

Rising debt: 6 steps to pay yours down fast

How much debt do you have today? Chances are, it's more than it was last year.

By Kira Vermond

According to Statistics Canada, personal debt levels climbed to a record high in 2012, with a household debt-to-income ratio of 164.6 percent in the third quarter. That means, in aggregate, households owe nearly \$1.65 for every dollar of disposable income they make.

Sheila Walkington, a Vancouver-based certified financial planner and author of "Unstuck: How to Get Out of Your Money Rut and Start Living the Life You Want," says easy access to credit is part of the problem. So is Canadians' collective inability to rein in spending, despite the repercussions. "As much fun as it is to spend, debt is a dirty little secret that many people are carrying," she says. "It's a big burden. Canadians need to make getting out of debt their number one priority."

Ready to make it yours? Follow these six steps to get out of debt, no matter how much you owe.

Step 1. Know why you want it.

Before crunching numbers, Walkington says she asks clients to consider one simple question: Why do they want to be out of debt? To go on vacation without stressing about the financial burden? To go back to school, have a baby or get married? Being debt-free makes those goals much more attainable. "If you know why you want it, it's much more fun to get out of debt. You see the light at the end of the tunnel," says Walkington.

Step 2. Be honest. If you've been avoiding opening your credit card bills for a while, you probably don't know how much debt you have -- or you may think it's less than it is. Take charge. Open your bills. Add up the debt and the interest you're paying. Know what you owe and you'll be in position to set up a realistic payment plan.

Step 3. Stop the bleed. It's almost impossible to eliminate debt if you're still using your credit cards. Put them in a drawer, in a bag full of water in the freezer, or some other out-of-the-way, hard-to-reach place. If you must turn to credit to, say, rent a car or purchase a



plane ticket, pay off the full amount immediately. If there's not enough money on hand, the card stays where it is.

Step 4. Be systematic. The best way to go debt-free is to be consistent, says Walkington. Pay off bills twice a month and mark these days on your calendar. Or set up a payment plan so money is taken from every paycheck and allocated toward debt. Just don't try to do too much too fast. Slow and steady is more likely to work. "It's great to try and fast-track, but it's like dieting. If we overdo it, we go crazy and swing too far back the other way," says Walkington.

Step 5. Snowball it. A lot of people try to pay off their bills all at once: \$50 here, \$30 there. Instead, try the snowball technique. Pay the minimum balances on your cards, but pick one credit card -- usually the one with the most expensive interest rate -- and use the remainder to pay it off first. Once the first debt is wiped clean, focus your attention on the next debt. Repeat.

Step 6. Track your balance. Now the fun part. Pull your bills out and compare the balance month over month. There's nothing like watching that number fall to feel like you're making progress and give you the motivation to keep going.