

Dealing with debt



Indebtedness can sneak up on you or debt can be incurred suddenly because of a situation that is out of your control. Either way, the way to handle debt is the same: with a plan that helps you slowly chip away at it until it is gone.

Step one: Start with a budget

Do you know exactly how much you spend every month? Do you know what you spend your money on? When you look through your bank account statements, you may be surprised at just how much you spend on certain things. You may, for instance, think you spend very little on eating out, but your statements could tell a very different story.

Your budget should cover all of your expenses and show you exactly where to cut down. Start with all your fixed monthly expenses – car and home insurance, medical aid, mortgage, etc. – and write these out on a spreadsheet. Since you may not be able to reduce these expenses, focus more on those you can adjust – groceries, clothing, travel, entertainment – and work out how much money you have left for these.

Step two: Work out what you can afford

Depending on the kind of debt, you may need to pay off a fixed monthly amount and/or a certain amount of interest every month. If so, this amount should be added to your list of fixed monthly

expenses in your budget.

Your budget should give you a good idea of how much you have left after expenses. Add this amount to the amount you pay off against your debt every month, then look at your budget again and work out how much more you can save by reducing unnecessary expenses.

Step three: Pay yourself first

When you've worked out how much you can afford to pay off every month, set up a debit order to take that amount off your bank account to go towards your debt. This means that you won't have an excuse not to pay that amount every month and you don't have to worry about making the payment yourself. In this way, you are chipping away at your debt.

In general, debt should be paid off as quickly as possible, but also responsibly so that you aren't putting yourself at financial risk. For instance, it's irresponsible to take out a loan to pay off a debt. Make sure that you pay off as much of your debt as possible every month while leaving enough for yourself to live.