

## HOW TO AVOID DEBT, OR GET OUT OF DEBT

Cragman, we need to talk about something serious. Debt is big business and there are companies all around the world that are going to try to get you in debt. Take a loan for this and for that, because in this consumer-driven society we live in, everyone wants everything right now. And so paying for it can come later. Debt can probably be described as a necessary evil, and few people go through life without it, so it is important if you are going to be a Skill Trekker, that you understand a few things.

## FLIP OVER FOR YOUR NEXT CHALLENGE



### EARN THIS NUGGET

See page two for task details and calculation sheet.

LEVEL 3

PERIOD 1

TASK 3

A healthy outlook on money is considered to be the 80/10/10 rule. 80% of your earning you use for your general budget and expenses, 10% goes into savings and 10% to community, church, charity, etc.

The problem comes when you decide that you've got to have something that's out of your budget right now, and you start to live beyond your means. If you rack up a credit card debt when you are fifteen, buying frivolous things and only make minimum payments, you could still find yourself paying for those items when you are thirty, and that is not smart at all.

So here are some rules to live by:

- Save rather than get in debt. Not only will it cost less, but if you are not willing to save for the item, why do you think you'll be happy paying for it for years to come? Also, by saving, you may find that a better product comes along or the same product at a lower price.
- If you do have to buy something on credit, calculate the true cost beforehand and never make only the minimum payments. Making minimum payments is doing little more than paying the interest.
- Get counsel from your parents or other respected people in your life before making any large purchase; you want to get the advice from someone who is older and wise rather than simply asking your peers.
- If you discover debt is getting out of control, admit you have a problem and have the backbone to cut up those cards.
- Cut your budget to a minimum, and concentrate on paying off the debts, write out your debts and tackle the smallest amounts first.
- And then, simply don't buy something if you don't have the cash available.



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Amanda has a good, stable job earning \$45,000 per year, however she has not made the best decisions financially.

Her monthly salary after deductions is \$2,905. Look at her budget and create a strategy for her to get out of debt. Bear in mind she needs to live, what could she change to free up cash to get out from under the weight of her debt?

- Re-work the budget, eliminate unnecessary spending, and estimate where expenses can be reduced.

- Create a strategy to eliminate smallest debt first.

Assume that if Amanda pays the minimum on a card she is only paying the interest. Only a very small amount will go to the principle, See how quickly your strategy can get her out of debt, because the way she is going, she never will be.

Monthly Expense	Amount/Minimum Payment	Suggested budget
Rent	\$650	
Car payment \$12,000 loan	\$179	
Groceries	\$500	
Utilities	\$325	
Gym	\$80	
Play Money	\$400	
Eating Out Money	\$200	
Book Club	\$55	
Visa 1 - \$5852	\$97.53	
Visa 2 - \$2879	\$47.98	
Master card - \$8922	\$148.70	
Left Over Money	\$125.79	

