Principal®

You can tackle your debt.

These tips can help you take control of your finances.

Fixed debt vs. revolving debt

Many people take out loans to pay for large items such as a car or house. This is fixed debt, with pre-determined payments amounts and time period. There are no additional penalties or interest if payments are made by the debt's regular due date.

Revolving debt is when you spend more "borrowed" money than you can pay back in a short amount of time. For example, if you use a credit card for purchases, and you cannot or do not pay off the balance each month, that's revolving debt.

So, what do you do if debt becomes concerning?

3 tips to tackle debt

1 Recognize if your debt may be a concern.

How many of these situations apply to you?

- Worry about being able to pay your bills
- Have balances on several credit cards or other installment loans
- Can only afford to pay the minimum monthly amount due on credit cards
- Don't have any emergency savings

2 Understand the cost of debt.

The cost to using borrowed money is interest; this is in addition to the dollar amount you spend. The longer it takes to pay off debt, the greater the cost. What's the true cost of paying off $10,000 in credit card debt?

To pay a $10,000 debt off	Interest rate	Minimum monthly payments	Cost of debt
1 year	12.5%	$890	**$10,689**
5 years	12.5%	$224	**$13,498**
10 years	12.5%	$146	**$17,565**

3 Take control of your debt.

There are ways to reduce your debt and avoid getting overwhelmed by debt in the future, including:

Reframe your credit card use.

- Consider using a credit card only when absolutely necessary.
- Purchase only what you know you can absolutely pay off every month.
- Consider another option for big ticket items, such as a student loan with a lower interest rate.

Choose a debt payoff strategy.

- Snowball method: Pay off the smallest balance first as you can as quickly as you can; pay the minimum on other debts.
- Avalanche method: Pay off debt with the highest interest rate first; pay the minimum on other debts.

Consolidate your debt.

- On a credit card with a low interest rate: Read the fine print on fees and payments.
- With a lower-interest rate home equity loan or line of credit: If you fall behind on your payments, or owe more on your home than you have equity, you may put yourself at risk for foreclosure.

Seek help from a credit counseling organization

- These free services help you manage debt, negotiate with creditors, and implement an affordable repayment schedule.

Your debt is under control.

What's next?

Congratulations: Managing and paying off debt takes effort. As you make a budget for both short- and long-term financial goals, consider:

Building an emergency fund.

If you start and regularly add to an emergency savings fund, you may be able to avoid going into debt to pay unexpected bills. As a general rule, try to build an emergency savings fund that's equal to three to six months of your regular net income.

Boosting your retirement savings

Increasing your savings percentage, even by a small amount each month, may make a big difference over time.

Questions? We're here to help.

Visit **principal.com/milestones** for additional resources.

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