Decrease Debt & Increase Savings

Overview

When you think about saving, do you imagine your goals and picture realizing your dreams? Mapping out a strategy to reach those goals and dreams can be quite customized and very personal. Learn how to relate some key topics and questions to your goals, and examine your plans and needs through a savings and lens to help organize your financial thoughts to produce a solid, yet flexible saving strategy.

Learning Objectives

- Methods for reducing and eliminating debt
- Identify the steps for success in saving
- Set a savings goal and develop a plan to reach it

Materials

- Computer with internet access
- Overhead projector, screen, speakers
- Evaluations
- Prezi Presentation:

  http://prezi.com/nohlnt96p1-e/?utm_campaign=share&utm_medium=copy

Time

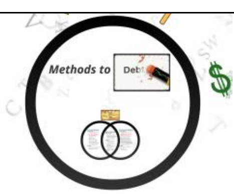
60 min

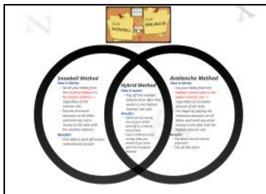
SESSION AT A GLANCE

Time	Segment	Description
5 minutes	Welcome & Introduction	Facilitator greets participants as they arrive, introduces him/herself, and states purpose of session.
15 minutes	Money Story Money Stats Money Talk – What is Debt?	Facilitator shares the following: a personal financial story related to debt or savings and recent statistics that highlights the debt crisis. Facilitator defines debt and leads discussion on what kind of debt do students have and/or how have they been able to stay debt-free?
5 minutes	Steps to Lowering Debt	Facilitator explains the steps to lower debt.
15 minutes	Methods to Erasing Debt • Snowball • Avalanche • Hybrid	Facilitator goes over the 3 methods of erasing debt and helpful tips to stay out of debt.
10 – 15 minutes	Savings Plan • Saving Goals • Emergency Funds	Facilitator describes savings plans and how to create financial goals. Facilitator has an option of showing videos on how to save.
5 minutes	Questions/ Evaluations	Facilitator led Q&A. Distribute/ collect presentation evaluations.

FACILITATOR NOTES

	**Welcome** Introduce self **Overview & Lesson Outcomes**: Review the outline for the class and desired outcomes
 	**Money Stats** Total U.S. outstanding consumer debt: $3.19 trillion as of May 2014. Most Americans predict that they'll be 53 years of age before they will be debt-free.
	**What is Debt?** Money owed to a person or organization for funds borrowed. Debt can be represented by loans, bonds, mortgage or any other form stating repayment terms.
	**Good debt vs. bad debt** Good debt is an investment that will grow in value or generate long-term income. Student loans are a great investment, because your education will increase your earning potential in the future. Buying a home is another great investment, as it has the potential to increase in value over time. A vehicle does lose value over time, but is considered good debt if it's necessary to get to work or is needed to do your job. Bad debt is debt incurred to purchase things that quickly lose their value and do not generate long-term income. Bad debt is also debt that carries a high interest rate, like credit card debt. **Payday loans** or **cash advance loans** are some of the worst kinds of debt. In a payday loan, the borrower writes a personal check to the lender for the amount he wants to borrow, plus a fee. Then he has until his next payday to pay back the loan amount, plus the original fee and any interest incurred over that time period. Interest rates for payday loans are astronomical, starting at 300 percent annually [source: FTC]. And if you fail to pay back the amount by your next payday, you incur yet another processing fee to "roll over" the loan.

	(http://money.howstuffworks.com/personal-finance/debt-management/debt1.htm)
	**Money Talk - Discussion Questions:** 1. What kind of debt do you have? What have you done to reduce that debt? 2. Or if you're debt- free, what have you done to stay debt free?
	Facilitation Option
	***Writing:*** Student will respond to the answer on paper.
	***Discussion***: Students can partner or meet in groups to discuss the answers.
	**Steps to Lowering Debt** Now let's discuss ways in which you can lower your debt.
	**Set Goals** – What are your money goals? Set goals: Goals keep us focused and motivated.
	**Budget -** Create a budget • Understand current income – how much money are you taking home? • Track your spending – how much is being spent? And what are you spending it on? Budgeting will help you meet your financial goals faster.
	**Identify Debt** Write down all debt: • How much do you owe for each? • What are the interest rates?
	**Methods to Erasing Debt** Let's discuss some methods that you can use to begin decreasing your debt.



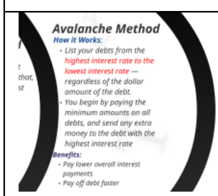
Three Methods of Decreasing/Eliminating Debt

There are many ways to decrease debt, but these are methods many financial experts recommend and have proven to work.

Snowball Method

How it works: list all your debts from the *smallest* balance to the *largest* balance — regardless of the interest rate. You begin by paying the minimum amounts on all debts and send any extra money to the debt with the smallest balance. Once your smallest balance is paid off, you take that payment, along with any extra money you have, and apply it to the debt with the next smallest balance. Then you continue this process until all of your debts are paid off.

Benefit: you get from using this method comes from seeing one of your debts paid off sooner. This, in turn, can provide an emotional boost.

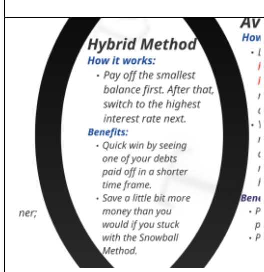


Avalanche Method

How it works: list your debts from the *highest interest rate* to the *lowest interest rate* — regardless of the dollar amount of the debt. You begin by paying the minimum amounts on all debts, and send any extra money to the debt with the highest interest rate.

Once your debt with the highest interest rate is paid off, you take that payment, along with any extra money you have, and apply it to the debt with the next highest interest rate. Then you continue this process until all of your debts are paid off.

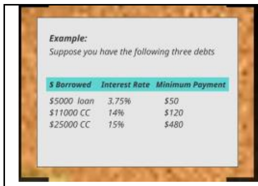
Benefits: Unlike the Snowball Method, this doesn't get you paying off individual debts as quickly. But it does benefit you by saving you the most amount of money in terms of interest paid. And it gets you completely debt-free sooner.



Hybrid Method

How it works: If so, consider paying off the smallest balance first. After that, switch to the highest interest rate next.

With this method, you get the quick win by seeing one of your debts paid off in a shorter time frame. And you also save a little bit more money than you would if you stuck with the Snowball Method.



Which method is right for you?

Example: Suppose you have the following three debts:

- $5,000 student loan, 3.75% interest, $50 minimum payment
- $11,000 credit card, 14% interest, $120 minimum payment
- $25,000 credit card, 15% interest, $480 minimum payment

Let's assume you scrimp and save and find a way to pay an extra $350 each month toward your debts.

If you use the **Snowball Method**, your first debt would be paid off in 13 months. You'd be completely debt free in 57 months, and you'd pay a total of $15,792.45 in interest.

But if you used the **Avalanche Method**, your first debt would be paid off in 39 months. You'd be completely debt free in 55 months, and you'd pay a total of $13,149.01 in interest.
In other words, that's a savings of *2 months* and *$2,643.44 in interest* with the Avalanche Method.

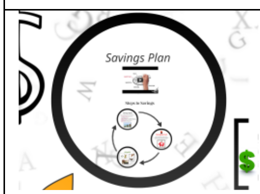
If you used the **Hybrid Approach**, your first debt would be paid off in 13 months. You'd be completely debt-free in 57 months, and you'd pay a total of $15,493.87 in interest.

In other words, you'd pay off your first debt and be completely debt-free in the same amount of time as compared to the Snowball Method. But you'd also save an extra $298.58.

So the bottom line is that all methods work. But again, if you want to save the most amount of time and money, use the Avalanche Method.

Review Budget

Key to success is reviewing your budget to see what is working and what's not. Make changes as needed.

	**Helpful Tip:** Don't avoid debt. It can impact your ability to receive funds for college, buy a home or car, and even land your dream job. If you need help tackling smaller debt, see our tip sheet.	
	**Collectors & Creditors** If you are having to deal with collectors and creditors, we have another helpful handout to assist you in communicating with these groups.	
	**Now What?** • Continue to work off debt. • Then you'll want to begin thinking about saving	
	**What is a savings plan?** A savings plan is an investment in which individual contributes money on a regular basis in order to reach a financial goal on a short or long term basis.	
		**Video: Create a Safety Net for Life's Unexpected Events** **Video Time: 5:53 minutes**
	Now let's talk about some of the steps that you can start taking today.	

Savings Goals

Have both a short and long term goal.
Examples:

- Save $100 from each paycheck
- Save $1000 over the course of a year

Having a goal will help motivate you to save rather than spend your money

Think about the following:

- Everyday expenses (food, entertainment, bills, etc.)
- Savings for large purchases (electronics, car, etc.)
- Savings for the future (vacation, college, retirement, etc.)
- Savings for investments (stocks, IRAs, etc.)
- Savings to share (charity, environmental group, church, etc.)

Emergency Funds

Financial advisors always recommend having an emergency fund set aside for true emergencies – such as losing your job, or becoming disabled.

Experts suggest saving 8 months' worth of all living expenses. Be sure to put this money into a savings account, and to not touch the account unless you need the money for a true emergency. Some experts recommend putting the money in a savings account that is different from the bank you have your checking account at. This way, when you are checking your checking account balances, you won't see your emergency fund money and be tempted to use it.

Be sure to look into savings accounts that earn an interest rate – put your emergency money to work, and hope you never need to use it!

Autopilot

Pay yourself first – have money automatically withdrawn from your bank account or paycheck into savings account.

Put any extra money not used in a purchase into savings.

Optional Video: Easy Ways to Save on Everyday Expenses

Video Time: 7:26 minutes

<table>
<tr><td></td><td colspan="2">Success is not far away. It will take time and patients, but you'll see great rewards.</td></tr>
<tr><td rowspan="2"></td><td colspan="2">Questions?</td></tr>
<tr><td></td><td>Discussion:

What have you learned that you could teach other students to help them become financially savvy adults?

What would you like to learn more about and was there anything that was not clear?</td></tr>
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