

Tax Pro
Module 1
Section 2

DEBT REDUCTION SNOWBALL



AVERAGE AMERICAN DEBT

Experian 2021 Consumer Credit Review Report

1. Consumer debt	- \$17,064
2. Student debt	- \$39,487
3. Credit cards	- \$5,222
4. Auto loans	- \$20,987
5. Medical debt	- \$1,000*
6. HELOC	- \$39,556

* KFF Analysis of U.S. Survey and Income and Program Participation (SIPP) data

Total - **\$123,315**

AMERICANS WITH NO SAVINGS

56% of Americans (117M adult Americans) don't even have \$1,000 in savings for an emergency.

Instead, they turn to credit cards in times of need.*

* Note: A telephone survey of 1,004 American adults conducted in January 2022. Source: Bankrate

REMEMBER THE DIFFERENCE BETWEEN GOOD DEBT & BAD DEBT

Reductive Debt:

1. Consumer debt
2. Student debt
3. Credit cards
4. Auto loans
5. Medical debt

Productive Debt:

1. Buying a home
2. Rental property
3. Business start-up

THE CONCEPT AND STEPS

CONCEPT:

1. Average credit cards take 15-20 years to eliminate with simply monthly payments.
2. You're going to commit a \$\$ amount to focus on debt paydown before aggressive saving and investing
3. We'll have an Emergency Fund moving forward so we don't fall back into problems

STEPS:

1. Choose the dollar amount you can commit to over an above your monthly payments
2. WRITE-DOWN your Debt Snowball
3. Celebrate wins
4. Review your Plan regularly

THE DEBT SNOWBALL

\$1,000 Commitment to get out of debt and a brighter future!

Current Debt	Amount Due	Interest Rate	Current Payment	Snowball Payment	Months to Debt Free
Ford Credit	\$24,326	3%	\$521	\$2,044	12
Visa	\$12,287	18%	\$362	\$1,632	7.5
Furniture Financing	\$8,032	12%	\$187	\$1,270	5.9
Student Debt	\$2,625	5%	\$83	\$1,083	2.4

	Average rate			
Total Due:	\$47,270	9.5%	\$1,153	Months to Debt Free! 27.8*

* It will actually be faster because I'm not taking into account balance paydown with minimum payments while focusing on earlier debts.

THE "PAYOFF"!!

Pay Yourself Commitment	\$1,000
Interest Rate	9.5%
Total Payments (habit)	\$2,153

Where you are now:	- \$ 47,270
Where you will be in 1 year:	- \$ 30,574
Where you will be in 2 years:	-0-
Where you will be in 5 years:	\$ 88,750
Where you will be in 10 years:	\$302,571
Where you will be in 15 years:	\$639,177

SPECIAL CONSIDERATIONS

- Always create your Emergency Fund first while making minimum payments
- The “Snowball” is mathematically incorrect, it’s a behavior game
- We’re not cutting up credit cards
- Hold off significant saving UNTIL the Snowball is finished UNLESS you get matching funds at work – then...”Match and Out”
- Don’t get tricked with 0%, it’s still debt and ‘life happens’
- Paying off a home mortgage is a different topic