



The Enjoyable Road to Debt Freedom

Did you ever notice that the quickest way to a goal isn't always the best way? This is especially true when making long-term lifestyle changes such as taking control of your debt in a way that supports your overall lifestyle choices.

With summer coming up, some of us are braving the high fuel prices and driving to family gatherings or favorite vacation spots. What route would you take? Any experienced road traveler will tell you that there are two ways to go: the quick way and the enjoyable way. The quick way usually involves marathon sessions behind the wheel, aggressively passing as many RVs as you can, and using the freeways to get to the destination in the quickest time possible. I've done it, and found that I need an extra day just to recover from the stress of the journey.

The enjoyable way, on the other hand, honors the journey as much as the destination and allows the vacation to start the moment you lock the doors and back out of the driveway. Winding secondary roads, rest stops, breaks for ice cream and roadside attractions all become part of the summer memories. What's more, you arrive refreshed, and perhaps with a few stories to tell.

What does a road trip have to do with paying off debt? In this case as well, your quality of life depends as much on the journey as it does the destination.

Too often getting out of debt becomes the sole focus of a money management strategy. In an attempt to bring the "debt free" destination closer, every potential stop along the way is eliminated. No frills, no indulgences, no fun. The journey towards a debt free life becomes something to get through like a crowded, treeless interstate in a car with a broken air conditioner and all you do is keep throwing out baggage and getting rid of everything you bought to take with you.

The huge problem with that philosophy is that you are still living your life while you are trying to control your debt, whether you like it or not. If you have removed many sources of enjoyment from your day-to-day existence in order to get there sooner, you won't enjoy the trip to your "debt-free" destination, and you may find yourself (or your fellow passengers) rebelling and over-indulging when the trip is done. Especially since the debt free life isn't really the destination in the first place. Your ideal lifestyle is where you're headed. And to stay there, you need to develop life-long money management habits. You can't experience, let alone enjoy, true financial success if all you see is the baggage you need to get rid of that's holding you back.

I've seen many people look for a quick way to their goal with a debt consolidation loan. For example, a couple – let's call them the Smiths – has over \$15,000 in consumer debt spread out over a number of credit cards, student loans and car payments. The interest they pay ranges from 9% for the student loan to 18% on their Visa and Mastercard, but it averages out to just under 12%. They could pay \$703 per month to service that debt, or they could take out a 4-year debt consolidation loan which gives them a monthly payment of \$392 at 10% interest. If they consolidate their debts, they free up \$311 per month. But because the repayments are spread out over four years, they pay more in interest than they would otherwise, and their total payments over the life of the loan add up to \$18,816. More troubling is the way the Smiths “shrug off” the debt without learning any new money habits or recognizing the lifestyle desires and additional income needed to pay for their ‘holiday’. What are the chances that they will continue to spend their way into a hole and need another debt consolidation a few years down the road if they don't develop a plan to live the way they really want – the way they already are, but haven't recognized the value they're receiving by having access to the credit which has paid for their vision so far.

Others use an excellent strategy, the “debt snowball” to eliminate debts quickly by tackling the lowest balance, highest payment debts first and keeping monthly payments toward debt the same, even as loan after loan is paid off. Using the same figures and a debt snowball, the Smiths can dramatically cut their payment period to just over two years reducing their interest payments in the bargain. Even better, they remain in control of their money and learn some powerful new management habits by paying the debt themselves. These new habits also give them tools to begin to build the additional wealth that will pay for their desired destination. But again, 25 months is a long time to be feeling the squeeze of payments totaling over \$700 per month. What are the chances that the Smiths will fall off the debt diet bandwagon and succumb to “we deserve better” spending – the equivalent of pulling over for supersized fast food on your trip to holidayland?

They need a complete plan – a road map, a working vehicle and a destination. What if the Smiths incorporated some lifestyle cash flow into their debt snowball, and added an income generation plan to their overall financial system? Instead of rolling over the entire \$703 allocated to debt payment, they included money for the breathing room every budget needs and simultaneously began working on adding additional income to their budget. Like any good trip, you have to plan your “roadside attractions” enroute to your ultimate destination. You need a well tuned vehicle and a gas to run it... it's what will keep them on track for the long-term and, ultimately, get them to their destination. And in this case, the time between beginning the debt snowball program and “debt freedom” is 3.1 years – still less than the 48 months that they would be repaying the debt consolidation loan.

In money, as in life, you can plan for less stress, more life and better results.

(Author's note: Thank you, Catherine Novak, for your contribution to the Smith's journey).

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