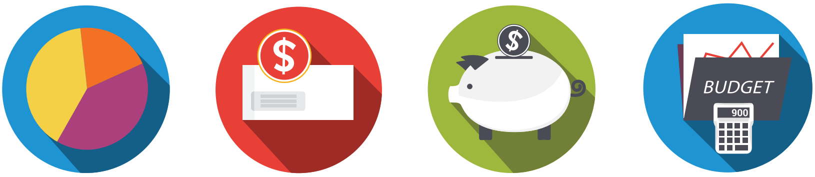
Financial IQ

The Fundamentals of Financial Well-Being



Taking Control of Debt

Many Americans are significantly in debt.

So, if you are feeling the pressure, you're not alone. The good news is you can start eliminating it.

Regardless of the type of debt you are in – credit card, student loans, car loans or something else – it's important to know you can get out of debt. It won't happen overnight, but being debt-free is possible once you make a commitment and a plan.

MassMutual, its employees and representatives do not offer services or advice related to debt management.

Understand your debt

Almost every American will, at some point in their life, have to deal with debt. For many of us, unfortunately, debt may begin to impact all parts of our lives – financial, emotional and physical.

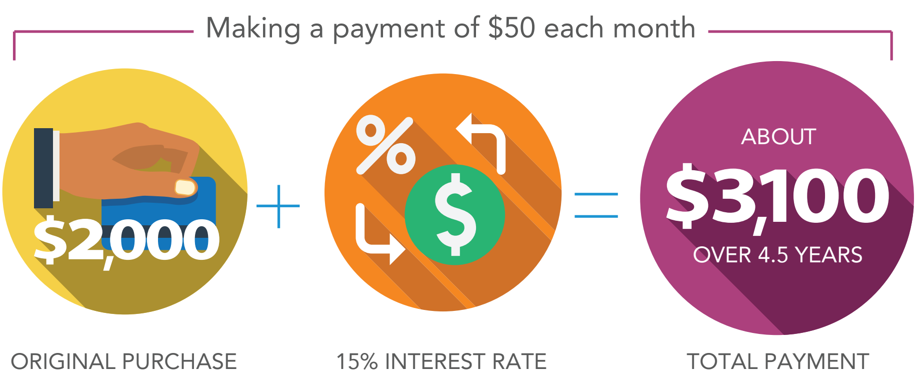
The first step in taking control of your debt is to get a complete understanding of the debt you currently have.

Calculate the total cost of your debt:

For every individual debt you carry, identify and consider the total cost of each:

- **What was the original purchase price?**
- **What is the interest rate?**
- **Is the interest rate fixed or variable?**
- **What are the terms and conditions of each debt?**
- **Are there any prepay penalties or hidden fees?**

Only when you truly have a good handle on all the ins and outs of your current debt can you begin the process of creating a debt management plan.



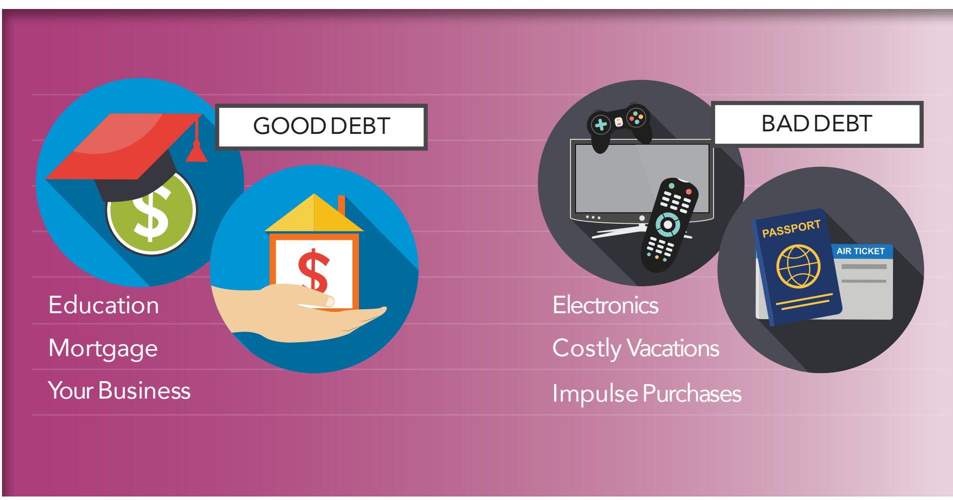
Classify your debt

All debt is not equal. There are two types of debt: "good debt" and "bad debt."

Good debt is the kind of debt that helps you increase your net worth or generate more value. Taking out student loans, for example, is considered good debt because it will likely help you generate a higher income.

Buying a home is also considered good debt because your home has the potential to appreciate in value over time (though it's not guaranteed that it will).

Bad debt is the kind of debt that diminishes your net worth and adds little to no value. Credit card debt is generally considered bad debt because the things we buy with our credit cards often have little to no real lasting value.



Prioritize your debt

Once you have completed an inventory of all your debts, the next step in the process is to rank them by priority.

How you prioritize your debt will be up to you. Below are a few suggestions for how you can rank your debts by considering:

- **Highest interest rate**
- **Smallest balance**
- **Highest minimum**
- **Which can help you build your credit**
- **Type: good debt and bad debt**

Regardless of which way you prioritize your debt, also factor into your ranking how each individual debt can potentially damage your overall finances.

Create a debt payment plan:

Creating a debt payment plan is often a difficult and time-consuming process. However, it is a critical first step to achieving financial well-being. Whatever your debt payment plan looks like, it will help you do a number of very important things:

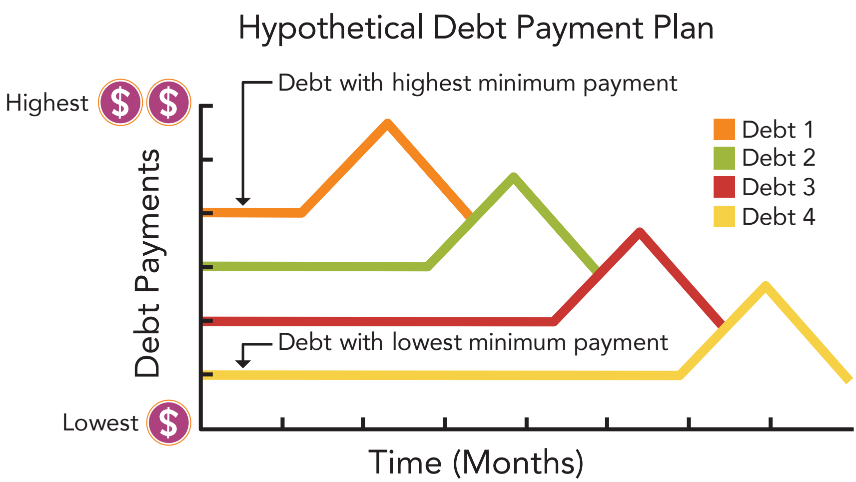
- **Take control of your finances**
- **Build momentum**
- **Balance your debt and other financial obligations**
- **Create a clear path forward**

Success with your debt payment plan, like any endeavor, breeds more success. It helps you build momentum and good financial habits that can last a lifetime.

Debt payment plan considerations

- **Work within your budget**
  Referring back to your budget is the best way to keep your debt plan coordinated with your overall finances.
- **Tackle one debt and move on to the next**
  Focus on tackling one debt first and then, when eliminated, you can move on to your next priority.
- **Develop a timeline and stick to it**
  Getting out of debt may take a number of years, but don't get discouraged.

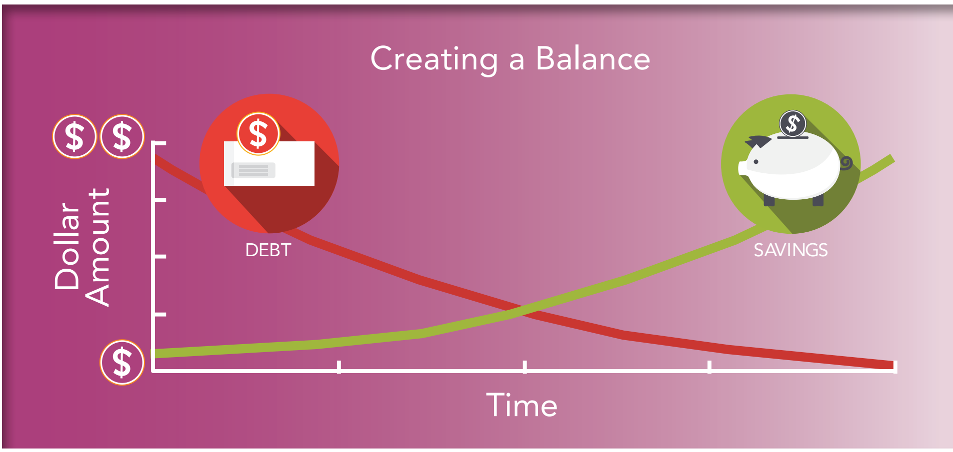
To help you visualize what your debt payment plan may look like, the example below prioritizes debt with the highest minimum payments first.



Another approach could be to "flip" the order and tackle the debt with the smallest minimum payment first, building momentum with smaller, quicker wins. No matter how you set up your debt payment plan, knowing when debts will be paid off can help you make more informed decisions about your future finances.

Balance debt and financial goals:

While getting out from under debt is important to your financial health, debt is not your only financial obligation. It is important to create a balance between paying off debt and saving for the future.



Putting your plan into action:

As you put you plan into action, there are a few things you should also consider:

- **Reflect on how you got into debt –** correct any bad spending habits
- **Minimize taking on new debt –** consider establishing an emergency fund
- **Renegotiate where you can –** many creditors will be willing to work with you
- **Seek help –** expert advice is available
- **Make sure you save –** balance is the key to financial well-being

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