

Avoid Debt and Credit Problems

High debt and misuse of credit cards make it tough to save for retirement. Money that goes to pay interest, late fees and old bills is money that could have been contributed to a retirement fund.

How much debt is too much debt?

Debt isn't necessarily bad, but too much debt is. Add up what you pay monthly in car loans, student loans, credit card bills, personal loans—everything but your mortgage. Divide that total by the money you bring home each month. The result is your "debt ratio." Try to keep that ratio to 10 percent or less. Total mortgage and non-mortgage debt should be no more than 36 percent of your take-home pay.

What's the difference between "good debt" and "bad debt"?

Good debt is debt that provides a financial payoff. Borrowing money to buy or remodel a home, pay for a child's education, advance your career skills or buy a car for getting to work can provide long-term financial benefits. Bad debt is when you borrow for things that don't provide financial benefits or that don't last as long as the loan, such as vacations, clothing, furniture or dining out.

Do you have a debt problem?

You may have debt problems if one of the following applies to you:

- You are borrowing to pay off other loans
- Creditors are calling for payment
- You're paying only the minimum on credit cards
- You're maxing out credit cards
- You're borrowing to pay regular bills or you're being turned down for credit

What can you do?

Focus on the total cost of the loan—the principal and the interest. Don't just focus on the monthly payment.

Handle your credit cards wisely. Keep only one or two cards; don't charge big-ticket items; shop around for the best interest rates, annual fees, service fees and grace periods; pay off the card each month (or at least more than the minimum). If all else fails, leave the cards at home.

If you are in severe debt, a credit counseling service can help you set up a plan to work with your creditors and reduce your debts, or you can work directly with your creditors to try to work out payment arrangements.

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