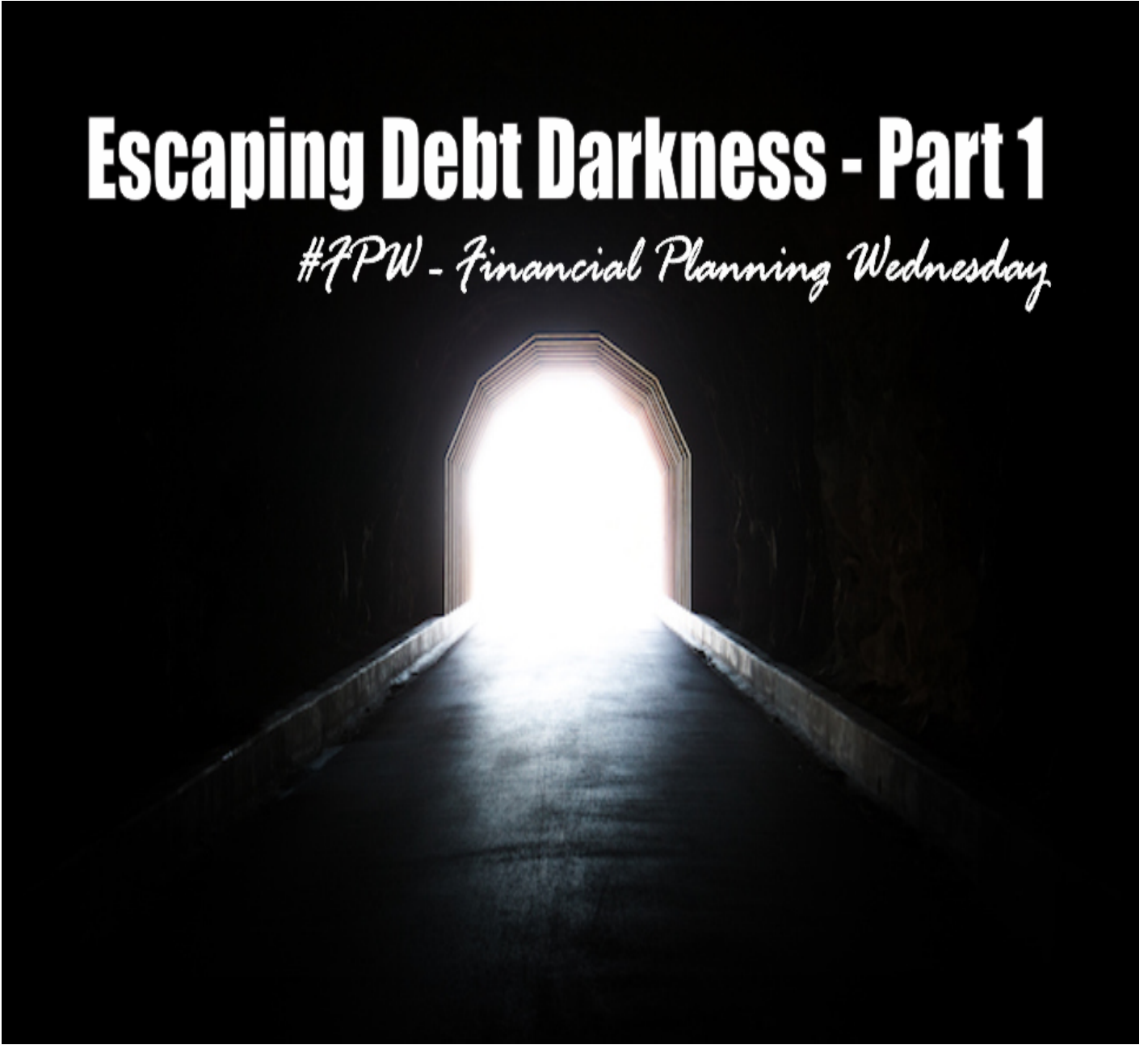


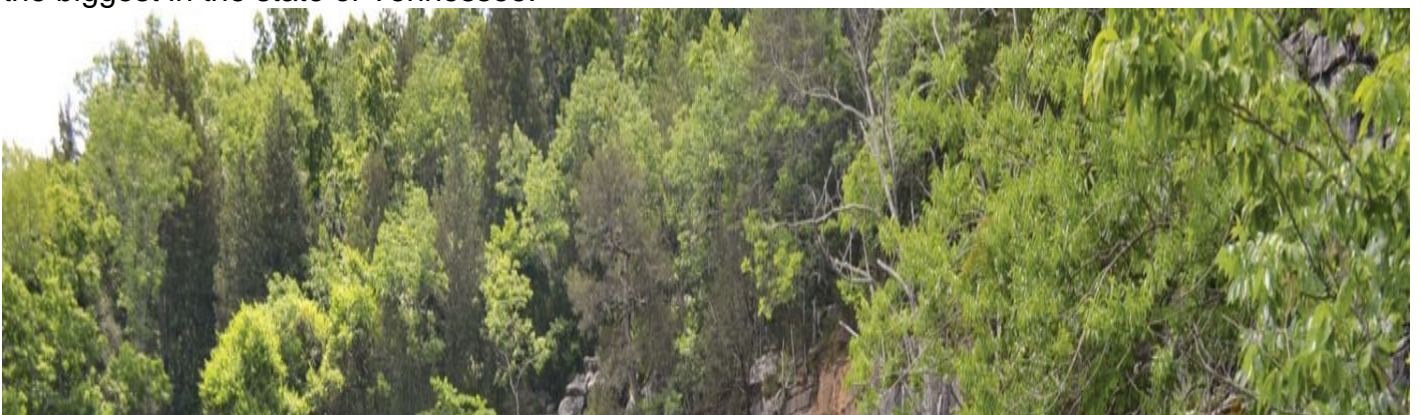
# Escaping Debt Darkness - Part 1

*#FPW - Financial Planning Wednesday*



***?Every man comes to a crossroad somewhere along the way. Johnny Cash came to his crossroad in a place called Nickajack Cave.? -Gary Allan***

**August 1992** David Gant illegally entered Nickajack in search of giant catfish. He heard they were the biggest in the state of Tennessee.



It turned out too good to be true. He and his friend ventured too far in while scuba diving and surfaced into a web of flooded passages. Caught in the wet death grip one of the largest, darkest hollows carved into Marion County, near the Tennessee-Georgia border. Mind you, visitors have embarked on a Nickajack adventure as early as 1850. Union soldiers claimed the cave was 15 miles long cut by a great stream that ran the entire distance. However, in 1967 the Tennessee Valley Authority permanently flooded Nickajack and the land in front of it as they closed the gates of a new dam. Part of the reason to flood the cave was to protect the thousands of gray bats that nest inside. David Gant and his explorer companion decided to ignore NO TRESPASSING signs and fences designed to keep visitors out. They should have listened. Rapidly exchanging signals, the divers dropped lower in the water and swam in the direction they thought to be out, then rose toward the surface. Dead end. The stark reality of the cavern ceiling confronted them. At that moment, both men panicked. Their dive fins had stirred the siltation on the cave floor into a milky, murky underwater fog, cutting visibility to near zero. They decided to separate. The companion swam madly in one direction. Gant in another. The companion was more fortunate. Deep inside Nickajack, David Gant was certain he was going to die. For hours ? how many he could no longer say ? he had been floating in darkness, stretching to keep his head above water in a pocket of air only eight inches high. It turned out to be 14 hours. At first, blundering in this air pocket in near zero visibility had appeared to be incredibly good luck. • As time went on for what seemed like eternity, David felt like his maker had gone from savior to cruel joker. The air in the space around him was running out; exhausted he could feel the additional effort of his lungs like a 25-pound weight on his chest. His intake felt deep but shallow at a rapid cadence as the level of carbon dioxide around David rose. Hypoxia was taking its toll. Adventure seekers faced the jaws of Nickajack throughout history and lost their way there permanently. Destined for a hard death. Swallowed by cloying blackness. Like the world collapsing in on itself before permanent lights out. Hundreds of Chickamaugan Indians were slaughtered there. ?*The lake ran red for days,*? per a confederate soldier at the time. **October 1967**

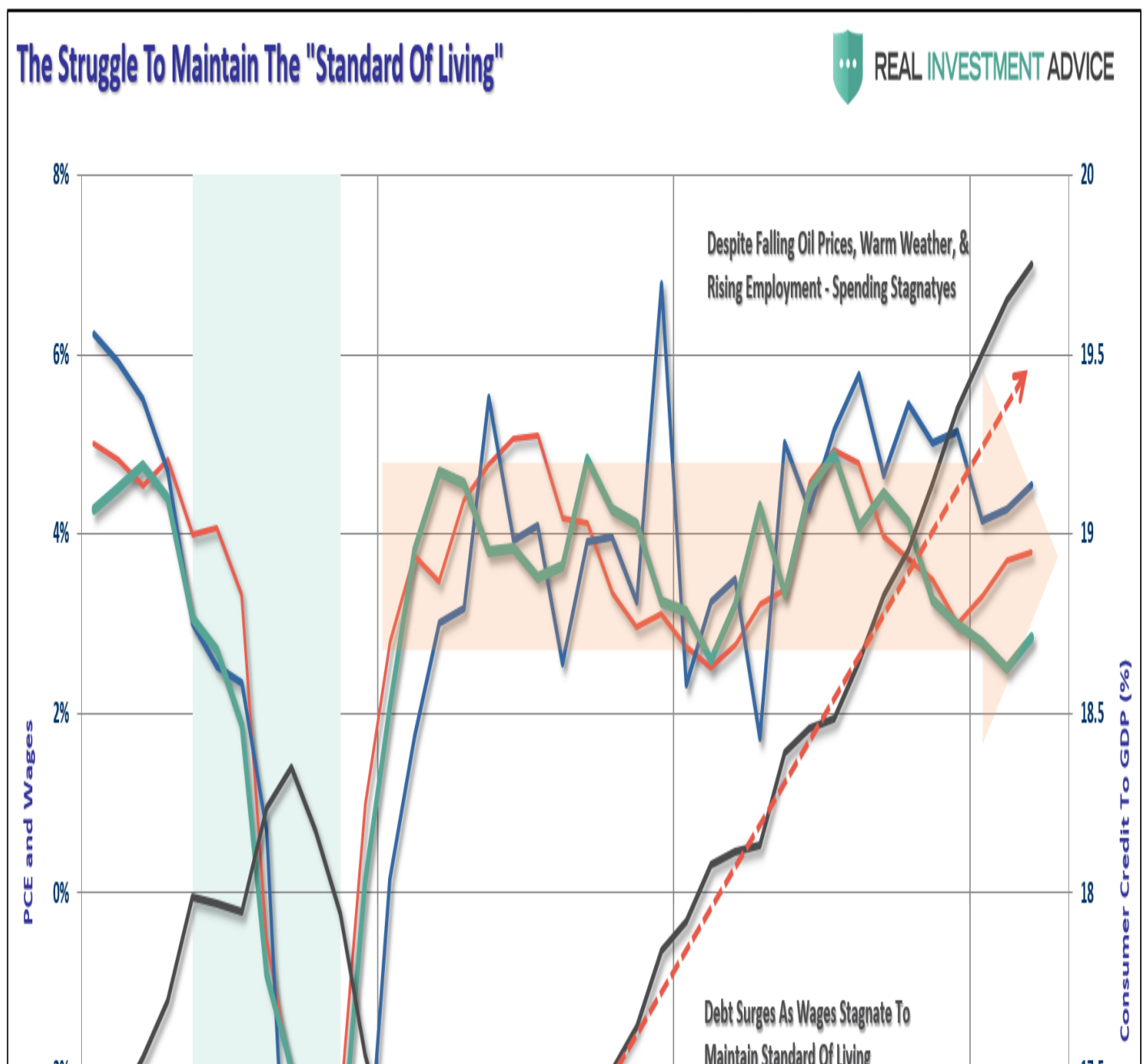
***?The absolute lack of light was appropriate. For at that moment I was as far from God as I've ever been. My separation from Him, the deepest and ravaging of the various kinds of loneliness I'd felt over the years, seemed finally complete.? -• Johnny Cash in ?Cash, The Autobiography.?***

Weak from lack of food or sleep and overwhelmed by hopelessness due to an ongoing substance abuse problem, Johnny Cash crawled into a dark damp place to die. It was his chance to finally end a painful addiction to amphetamines. The singer would die in the cave as it should be. A fitting end for a tormented junkie. Or so he thought. After hours of moving crablike on his knees, deep into the system of caves called Nickajack, batteries fading, turning to dark yellow any bright coming from his flashlight, the Man in Black grew increasingly confident he'd never find his way out. He believed he was close to the point of no return. A place where it would be impossible for searchers to rescue him. He experienced a period of revelation (enveloped in cloying darkness can do that to a person) in that place. Johnny Cash realized that all was not lost. He was overtaken by a rush of clarity and pure inner peace. But could he find a way out? Perhaps he did too well a job at getting lost before he was found. A calming voice seemed to come out of nowhere. It broke through the blackness like a siren. An unexplained reunion with God occurred. It took everything he had, after three hours and almost a life lost, to find an exit. Johnny Cash crawled flat on his belly, nothing left between his body and a damp cave floor as his shirt was scraped - torn to shreds. He felt his way slowly ahead as to not fall off a ledge into an endless pitch black. He still had much to do with his life. Even though he purposely didn't keep track of the path followed into the cave, the singer blindly moved toward what he hoped would be an opening ? any opening. Unusually composed, he stumbled upon slivers of hope in the forms of light and wind which eventually guided him to the wide mouth of the cave opening. A greater force told him he must live. His life held purpose. He needed to go on. Reborn or not for JC, the demons never completely departed. Johnny Cash spent

the remainder of his life working to shackle them.

## The Financial Demon In Nickajack Cave - Is Debt.

Multiple passages of debt ? student loan, credit card, even mortgage, are killer blades that come out of the nowhere to cut into your net worth. And your cash will bleed for longer than you think. I don't care how mortgage rates are the lowest in 50 years or a college education is worth the experience. The liabilities you incur today are laborious because the payback or the return for the debt incurred has limited positive impact. Obviously, you're going to carry debt. Unfortunately, many households have strayed too far into the cave. • It's going to take years of crawling and determination to get out. But you can get out. And it will take something close to a revelation to do it. Even reasonable debt levels in the face of a smaller buffer in emergency savings, stagnant wage growth and ridiculous inflation in college costs, can place you in a corner, striving for *Foxygen* (financial oxygen). The demon that exists in the system with us in the American Cave, as I call it, encourages us to buy, consume and use more than our income can adequately cover. Debt is a disease metastasizing through the public and private sector. Society is addicted to debt like Johnny Cash was to little white pills. Read: [The Illusion of Liquidity](#). Currently, personal consumption expenditures are roughly 68% of GDP and back to pre-Great Recession levels. It seems we can't be completely satisfied unless we're spending. I understand. I like stuff too. Using credit makes it too easy to pull future spending into the present or make up for household cash-flow gaps due to wage stagnation.



Buy now. Pay later. It's worked for decades. For now, let me be your light out of the debt cave, as tempting as it may be to be enveloped by its embrace. Debt is stealth. A slow and dangerous sojourn. How do you know if you're lost and need an exit strategy? **From here on out, question every financial rule of thumb you've read or seen about how much debt you should carry. Create your own to bolster financial survival for you and your family.** Think about it: •Do you think these established rules are designed to protect you (the borrower), or mostly to serve the lender? Widespread financial formulas or rules of thumb seem as ancient as the stalactites which resemble icicles that hang from the ceiling of Nickajack. Many haven't changed, even in the face of a challenging post-Great Recession landscape. Have you run across this one? If you've been accepted for a loan in your life, I'm certain you have.

## It's Called The Debt-to-Income Ratio.

The formula is simple. Total all household debt monthly payments (don't include expenses like food, gas, electricity.) Then divide the total by your household's monthly gross income. Remember, gross income is what you earn before taxes and other deductions. Lending institutions when deciding whether to provide you a loan, want to see your debt-to-income ratio at 43% or less. In most cases this is the highest ratio a borrower can have and still obtain a mortgage. For example, a gross income of \$50,000 a year breaks down to roughly \$4,167 a month. So,  $\$4,167 \times 43\% = \$1,792$ . You'll earn a gold star from many financial pros if you don't exceed this debt limit. Does this result make you feel warm and fuzzy? Or is the threshold perhaps, too generous, provide too much leeway to take on additional debt? If you don't maintain a year's worth of living expenses in a cash account that's quickly accessible, if it's difficult to raise \$400 without using a credit card if an emergency arises, or you find socking away 15% for retirement annually impossible, then yea, this rule is downright lethal. Once income taxes and deductions for benefits like healthcare insurance are deducted from a paycheck, what's left for many provides very little bandwidth for financial surprises. Retirement savings will suffer and you won't be able to adequately replenish any type of emergency reserve, as I mentioned previously. Remember this debt rule is not personalized for your household, which is why you need to take how you create it much more personal than a lender. Unfortunately, much of the country is lost in a cave. According to a [report](#) by the Economic Policy Institute on *"The State of American Retirement,"* retirement plan participation has declined across the board for several age groups and surprisingly from baby boomers closing in on retirement. Per the EPI analysis:

*"Participation in retirement plans has declined in the new millennium, with a steeper decline for workers in defined-benefit plans (401ks) than in defined-contribution plans (pensions). For families headed by working-age workers (age 32-61), participation in any type of plan fell from 60 percent in 2001 to 53 percent in 2013. We would have expected participation to increase in the new millennium as the large baby boomer cohort entered their 50s and 60s, when participation rates tend to be high."*

Incredibly eye opening is how most families possess little if any resources accumulated for retirement.

\$50,000





When examining median savings, which is more realistic than average since average can be skewed by above-average or ambitious savers, families between 44 and 49 years possess \$6,200 in retirement savings. Those 50-55 have \$8,000 and 56-61 - \$17,000. Shocking. Take a breath. Consider the severity of the situation. I know: Saving for retirement can be an incredibly daunting task. I'm looking to shake those up who resemble these families. Life-changing improvements don't occur overnight. Just realize you're at a financial crossroad. • if you see yourself in a similar situation, take a set period, say 3-5 years to reduce debts and then look to aggressively increase savings. **But Rich, this reduction in debt isn't easy.** I agree. And I'm not taking away how difficult it can be to reduce debt and/or increase cash flow. All I know is breaking your own rule (or not creating one), can lead to financial distress. Listen, I'm not pulling punches. *It's about working your debt-to-income ratio down to 20-30% and sticking to it.* This will take sacrifice, big changes, family buy in. Frankly, some may never achieve the goal. I just want to generate awareness so eventually you get as close as possible to the target. For example, my *personal* debt-to-income tenet is 20% of gross income. Due to a personal setback combined with a decision to grow a business, I took a 60% household cash flow reduction that threw my rule dramatically out of whack. Blew it out of the water in fact. My new ratio made me feel like Mr. Gant gasping, reaching for an air pocket as the debt walls closed in on me. The life change set in motion a series of downsizing steps that lead to me moving back into a former primary residence which I used as a rental property. It's not as convenient a commute, required a bit of renovation and not as nice as the residence I was in, but the rule is the rule. The thought of moving was stressful but conditions changed. Ostensibly, so did I need to do the same to bolster my financial situation. Frankly, many must find any way possible to reduce what's paid for rent or mortgage. Even if it means downsizing a residence, or have kids share a bedroom. Whatever you need to do. *If you're house poor? you're gonna feel like you're dyin' every day in four bedrooms, three baths.* That sounds like a country song Johnny would record! If you've crunched the numbers and the personal debt-to-income ratio result is not to your satisfaction, there are a few actions that may be considered: **Do not contribute to retirement accounts right now.** If your employer provides a match to a contribution, defer enough to receive it but nothing above that point. This is not common advice. We're told we must save for retirement no matter what. However, unless you hold at least a year's worth of living expenses in emergency savings and your debt is under control for the most part, worrying about saving for retirement is pointless. You must re-direct financial resources to wipe out debt, especially credit card, personal loan and auto before maximizing retirement accounts. Until you have the emergency reserves full and installment debt wiped out, just forget retirement for now. I know, unorthodox. It's all about survival. *The key is to create a two to three-year game map to complete the journey, exit the darkness.* **Forget about saving for college, temporarily.** Stop all contributions to custodial, 529 accounts or whatever you do to save for a kid's college. Redirect resources to cut debt. **Find a part-time weekend gig.** I know you're exhausted and there are soccer games and football on weekends but bluntly, you may require more cash coming in to the household and wage increases have been close to non-existent and finding a new full-time position takes time. Why not start a small business doing something you love? I have a friend who became a pet sitter on the weekends because she loves animals. She juggles about 4 dogs on average and it brings in about \$500 a month. That's \$6,000 before taxes annually which helps her fill in a budget shortfall. I know these aren't easy answers. Only tough decisions. Decisions you perhaps never needed to make in your life. That's what happens when you're lost in a cave. You'd eat your own foot to survive. Understand there are three winding passageways deep into the debt cave. If not handled correctly, you could be dealing with a life debt and financial shortfall demons. The entrance to the cave arteries should be emblazoned with neon, blinking signs ? **WARNING: STUDENT LOAN, CREDIT CARD, AND MORTGAGE DEBT AHEAD. TURN AROUND!** Yes, even mortgage debt can get you in a precarious situation if not handled correctly. In next week's FPW, I'll provide steps on how to exit or prevent entrance to these dark passages. In the meantime, conserve resources and keep fresh batteries near. David Gant, with the help of the Tennessee Valley Authority which lowered the level of Nickajack Lake to allow

rescuers in to save him, made it. Overcome by delirium and oxygen deprivation, he asked rescuers if they were angels. Per [www.tnmagazine.org](http://www.tnmagazine.org), one of the rescuers claimed ? *we've been called a lot of things, but not angels.*? You can make it out too. **And how was Johnny Cash found? Stay tuned.**