



DEBT-FREE LIVING: SMART STEPS FOR BECOMING FINANCIALLY FIT

Taking control of your debt can feel like an uphill battle, leaving you feeling overwhelmed and stressed. In this guide, we offer practical tips to assist you in budgeting smartly and spending responsibly to pave the way for a debt-free future.

Borrowing money is a regular (and often necessary) occurrence in society. There are several reasons why people borrow money; to buy houses and cars, build and expand businesses, or even pay for big expenses like holidays. It's also an important stepping stone to building wealth. For example, borrowing money to buy a home, an asset that appreciates, can leave some buyers in a better position than where they started.

The money owed on these loans (and the interest that's added to the loan) is what accumulates as debt. The debt can be on the aforementioned big-ticket items, but also often includes the likes of credit and store cards, which are often used to cover day-to-day expenses like food, clothes or electricity.

Spending beyond your means – too much borrowing and not enough paying back – is where many people find themselves in trouble, heading rapidly down a debt spiral that can be very difficult to fix.

HOW TO AVOID DEBT

Ideally, the first step to managing debt is to avoid it as much as possible. But this is a reality for only some South Africans. Before taking a loan, keep in mind the ABCs of loaning money:

Affordability. What repayments can you afford? And for how long? If you found yourself unemployed, would you still be able to manage these repayments?

Benefit. Is this an essential loan? Do you really need the item? Or could you rather save money every month to eventually buy it outright, without the unnecessary interest repayments?

Consequences. What will happen if you can't make the repayments? What is the worst-case scenario – and can you face the consequences?

Once you have clear answers to the above questions, you can embark on taking out a loan, responsibly.

A BEGINNER'S GUIDE TO MANAGING DEBT

First things first: you need to do a thorough deep dive into your finances. This is a laborious, but necessary, task in every household.



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Make a list of all income and expenses, including debts. And be honest! Seemingly insignificant expenses like takeaway coffees can quickly add up. A detailed budget is the best way to uncover weak spots. It also gives you a clear understanding of what you can afford to repay every month.

Check your credit score. Your credit score is a number that calculates your ability to repay your debt. The higher the score, the better your credit record. A bad credit score can have a negative impact on your eligibility for future loans – and the interest thereof. A poor credit record, for example, can mean your home loan application can be declined.

Determine your debt-reduction strategy. Your strategy is highly personal, but ultimately looks at consolidating debt and prioritising repayments:

- Take a look at all the repayments, and rank them according to interest rate.
- Look for opportunities to consolidate multiple high-interest loans into one loan with a lower interest rate. Consolidating loans is a simple solution to paying all your creditors at once with one monthly payment.
- Prioritise repaying the loans with the highest interest rates first. This will help you save money in the long run. It's worth noting that credit cards often rack up the most debt.
- Some lenders choose to pay off loans with the lowest balances first. While you may not see the financial implications as quickly as tackling the big debts first, it can help maintain momentum and show progress as your list of debtors shrinks. Whichever approach you choose, back yourself and stick with your plan!

Put an end to irrational spending. This can be the toughest part of managing debt. Take a hard look at what you spend your money on, and why. Set aside a small amount of money every month for an indulgence. This will help you spend the money on something you really want, rather than spending frivolously.

How to set your personal budget

Having a clear understanding of where your money goes is an important step towards financial freedom. Set up your personal budget with these easy steps:

Calculate your net income. Your net income is your salary minus tax and employer-provided benefits like medical aid or retirement plans. In other words: it's the money that arrives in your bank account every month, not the total salary listed on your payslip.

Categorise and track your expenses. This will help you understand where your money is going every month. Start by listing your fixed monthly expenses, such as rent or bond payments, rates and taxes, insurance premiums and school fees. Next, list your variable expenses. These can include groceries, electricity, entertainment and other miscellaneous expenses. Reviewing your credit and debit card statements will help you identify your spending patterns and ensure you log all expenses accurately.

Set realistic goals. Figure out what you need to have versus what you want to have – and the financial implications thereof. This is a good way to find the area(s) where you can cut back on spending.

Be sure to include paying off debt and putting money away for savings and retirement as priorities. Your future self will thank you!



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