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## Five Steps for Reducing Your Credit Card Debt

**Do you have more credit card debt than you can handle? If so, here's what you can do about it.**

To invest effectively, you need to have disposable income — money you don't need for paying bills. But if you're carrying too much credit card debt, you'll find it difficult to free up money.

Nearly everyone carries debt of some kind, but all debt is *not* created equal. There's *good debt* (buying an appreciating asset, such as a home), and there's *bad debt* (taking on excessive consumer debt, which depreciates the value of your assets).

When assessing your finances, you'll want to do all you can to avoid bad debt: Paying off credit card balances at hefty interest rates will strain your finances if you don't restrain your spending.

What's more, high consumer debt has a debilitating effect on your net worth. For example, if you retire with a nest egg of \$1 million, how much of this money will go toward your living expenses and how much will go toward paying off credit card debt? If you're relying on your nest egg as a source of paying off consumer debt, you may be jeopardizing your financial future — as well as compromising the amount of money you can leave to your heirs.

Fortunately, there are many measures you can take to shrink your credit card debt. First, figure out if you have a problem with debt by asking yourself these questions:

- Are your credit card balances growing consistently larger?
- Are you maxed out on your cards?
- Are you making only minimum payments or occasionally skipping payments?
- Have you applied for additional credit cards to make minimum payments on other card balances?
- Are you working two jobs or borrowing from friends or family just to cover your monthly obligations?

If any of these situations apply, you likely have a problem with credit card debt. The following five steps can help you dig yourself out.

**Step 1: Avoid using your credit cards for minor purchases.** If you're carrying excessive debt, stop using your cards. If you must continue using them, try a debit card or a credit card that requires full payment each month. Then, if necessary, use another credit card for special events like travel or emergencies.

**Step 2: Add an 18% to 21% debt tax to the item you're considering buying.** After adding this to the item's price, decide whether you still want to buy it. This technique can help you change your spending habits. Another strategy is to pay cash for the item and take the 18% debt tax and use it to establish a savings plan. If you're able to set aside even a token amount each week or month, you can start a plan for paying off your debt and then, ultimately, growing your savings.

**Step 3: Pay off your highest rate card first.** Once you've done this, make the minimum payment on all but the highest interest rate debt, and then pay off the rest of the highest rate account. After you've liquidated the balance on the highest interest-rate account, do the same with the next account and so on until you're completely debt-free. If you're a homeowner, consider taking out a home equity loan to pay off your credit card debt. The rate on the home equity loan should be significantly lower. Plus, you might get a tax deduction on the interest you pay. (There are risks associated with consolidating debts with a home equity loan. Please seek the advice of a professional.)

**Step 4: Request a lower interest rate.** Ask and you shall receive — maybe. It doesn't hurt to contact the credit card company to find out if you can obtain a lower interest rate on your card. If you're a good customer with a long, steady payment history, you might be able to shave several percentage points off your interest rate.

**Step 5: Avoid cash advances.** This is the closest you can get to legal loan sharking. Rates for these cash advances can be 23% or higher, even if the regular interest rate for purchases is lower. Late fees can also increase your debt burden. Make sure you mail your payment in plenty of time for it to be processed. If you feel you've been incorrectly charged a late fee, call customer service and ask them to remove the charge. Most companies will remove the charge at least once as a courtesy.

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