

## #FPW: 5 Ways To Win The Battle Against Plastic

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*#FPW: Financial Planning Wednesday*

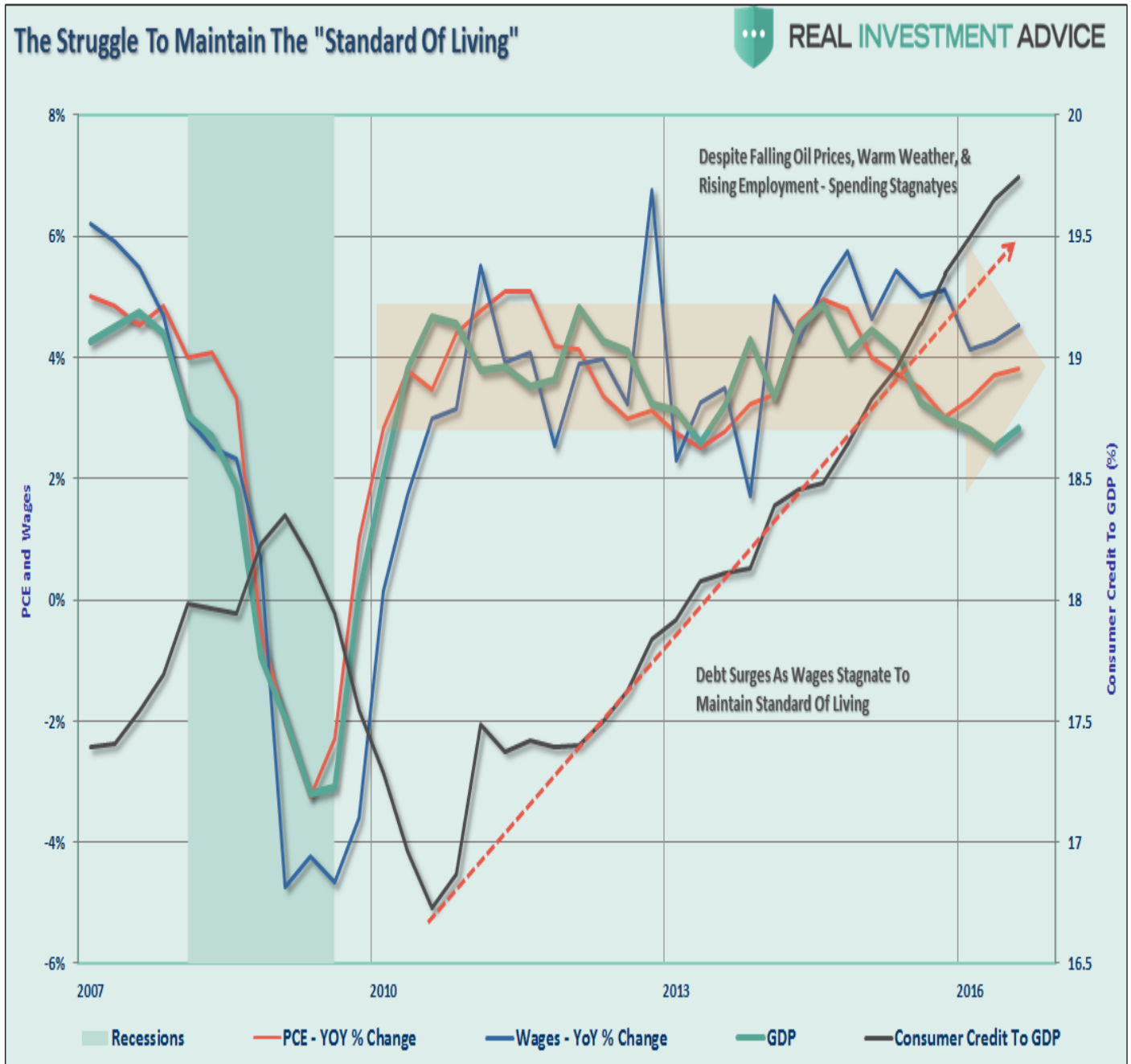
**Credit cards are plastic candy for American consumers.** We can't get enough. It appears that household debt reduction is over and consumers are returning to the feverish credit heydays pre-Great Recession. **According to credit data from the Federal Reserve, consumer borrowing is back to 2007 levels with consumer credit growth exploding by \$1 trillion.** Unfortunately, it appears Americans lead the world in unpaid credit card debt. U.S. consumers carry over \$2,600 of unpaid credit card debt per person which pulls us ahead of all other nations. We embrace living on credit. It's part of our culture. **The richest households, and the definition of "richest" encompasses several intangibles such as peace of mind, happiness and fiscal bandwidth to**

handle emergency expenditures are those free of heavy debt loads, especially revolving debt like credit cards.



Chart by consumer finance specialist Robert Harrow. Spending on credit builds to a feverish pace this time of year. In January, when the bills arrive, all the holiday sparkle pales to stark reality. Recently, I had an interview with a writer for USA Today regarding the lingering burden of outstanding credit. I covered 5 ways to gain control over the grip credit cards have over consumers and thought you or someone you care about would appreciate them. **Start with financial trickery.** Nothing will change unless unpaid credit card balances are perceived as weights on not only your household balance sheet but overall long-term financial security. Balances must weigh on the psyche and make it uncomfortable enough to consider a habit change. **There?s a mental point of no return for credit card abusers when they realize even making greater than minimum credit card payments do nothing to reduce outstanding balances.** In fact, minimum payment requirements are designed purposely to keep consumers in debt. Not ahead of it. It?s at that point consumers shift into free-fall, out of control spending mode or feel overwhelmed, freeze in denial and avoid tackling the problem. Sometimes for years and after thousands of dollars in interest paid. To gain control, take a step back and calculate the strong negative impact of spending on credit cards. **A way to take a step back, especially when it comes to impulse purchases, is to immediately tack on 16% to every price of a good or service you?re considering.** In other words, take a current selling price and add the national average credit card rate to it. Then see how your brain interprets the information. It was a good deal before. But is it now? You find that perfect pair of shoes. The price is reduced to \$112 from \$169. Appears to be a score. Navigate to the calculator on your smartphone. Increase the \$112 by 28 bucks. Today, the shoes are going to set you back \$140. Is this a deal now, or can you do without it? Most likely, your perception of the purchase will change. **Keep in mind, if you only pay the minimum balance on credit cards, you?ll be paying an additional \$28 bucks repeatedly. For years.** Most likely, the shoes on sale will ultimately cost you three times \$112. Which leads to? **Don?t focus on the interest rate, focus on the dollars lost or the opportunity cost.** You can tell people all day they?re paying 25% interest, but it doesn?t resonate effectively. When you focus on dollars, not percentages. Well, that?s a different story. If you?re paying \$200 each month whether it?s interest or interest and principal, you must feel the pain of the opportunity cost of those lost funds. Whether it?s the lost ability to add to investments, bolster emergency funds, or having the freedom to spend the cash on

something else, most likely the thrill of the original purchases that linger forever in the true cost of unpaid credit card balances, has long gone. **?If you?re using credit cards to meet a standard of living, change the standard.** I?m not saying this is easy. However, those with the greatest financial freedom live below their means even if it means going smaller with fixed costs. People who downsize feel empowered. I know. I talk to this group on a consistent basis. Listen, we get it. There hasn?t been wage growth for decades. **However, using credit to maintain a living standard is a mistake, especially if you believe that "wage growth is right around the corner."** It isn?t. **Most likely a robot is going to take your job.** In addition, corporations live like ?every day is a recession.? Frankly, they?re working tirelessly to cut your position. Labor is now a liability. Not an asset. Remember that.



**Live the strength, minimize the weakness.** I know. Chipping away at a debt glacier with what seems like a toothpick feels fruitless, but it isn?t. It takes time. There?s no magic formula except to keep chipping away until that toothpick becomes a hammer. Then an ice pick. You must work with a financial partner to create a ?debt release plan.? Give it a definite time frame. Create specific goal markers along the way. For example, I work with someone who was able to pay off \$30,000 in credit card debt in three years. We had benchmarks every six months. The first six months was an emotional rollercoaster. From feeling defeat to accomplishment. You worked hard to get into the

credit card spiral. It's going to take work to pull you out. When people feel like they have their arms around the debt, they become really good at it paying it off. Eventually, they become debt-averse. I've witnessed consumers go from one extreme to another ? from overspending, to practicing frugality. Eventually, it feels uplifting, motivating, to be in control. Remember - every small step gets you to light at the end of the debt cave. Never discount how difficult it is to break an addiction to credit. Frankly, facing how difficult it is allows you to embrace it and work a game plan. **Be aware of your worst credit cards habits and write them down.** On an index card. Place that card where you can see it. Every day. One of the worst habits I've witnessed is ignoring credit card statements. Sure, credit card issuers love how you opt out of mailed statements and do everything on line. Sure, it saves them money. However, more important, it minimizes your spending awareness. Statements are created. Emails are received as notification that they're ready for review. You ignore the e-mails. Big mistake. If you don't check statements on a consistent basis, you'll miss errors, stealth charges, and minimize the overall reflection on personal spending trends. Consumers who review their statements have better spending control habits and catch expenses for items, services they no longer utilize. Ostensibly, those recurring charges are stopped and the dollars re-directed toward paying down outstanding credit card debt. **Recruit an ?accountability coach.?** Employ a trusted friend, family member or financial partner to be your "accountability coach," and review your credit card statements with that individual.

*A coach is not there to bash you. They're not there to beat you down. They're there to lift you up and make certain you remain on track.*

Credit management is an ongoing responsibility. I advise consumers how they must be afraid of available credit to some degree. With fear comes carried respect when you possess the ability to spend thousands of dollars at a moment's notice. Never forget the tremendous price for the luxury. The pay back can take a lifetime. If you allow it.