

7 steps to be debt-free in '07

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If one of your New Year's resolutions is to get closer to becoming debt-free, this column is for you.

Steering clear of unwanted debt is a great way to manage your finances and relieve daily stress, which seems to become increasingly more stressful each year.

- 1. Live below your means.** You cannot become debt-free if you spend more than you earn. It's that simple! Financial stress relief is called "money in the bank" or "positive cash flow."
- 2. Decide where you want to spend your money.** Don't let others decide for you. Know how much money you are bringing in, how much goes out and to where it goes. If you are not satisfied with the answers you get from this exercise, now is the time to change your spending habits. You (and your significant other) are ultimately responsible for how your money is spent.
- 3. Pay your bills on time, every time.** Managing monthly bills is an essential part of staying debt free and maintaining a good credit rating. If you find this difficult, come up with a system to ensure that bills are not paid late.
- 4. Set financial goals, both short- and long-term.** Having goals in place makes it easier to make the necessary spending cuts to get what you really want. Without reasons to cut spending and save, you will constantly be under pressure to spend money you don't have for things you don't need.
- 5. Use credit only as a tool and with a plan.** Figure out how and when you will pay the balance. Imagine building a house without a plan or blueprints. That's what your financial house will look like, too, without a plan. Your goal should be to pay for credit card purchases within three months. Remember, unlike wine, cheese or my wife, debts do not improve with age.
- 6. Have an adequate emergency savings fund.** Life will throw curveballs at you, ranging from the need to replace a worn-out washing machine to a temporary job loss. Three to six months' worth of bare-bones living expenses should shield you from most of these problems. Can't do three months' worth? Start with three days' worth and watch it grow as saving becomes a habit.

7. Learn how to invest your savings. Your money has to earn more money to keep you out of debt, especially in your later years. Take a class, find a referral to a great adviser or just start reading. Do it your way, but do it; and start now!

So there it is, my seven for '07. May you have a debt-free New Year!

The Debt Adviser, Steve Bucci, is the president of Money Management International Financial Education Foundation and the author of "[Credit Repair Kit for Dummies](#)." Visit [MMI](#) for additional debt advice or to ask a question of the Debt Adviser, go to the "Ask the Experts" page and select "debt" as the topic.