# Life after debt: 5 ways to stay on track - CreditCardGuide.com





**Life after Debt: 5 Ways to Stay on Track**
**Matt Alderton/Credit Card Guide**
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“It's like being on a diet,” says **David Flores**, a personal finance counselor at Detroit-based **GreenPath Debt Solutions**. “You work really hard and you lose a bunch of weight, but you gain it all back within a year because once you reach your goal weight you stop trying. You've got to continue to have some sort of financial goal. One of your goals was to pay off your debt what's your next goal?”

It's a fair question: When your credit card balances finally reach zero, what will you do with the money that used to be ear-marked for debt repayment? These five post-debt goals will keep you moving you forward if you're tempted to fall behind (again):

**1. Bulk up your savings**

If you've recently paid off your credit card debt, it might be tempting to treat yourself to a spending spree. After all, you've earned it, right?

A better way to celebrate is saving, says Certified Financial Planner Chad Nehring, a partner at Conceptual Financial Advisors in Appleton, Wis. A self-described "reformed spender," he had $33,000 in credit card debt by the time he was 25. When he proposed to his girlfriend – and she looked at him as if he were crazy – he knew it was time to do something about it.

With support from his fiancee, now his wife, Nehring set strict spending limits and worked two, three, sometimes even four jobs at a time to earn enough to pay off his balances. When he finally did so six and a half years later, he avoided relapse by immediately replacing his old objective –eliminating credit card debt — with a new one: funding a savings account.

"Spending is an addiction, just like alcohol, drugs or gambling," Nehring says. "I realized that [without financial goals] I could very, very easily fall back into my old habits."

In addition to giving you a new direction, a savings account can prepare you for expensive emergencies that would otherwise have you reaching for your credit card. Even if your debt taught you a lesson, unemployment or a serious injury could put you right back in the red.

When mother of seven Ellie Kay married her husband, a fighter pilot in the U.S. Air Force, he came with $40,000 in credit card debt from a previous marriage. Through a combination of strict budgeting and shrewd saving, she and her husband paid off his credit cards in less than three years and have remained debt free since.

Yet Kay, now a consumer finance consultant and author of 14 books, including "Lean Body, Fat Wallet: Discover the Powerful Connection to Help You Lose Weight, Dump Debt and Save Money," noticed "consumer debt wanting to creep back into our lives."

So the Kays chose to focus on long-term financial objectives, one of which was building up an emergency fund.

"We wanted to have a rainy day account," says Kay, who recommends that single- and dual-income families save at least 12 and six months worth of living expenses, respectively. "That gives you leverage in the event of … unemployment or underemployment."

**2. Insurance**

While a savings account was Nehring's first post-debt goal, his second was insurance.

"Maslow has his hierarchy of needs," he says. "I have what I call Chad's hierarchy of finance, which is taking care of the basics first."

With his entire income no longer going toward debt repayment, Nehring used it to fortify areas of his portfolio that he'd been neglecting. Insurance was a major priority because, without it, a single accident could undo in an instant all the financial progress he'd made.

"I had a low amount of car insurance, so I got that amount up," Nehring says. "I didn't have an umbrella liability policy, so I got one. We were thinking about having kids, so I decided to increase my term life insurance ."

### 3. Retirement

Next to an emergency fund, one of Kay's biggest post-debt goals was funding her retirement account – something she and her husband have continued to do for the past 25 years, even though they've also had to help seven kids pay for college.

"You can't rely on Uncle Sam," Kay says. "I recommend that people fund their 401(k) — especially any matching portion from their employer, because that's just money you're leaving on the table otherwise."

If retirement alone isn't enough to motivate you, save with a mind for the lifestyle you want to live and the things you want to do. "People don't always have a plan post debt," Kay says. "They think that's the brass ring – paying off the debt — but if you don't have a plan beyond that, you're really going to miss out, especially as you reach retirement."

### 4. Other debt

If you've eliminated credit card debt, consider allocating your old credit card payment to other forms of debt, such as a car loan or mortgage; not only will the extra payments help you pay of your principal sooner, but they'll also reduce the amount of interest you pay over the life of the loan, which ultimately will amplify your savings even further.

"If you have a home, for example, it might make sense to speed up repayment of your mortgage, **Flores** says. "Or, you could make additional payments on your car. Once those debts are paid off, that's even more money that's freed up that you can apply to other things."

**5. Rewards**

Although practical goals such as saving for emergencies and retirement are important, so are personal goals, says Julie Murphy Casserly, a certified financial planner and author of "The Emotion Behind Money: Building Wealth from the Inside Out." When she graduated from college, Casserly had $8,000 worth of credit card debt. When she paid it off along with her student loans at the age of 27, she rewarded herself with an emerald ring lined with diamonds.

"I took my student loan payment for about nine months and put it into a savings account, then went and bought the ring I wanted," says Casserly, who stresses that she didn't splurge on her reward; rather, she saved for it. "You have to reward yourself for good behavior, or at some point down the road you're going to start act out financially."

Kay agrees. Although her family lives a debt-free lifestyle, she says "wants" such as eating out and taking family vacations are just as important as "needs."

"One of the reasons people fail to achieve their goals is they have unrealistic expectations," she says. "You have to have realistic expectations and goals — and that includes fun."

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