

Healthy habits for reducing debt

By Jean Chatzky, CEO of HerMoney.com

If you haven't been able to pay off their credit card balances by the end of the billing cycle, or pay down a student loan as quickly as they would have liked, take heart. We know debt can drag you down. Here's the thing though: It doesn't have to be that way.

There are simple steps you can take today to get on a path to chipping away at your debt. Marianne Martini Nolte, a certified financial planner and founder of [Imagine Financial Services](#), specializes in helping women and young professionals gain financial independence. She offers these tips for reducing your debt starting now.

Follow the money (and make a budget)

"Regardless of a person's income level, from high earners to those making minimum wage, clients frequently comment 'I just don't know where the money goes,'" says Nolte. That's why, especially if you've never gone this route before, creating a budget can help you figure out exactly where your hard earned dollars are disappearing to every month.

How do you approach it? First, look back over a few months of bank and credit card statements, or the bank app on your phone, to see exactly how your paycheck is being spent. You can take pen to paper or go online to websites such as Mint or YNAB (You Need A Budget) to help track where your money goes. (And, if you need a human helping hand, check out our coaching program [FinanceFixx](#), here.)

Be honest with yourself

When you are trying to spend less and save more to pay down debt, you need to decide what's really necessary (food, housing, transportation) and what's discretionary (streaming services, daily take-out). Discretionary spending can be reduced, Nolte says, but to do so, you must be willing to change your habits. And if you can't give up your daily high-priced coffee habit, be judicious and make it a once-a-week treat. Or, find some other place to cut. Maybe an Amazon break-up instead?

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Embrace the word no

The financial support of other people's projects may not be in your budget right now. It's important to understand and accept this. Millions of people have lost their jobs or make less than they did 12 months ago because of the ongoing global pandemic. Even before COVID-19, many of us were being asked to support the agendas of others. "Say no to writing a check or swiping your credit card," says Nolte. "You can be supportive in many forms. It doesn't have to just be financial. You can support in committee involvement, behind the scenes prep, clean up, collaboration of ideas, sharing on social media, etc."

Choose the right debt paydown method for you

Are you an avalancher or a snowballer? The debt payoff method called the avalanche asks you to line up your debts from highest interest rate down and put all your extra money toward the top rate while making minimum payments on the rest. Once it's gone, you move to the next highest rate and so on. The snowball asks you to stack your debts smallest to largest, noting that you get a psychological boost for retiring each debt and this method allows you to do so fastest. Understanding what works best for you emotionally may help you to better implement strategies for reducing debt, Nolte says. Some people may favor positive reinforcement like seeing your debt reduction goals met when paying off small debt balances first. Others may feel a greater sense of pride in paying off high interest debt first regardless of the account balance. Determine which strategy will make you feel good about yourself. Here's a pro tip: Paying off credit cards balances with higher-interest rates first will save you more money in the long run.

Automate payments ASAP

Credit card automation can seriously take the stress out of credit card banking. You can set your credit card bills to be paid automatically and then you will never miss another payment, and you won't be charged late fees. Another perk is that automatic payments made month after month will help to improve your credit score over time as missed or late payments lead to a reduction of your credit score. Just remember, debt automation isn't limited to 'set it and forget' it standards. Credit card companies allow you to set notifications for pending transactions and allow you to make modifications as needed, Nolte says.

With credit card or debt payment automation, it is still very important to review your monthly statement. This may also help you catch fraudulent transactions or bank

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service charge errors. (They happen!) You can dispute charges you don't recognize by contacting your credit card company or bank's service department.

Budget for special treats

Finally, note that allowing yourself a small monthly splurge can help you stay on track. Consider modifying your spending behavior by carrying a cash envelope, suggests Nolte. Occasionally allowing yourself to enjoy certain perks like a visit to a coffee shop may take the sting out of correcting your spending habits over the long haul. Here's an example: Allow yourself to budget \$20 as your monthly cash allowance for a special treat. Or, reward yourself with a \$5 splurge once a week, if that seems more manageable.

With reporting by Casandra Andrews

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