

## Three Steps for Becoming Debt Free (Even in This Economy)

According to [consumer research](#) from Equitable, 80% of Americans are concerned about affordability regardless of income level.

For doctors, student loan burdens, practice expenses, and lifestyle inflation can compound the challenge.

In Q3 2024, American households had an [average](#) of \$263,180 in mortgage debt, \$24,326 in auto loan debt, \$6380 in credit card debt, and \$11,652 in personal loan debt, not to mention student loans or medical debt. For many in medicine, these numbers can be significantly higher.

While it might seem like a tough time to manage debt, the reality is that this is a crucial moment to get it under control. Here are steps to get started.

### Step One: Eliminate Non-Essential Debt and Spending

While it may seem intuitive, avoiding unnecessary debt is one of the keyways to take control of your finances. Just because you can access a certain amount of credit doesn't mean you should. Consider what you actually need versus where you can cut costs.

For example, if you're looking to buy a house in the next few months, you may hear lenders refer to the "30% rule," or that your monthly housing payment should not exceed 30% of your gross monthly income. If you make \$10,000 a month before taxes, you might think this means your budget is \$3000 a month and look at property that fits that price range.

A safer approach, however, would be to set a smaller budget that meets your needs, even if it means not getting everything you may want. Instead of searching with the maximum allowable budget, look at properties with monthly payments equal to just 20% of your net take home pay (or about \$1500 in this example). The extra cash you save by avoiding unnecessary debt will not only give you financial breathing room but also can enable you to pay back other debts.

### Step Two: Know What You Owe—and to Whom

To get a handle on how to repay your debt, you need to know exactly what you owe and when. Gather specific information about your balances, the interest rates on your loans, and the terms of said loans. You should calculate how long it will take to pay off your

loans at the minimum monthly amount and how much interest will be paid to the lender under this framework.

If you're able, try to restructure your debt. Work with your lenders to see if you can get a lower interest rate. You should also consider whether consolidating or refinancing your debt saves you interest payments over time.

Once you have this information in hand, prioritize. Mathematically, debt with the highest interest rate should be paid down first to minimize the overall amount you will pay in interest. Emotionally, you can also consider attacking the debt with the lowest balance first to provide a sense of momentum.

Whichever route you choose, you should calculate how much you are able to put toward repayment every month and commit to that plan.

### **Step Three: Make Payments and Boost Income**

Once you've done the calculations and finalized your payment plans, the next part is easy (at least on paper): Pay back your debt.

If you can, look for opportunities to boost your income, too, be it through extra hours at work, side ventures like consulting or speaking engagements. If you receive bonuses or gifts, resist the temptation to buy something you don't need and instead put that amount toward repayment.

Putting even a little extra money toward your repayment efforts each month can make a big difference. For example, if you have a \$10,000 credit card balance with an 18% annual rate, it will take almost 16 years to pay down that amount (and you would pay almost \$9300 in interest alone) if you just paid the \$35 minimum. But if you paid an additional \$50 a month? You would pay off that debt in almost half the time and would save more than \$3900 in interest. It adds up.

### **Short-term changes, Long-term Gain**

Paying down debt will require short-term sacrifices, and it can take an emotional toll. But when times get tough, just remember: You're securing a debt-free future and your financial freedom. A debt-free financial future is well within reach.

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