DOLLARS AND SENSE

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The Power of Powering Down

There are many reasons why the majority of Americans fail to save enough for retirement. The number one reason savings fall short is because people are drowning in debt.

Did You Know? As a nation our collective credit-card bill, which was $240 billion in 1990, has now climbed to a whopping $677 billion. Total U.S. household debt now stands at $5.4 trillion. And according to the book The Global Debt Bomb by James Clayton, debt in this country has risen as a percentage of disposable income from 35 percent in 1952 to 100 percent in 1998! That means that as a nation, every penny of our income is going towards paying off debt, leaving nothing to save for the future.

Even though debt is a discouraging and enslaving problem, there is a way to finally and completely free yourself. By applying the principle of Powering Down your debt, you can generally get out of all of it in ten years or less, including your mortgage.

What does it mean to "power down?" Powering down is an accelerated method of eliminating debt through a systematic approach to paying bills. Through this technique, you prioritize your debt, then work to entirely pay off the first obligation on your prioritized list. Once this debt with the highest priority is paid, you then apply that debt's payment amount to the next obligation on your list.

As you work through your list of debts, paying off each one, you will continue to add the previous debt payment amounts on top of each other, allowing you to more rapidly pay off your loans by gradually increasing the amount available to you to make those payments.

To more fully understand how the Power Down method works, let's take a look at an example of a couple who prioritized their debts by putting all obligations that could be paid off the quickest at the top of their list. The first debt they wished to pay off was a VISA credit card, because it had the highest interest rate. They began working to pay off this VISA card by applying a $55 monthly payment. When that bill was paid off after nine months, instead of using that $55 on other needs and wants, they began applying it to the second bill on their list, a medical/dental obligation. By applying the $55 to the $215 medical/dental bill, they were able to pay off this second debt in 11 months instead of 12. They continued this process for an DISCOVER credit card, their automobile, furniture, and even their home. By adding the combined amounts from each of the previous paid-off debts and carefully controlling their spending, this couple was able to get completely out of debt, including their mortgage, in 8.7 years instead of the 29 years it would have taken them had they not powered down.

In addition, they have started powering up their fortune by taking the money they had been paying on debts and putting it in a savings plan that is accumulating interest projected to provide them with an additional $125,792 at retirement.

What If Something Comes Up?

Of course during their process of powering down, our couple had to assume new debt because things like their cars eventually wore out and had to be replaced. But by using the Power Down method, they have saved an enormous amount of money, even when their overall plans had to change a bit. Because they chose to Power Down, not only will they be out of debt in less than nine years, but they will also have saved a tidy sum toward a more comfortable retirement because they are using the debt payment and interest expense to make money for themselves.

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