign,* Dec. 1997, 62; Marvin J. Ashton, "One for the Money," *Ensign,* July 1975, 72–73; Joseph B. Wirthlin, "Earthly Debts, Heavenly Debts," *Liahona* or *Ensign,* May 2004, 40–43; Robert D. Hales, "Becoming Provident Providers Temporally and Spiritually," *Liahona* or *Ensign,* May 2009, 7–10.
7. See "Climbing Out of Debt," *Ensign,* July 2002, 67.





CAN I AFFORD THAT PAYMENT?

Frequently, when someone applies for a loan, the seller or lending institution will "qualify" the buyer for a surprisingly large monthly payment. Before you agree to assume the debt by signing your name, you should be certain that the payment for which you qualify is one that you can actually afford. If the payment is one that will be new to your budget, set up a new bank account and "make the payment" to that account for a period of six months. If the payment will be replacing another amount, like rent or another car payment, continue to pay the original amount and then send the difference between the old and new payment to the bank account for six months.

Six months is a great time frame to use for this exercise because many of the "unexpected" expenditures we tend to forget about will show up during that time period, such as the semiannual car insurance payment, the periodic trip to the dentist, or the occasional need for a visit to the urgent-care office. At the end of six months, if you can comfortably meet the obligation to yourself, you know you can continue to do so with a lender. Not only that, but you will have a nice little stash of cash to increase your down payment on that car or home.

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