



The 12-Step

Get-Out-of-Debt Program

Debt is a major problem for a lot of people these days. The problem is, even if they know they want to get out of it, they have a hard time figuring out how to start.

If you fit this description, this 12-Step program spells it out for you.

Now, there isn't one way to get out of debt, and the best program should be tailored to each person's individual situation. But if you feel like you just don't know how to begin, this program is designed to give you a sort of guide — one that should be adjusted to fit your financial situation.

It's aimed not at people who have their finances together and are just trying to pay off a credit card or two. It's aimed at those who have trouble finding any extra money to pay off debts, who seem to find themselves getting deeper and deeper into debt, and don't know how to stop it. In other words, it's a bit of an emergency program.

Disclaimer: *I'm not a financial advisor, and if you are in need of one, I suggest you find a qualified advisor. My only qualification is that I've made great strides in getting my finances under control, in starting an emergency fund, in paying all my bills on time, in not getting further into debt, and in eliminating my debt (I should be done by the end of this year). This program is based on my experiences, and on the large number of books and websites I've read.*

The Zen Habits 12-Step Get-Out-of-Debt Program

1. Acknowledge the problem.

The first step is admitting you have a problem. The first week, all you have to do is say to yourself, "I have a problem with debt. I got into this because I spend money I don't have. But I believe that there's a way out, and I can do this. I can control my spending, make a plan, and slowly get out of debt." That's a major step. Now set aside just 30-60 minutes a week to deal with your finances — make it a set day and time, and don't let yourself miss this appointment.

2. Stop digging.

If you're in a hole, the first step is to stop digging, and that's what you're going to do this second week. For 30 days, see if you can stop any non-essential spending. If you have a major problem with credit cards, cut them up. If you're not so bad with credit cards, at least put them away and don't buy stuff online for one month. What's essential? Obviously your bills, housing, auto, gas, groceries ... that kind of stuff. Non-essential? Clothing, CDs, DVDs, books, magazines, gadgets ... you know what I mean. Just 30 days. After that, you can decide how much to spend on these things.

Don't dig yourself in any deeper!



3. Make small cutbacks.

This third week, take a look at things you normally buy and see if you can cut out a few of them, or spend less on them. Groceries? See if you can buy house brands instead of name brands. Coffee? Make it yourself at home instead of buying out. Lunch? Try packing it to work instead of eating out. Add up what your cutbacks will save you this month.

4. Start an emergency fund.

This fourth week, set up a savings account, if you don't have one already, for an emergency fund. Now take the amount you saved in Step 3 (and even in Step 2 if you think you can make them last for awhile) and set up a regular automatic deposit from your checking to this emergency fund savings account for this amount. It's important that before you start paying off debt, you have at least a small emergency fund. Aim for \$1,000 at first, and you can grow that later. The reason: if unexpected expenses come up, and you don't have an emergency fund, you will skip your debt payments to pay for the unexpected expenses. The emergency fund protects your debt payments.



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5. Take inventory.

OK, this is a step that we don't like to take. But take a deep breath. You need to do this. Remember what you said in Step 1? You can do this. This fifth week, set up a simple spreadsheet. In one column, list all of your debts — credit cards, medical bills, auto loan, etc. You can leave out your mortgage, but put everything else. In the second column, put the amounts you owe for each debt. In the third, put the minimum monthly payment, and put the percentage interest in the fourth column. Total up the second and third columns to see your total debt owed and how much you have to pay, at a minimum, towards debt each month.

6. Make a spending plan.

We don't like to do this step either. But it's not going to be as painful as we think. This sixth week, set up another simple spreadsheet. In one column, list your monthly bills (rent or mortgage, auto payment, utilities, cable, etc.) — everything that is a regular monthly expense. Then list variable expenses (things that change every month) like groceries, gas, eating out, etc. Later you should add irregular expenses (stuff



that comes up once in awhile — less than once a month) such as auto and house maintenance, clothing, insurance, etc. But we won't get into that now, as we want to keep it simple. In the second column, put down the amounts for each. Be sure to put enough for things like gas and groceries, as you don't want to be short. Be sure to also include your minimum debt payments and your emergency fund deposit. Now, list your income sources and monthly amounts. There. You've got a temporary spending plan (you'll want to add the irregular expenses later). Now, if the expenses are greater than the income, you'll need to make adjustments until the expenses are equal to or less than the income.

7. Control spending.

If you're into your seventh week of this debt plan, you may find it hard to keep track of your spending and ensure that you're sticking to your spending plan. Here's the key: first do the emergency fund deposit. Then do the debt payments. Then do your monthly bills. Then withdraw the variable amounts in cash, and put them into separate envelopes. It's old-fashioned, but it works, as you don't have to worry about overspending. When your envelope is empty, you can't spend anymore. Continue to cut back on non-essential spending as much as you can at this point, so you're able to stick within your spending plan.

8. Pay bills on time.

This may be a problem for a lot of people. It's important, if you want to get out of debt, to start paying all your bills on time. If you follow the payment plan outlined in Step 7, your bills should be paid before you get to any discretionary spending categories. At this point, you want to focus on getting those bills paid on time, and making it a habit. If you have trouble remembering, try one of these methods: 1) pay bills as soon as they come in — take them to the computer and pay them online, or write out a check and prepare the envelope to be mailed the next day; or 2) set up a reminder in your calendar program to tell you when bills are due.



debt. Here's what to do: If you can find at least \$100 from your spending plan, use that to start your debt snowball. You may need to cut back on discretionary spending (as you did in Steps 2 and 3). Or, once your emergency fund is at \$1,000, you can use the amount you were putting into that account for your debt snowball. If you have trouble finding \$100 for a debt snowball, you need to look at what other expenses you can cut back on. OK, once you've found at least \$100 for your debt snowball (and more would be



9. Start a snowball.

Now that your finances are relatively under control, you can start a debt snowball. At this point, you should have the beginnings of an emergency fund, you should know how much you owe, you should have a temporary spending plan, you should be paying bills on time and controlling your spending. Now you can focus on paying your

better), take a look at your debt spreadsheet. First, order the debts from the smallest amount owed to the largest. Now, look at your smallest debt owed — you will start by paying \$100 (your debt snowball) plus the minimum monthly payment on that debt each month, until the debt is paid off. When the debt is paid off, you will take the amount you were paying on it (let's say \$50 monthly payment plus the \$100 debt snowball for a total of \$150) and pay it to your next smallest debt, until it is paid off. Continue to pay off your debts, one at a time, until they are all paid off. Now you have a large sum you can put into growing your emergency fund, and funding your irregular expenses, and finally start investing.

10. Find larger cuts.

Once you've controlled your finances and started your debt snowball, there are ways to increase the snowball — and hence the speed with which you get out of debt. Look at your larger expenses — are there ways you can eliminate or cut back on them? Can you sell your car for a smaller, used model? Can you find a smaller house or apartment to rent? Can you sell your house and rent a cheaper one? Can you get by with one car? Can you eliminate some services you've been using? Whatever cuts you make, apply that amount to your debt snowball — don't spend it.

11. Grow your income.

Another great way to get out of debt faster is to make more money. Look at ways you can make money on the side — or ask for a raise or get a better job. Take 30 minutes to brainstorm. Are there ways you can start a small business online? Sell your valuables on eBay? Start freelancing on the side? Get a part-time job? This only has to be temporary, but the more money you make, the faster you'll get out of debt. Be sure to apply your new income to your debt snowball.

12. Track your progress.

On your debt spreadsheet, be sure to update it every payday (or however often you pay debt) so that you can see your shrinking debt amount. You should be able to calculate how many months you have left before you're completely out of debt. It may be a long ways off, but it's within sight!

13. Bonus step: Celebrate!

It's important to celebrate, not only when you're out of debt, but along the way as you eliminate each debt. Have fun! Make this an adventure. It can be amazingly satisfying to stop spending and gain control of your finances instead. Find free entertainment, make it a challenge to be frugal and save money and find cheap used stuff. Pat yourself on the back along the way. **TQR**



Take time to celebrate!