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Gaining the Upper Hand on Debt

Let's play a game of word association. What comes to mind when you hear the word *debt*? Anxiety? Worry? Concern? If you blurted out any of these responses, you're not alone. One thing most Americans have in common is that they carry some form of debt.

According to recent research, the overwhelming majority of Americans owe money. In fact, the Federal Reserve estimates that the average American household is saddled with approximately $137,000 in debt. And owing all that money, though somewhat natural and often unavoidable, makes many people feel uneasy. The good news is that taking control of your—or your family's—debt is achievable. Here are some things you should know as you get started.

Not all debt is bad

Maybe you have heard that there is "good" debt and there is "bad" debt. What's the difference? Think of debt in these simple terms:

- *Good debt* is an asset that is expected to increase in value relevant to the funds that were borrowed to pay for it. Examples of good debt include a home or real estate.
- *Bad debt* is an asset that loses value after its purchase. Often, it involves discretionary spending that brings short-term happiness but long-term payments. Examples of bad debt include a new flat-screen TV or a vacation paid for on a credit card.

Knowing the nature of your debt, and whether it can be classified as good (i.e., essential) or bad (i.e., often nonessential), is a good first step toward getting a handle on it.

Figure out what you owe

Your debt is what it is. Beating yourself up about how you accumulated it does you no good. Instead, focus your energy on what you can do today to get it under control. Resolve to determine how much you owe, to whom you owe it, and by when you need to pay it off.

There are several easy ways to chart your debt obligations. You can do it with a few clicks of your mouse in one of many popular online software programs or via an app on your smartphone. You can even do it the good old-fashioned way—using a pencil and notepad. Whichever way you decide to chart it, this critical first step will get you organized and set you in the right frame of mind for your debt-management journey.

Put together a game plan for paying it down

There are several tried-and-true strategies for tackling debt, but the foundation for all of them remains the same: have a plan! A systematic plan will help you stay accountable, disciplined, and confident throughout the debt-reduction process.

If you're not sure where to begin, help is available. Take advantage of some free online planning tools or government-approved credit counseling agencies. Or arrange for a consultation with a financial advisor or your retirement plan advisor.

Tip: Some tactics you may want to work into your plan include:

- Paying more than the minimum monthly payment on your credit cards
- Reducing your spending on nonessential items
- Paying off accounts with the lowest balances first
- Arranging for automatic payments to be made from your bank account

Track your progress

Okay. You've calculated what you owe, and you have a plan. Now, as you begin to put your plan into action, it is critical to track your progress. Making headway toward financial freedom—even in small increments—can give you the boost you need to keep forging ahead.

As each balance gets paid off and your debt begins to subside, maintain your momentum. Consider diverting payments to another source of debt or increasing your 401(k) or IRA contribution with your newly freed-up money.

Being debt free promotes confidence in your future

One last thing. There's no question that debt can affect how we feel about our ability to make our dreams for the future a reality. For example, the Employee Benefit Research Institute's 2018 Retirement Confidence Survey found that a worker's confidence in being financially prepared for retirement had a direct correlation to his or her level of debt. But don't be discouraged. With a solid plan, and some help, getting the upper hand on your debt is a target well within your reach.

Understanding Your 401(k) Plan—Traditional or Roth?

Retirement savers are faced with many choices. Although that can be a good thing, it can also be unsettling. One choice you may need to make sooner rather than later is whether to contribute to a traditional or a Roth 401(k). The answers to the following questions can help you make a smarter, more informed decision.

What is the difference between traditional and Roth 401(k) contributions?

When you contribute to a traditional (or regular) 401(k), the amount is taken out of your paycheck on a *pretax* basis. You won't owe taxes until you withdraw that money from your account, at which time both your contributions and their investment growth will be subject to income tax.

A Roth 401(k) contribution is made on an *after-tax* basis, meaning that your contribution is taxed before it gets deposited into your account. Because the money is taxed at the time of deferral, you won't have to pay taxes on it when you withdraw it from your account. Further, if you meet a few stipulations, you won't be taxed on the investment earnings from your deferrals.

Can I make both traditional and Roth 401(k) contributions?

Yes, you can split traditional and Roth 401(k) contributions any way you wish. But remember, you will still be limited to contributing up to $18,500 ($24,500 if you are age 50 or older) to your 401(k) in 2018.

Is a traditional or a Roth 401(k) better for me?

Great question! It depends on several factors, including your financial situation and your retirement goals. Here is a good rule of thumb:

- If your current income tax bracket is higher than you expect it to be in retirement, you should take the traditional 401(k) route.
- If your current income tax bracket is lower than (or equal to) what you expect it to be in retirement, choose the Roth 401(k) option.

If you need additional information, the Internet is full of useful—and no-cost—calculators that can assist you in modeling what your retirement plan contributions might look like in the future. You can also enlist the services of your retirement plan advisor, or a financial advisor, to help you with this or any other retirement planning guidance.

Stretch Your Way to Better Health

There is a healthy activity that you can do virtually anytime and anywhere—in the office, at home, in your car—or when you are sitting or standing.

Have you overlooked the benefits of stretching? Performing regular stretching exercises, even for just a few minutes per day, can improve your mental and physical well-being. Here are just a few of the benefits you can reap from a consistent stretching routine:

- **Increased flexibility and joint range of motion**, which can help you maintain your balance or more comfortably complete everyday tasks such as lifting a package or getting out of a chair
- **Improved blood flow and circulation**, which nourishes your muscles and can shorten the recovery time after a muscle injury
- **Better posture**, which can minimize the discomfort that comes with the aches and pains associated with tight muscles
- **Relaxed muscles**, which can lead to reduced tension in your shoulders, neck, and back

This week, try squeezing several stretching exercises into your fitness routine. Your body will thank you!

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