Being in Debt Not the End of the World

Debt has now become a fact of life for millions of American households, and it?s no surprise really, with the ease that exists for getting multiple lines of credit. All these credit cards can do is put you in debt, if you had the money to pay for an item, you wouldn't need the card. Yet while debt is never good, it's always manageable to a certain extent. The real goal in finances should be to never cross that debt redline, where you?re bound to put yourself into a position you may never be able to escape from. Contrary to other systems which simply tell you to get out of debt, period, this system allows you to stay within a manageable range of debt, allowing you to still enjoy the benefits of your credit for its original intended purpose.

First off, you have to focus in the areas of discretionary spending and debt. Debts which you have little control over, as far as being able to avoid payments or make overpayments on, such as mortgages or car loans should not be worried about. We?re talking mainly about credit card debt which you can avoid and adjust as necessary.

Next consider three keys to your financial health, which is your savings and investments, your job security and potential for future income growth, and the amount of monthly discretionary income you have after paying your monthly expenses.

Next, give yourself a rating in the first two categories above, your savings/investments, and your job security income potential, on a scale from one to five. Add those two scores together at which point you'll get a number between two and ten. You'll be using that number below.

Now you need to determine the amount of discretionary income at your disposal each month. This is simply done by subtracting your expenses from your income (not including any average monthly credit card payments as part of your expenses). Your expenses should include everything you need to spend money on in a month, not just bills. This includes food, gas money, and other monthly expenses that can?t be considered optional.

Now we can figure out your personal debt redline. Take your score from the above step and also the amount of discretionary income you have. Your score will be multiplied by 5% for each point scored above, and that percentage will be equal to the amount of money you can afford to devote to debt repayment. So if you scored a 7 for example, and tallied $1,000 in discretionary income each month, you can afford to devote $350 to debt repayment each month.

Your debt redline may of course change over time, so you want to re-evaluate it in the future following any change to your financial picture.

Most financial strategies involve little room for creativity or carrying any form of debt but for some consolidating debt onto a single card maybe be an option. This strategy gives you access to a different system that allows you to continue leading an exciting and productive life, while still limiting your risk for any grave financial danger. If you can ever fully escape debt that's certainly great, but even if you can't, this system will make you a believer that debt doesn't need to be feared.

About the Author

Learn more about consolidate credit card debt to one card today!