

money strategies

Power Pay Your Debts Away!

POWER PAY is a method of payment that you can use to help reduce your debt load quicker and put you on the road to being debt free. In order for power pay to work for you, your budget needs to show that you have enough to make your regular minimum debt payments plus a little extra each month. You also have to be committed to paying off debt – which means putting away the credit cards and not taking on any new debt until the current ones are paid off. This may also mean that you need to take a good look at your monthly budget and plan how you will manage irregular expenses to avoid the use of credit to cover them. Here's how it works. Let's say, for example, that you have the following debts...

<i>Debts</i>	<i>Total Owning</i>	<i>Interest Rate</i>	<i>Minimum Payment</i>
Department Store	\$1500	28%	\$60
Visa	\$2000	10.5%	\$50
MasterCard	\$1050	17%	\$45
Personal Loan	\$2500	8.5%	\$75
Total Minimum Payments			\$230

Your total minimum required debt payments are \$230. Let's say that, after you've established your budget, you decide you have an extra \$70 per month to help you pay down your debts faster. So instead of \$230, you will pay \$300 towards your debts each month.

You may decide that it's best to put that extra \$70 toward the debt with the highest interest rate first, thereby saving some interest charges. Or you may choose to put it towards the smallest debt first. Attacking the smallest debt first often means you see results more quickly. This can be encouraging and it might help to motivate you to keep Power Paying.

For the purpose of this example, let's assume you decide to attack the debt with the highest interest rate first. In the list of debts above, the Department Store card has the highest interest rate, 28 per cent. You would continue to make the minimum monthly payments on all the other debts. On the Department Store card, however, you would make the minimum monthly payment PLUS the extra \$70, for a total payment of \$130 per month.



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You would continue to pay this \$130 to the Department Store card until this debt was paid in full. You would then take that \$130 and start putting it towards the MasterCard – the debt with the next highest interest rate. So, on top of the \$45 minimum payment to MasterCard, you would add the \$130 you were paying to the Department Store card, for a total payment of \$175 per month.

Once the MasterCard is paid in full, you can take that \$175/month and add it to the minimum Visa payment for a total Visa payment of \$225 per month. Keep doing this until the Visa is paid in full. (Can you see the pattern? You're still paying \$300 per month, just like when you started Power Pay. It's just divided up differently to help you pay down your higher-interest debt faster.)

Finally, after the Visa is paid off, you take the \$225/month that was going to Visa and add it to the minimum monthly payment for the personal loan until this debt is also paid in full. Since you've been making the \$75 minimum monthly payments all along, the loan balance will have been decreasing gradually. Once you start making payments of \$300 per month, the loan will be gone before you know it!

And now you have done it! You are debt free!

Remember... the more extra you can pay towards your debts, the sooner you will be able to enjoy the freedom of being debt free. The first couple of debts will take the longest to pay down, but once they are gone, the momentum builds and the final few debts will disappear much more quickly.

Why not turn power pay into power save?

By the time you get debt free with Power Pay, you'll already be used to living on your budget while still paying out extra each month on debts. So why not keep paying out that much every month, but instead of paying it to creditors, pay it to yourself!

Decide what it is you'd like to save for – retirement, education, a trip, a new vehicle or something else that you've always wanted. Set a goal. Then set up an automatic transfer from your chequing account to your savings or RRSP account for an amount equal to what you've been Power Paying. Since you're used to Power Paying, you'll likely never miss the money AND you'll be building your savings for something special.

Good Luck!



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