

RANDS & SENSE

Swamped by bills and feeling the pinch after the holiday season? Here's some practical advice on how to prioritise and clear your debts – and sleep easier at night!

Reduce your debt and stress in 2008

Feeeling financially pinched after the holidays? If you have answered 'yes' to one or more of the questions below, then you are most likely suffering from debt stress.

- Did you receive your credit card statement after your festive season purchases and realised that you can't afford the minimum payment due?
- Are you using one credit card to pay the instalment on other credit cards?
- Are you tempted to accept that personal loan offer so you have a bit of breathing space until the next paycheque?
- Are you avoiding calls from your creditors?
- Have you 'maxed out' your credit limits on your store cards and your credit cards?

Read on to find out how to reduce your debt in a controlled, structured manner and then avoid ever getting back into that situation!



Step 1: Document your debt

The main culprits of over-indebtedness are usually credit cards, store cards and personal loans. At this stage, don't worry about reducing your home loan, car loan or overdraft. Your main priority is to eliminate credit card or personal loan debt.

- Pull out all your credit card and personal loan statements and write down the following for each debt:
 - Name of creditor,
 - Total amount owing,
 - Minimum instalment due,
 - Interest rate.

Step 2: Prioritise the debt

Arrange your list from highest interest rate to lowest rate. Your goal is to meet all the minimum instalments and then start paying more than the minimum instalment on the debt with the highest interest rate.

Step 3: Prepare a budget and stick to it

Putting together a budget is not as difficult as you think but is critical if you are serious about debt reduction.

- List all your income after tax and deductions.
- Now list all your expenses split into uncontrollable and controllable.
 - Uncontrollable expenses are costs like property rates, school fees, basic foodstuffs, basic clothing, etc. This type of expense is usually classified as 'needs'.
 - Uncontrollable expenses also include all your monthly debt repayment obligations. If you can't meet all your debt obligations, contact your creditors to make an arrangement (extend the repayment term) before they contact you.
 - Controllable expenses are expenses such as entertainment, travel, luxury foods, etc. Controllable expenses can usually be classified as 'wants'.
 - Some expenses such as electricity and water are 'needs' but can be controlled and the expense kept to a minimum if you don't allow wastage.
- Now calculate Income less Expenses.

Step 4: Increase your income after expenses

In order to improve your monthly financial situation, you can either increase your income or

“
Look at what you owe, and draw up a plan.
Pay off the most expensive debt first.

If you must use credit, use it wisely.

Then try and stay out of debt!”

reduce your controllable expenses.

- You can increase your income after expenses by taking on a second job or asking for a grade and salary increase!
- The easier option to increase your income after expenses is to reduce your controllable expenses.

Go through each controllable expense and target some savings. Do you really need that DVD contract? Do you need to spend so much on clothes and eating out? There are many imaginative ways to cut expenses if you are serious about reducing your debt.

Step 5: Debt consolidation

If you have an opportunity to consolidate debt, this is a useful means to reduce your monthly expense on debt repayments and increase your income after expenses.

- Debt consolidation is simply combining multiple high interest loans into one loan with a lower interest rate and sometimes also with a longer term. The amount you owe remains the same, but your monthly repayment reduces because of the longer term and lower interest rate.
- If you have a bond facility for example, you may want to consider consolidating some other debt onto your bond. A mortgage bond typically has a low interest rate which is why it is a popular resource for debt consolidation.

A short history of 'plastic' cash

The first 'credit card' was used by the Western Union telegraph company in the United States in 1914, and issued to its frequent customers. In the 1920s other cards were developed to sell fuel to the growing number of vehicle owners in the USA, and by 1938 several fuel companies had started to accept each other's cards.

The idea of paying merchants using a 'general purpose' card was developed in 1950 by Americans Ralph Schneider and Frank McNamara, who created Diners Club. This was not a 'credit card' as we know it, as it required the entire bill to be paid with each monthly statement. The American Express card followed shortly afterwards.

In 1958 Bank of America created the BankAmericard, which eventually became the Visa system, and MasterCard came into being in 1966 when a group of US banks established MasterCharge. In the same year Barclays Bank in the UK launched the Barclaycard, the first credit card outside the United States.

The idea of using a card for purchases and the term 'credit card' itself are thought to have first been described in 1887 by an American author, Edward Bellamy in his novel *Looking Backward*.

- A risk of debt consolidation is that you end up repaying a consolidated debt over a very long period and therefore pay far more in finance costs. The best option would be to consolidate your debt to help you out of a short-term problem and as soon as you can afford to, you should increase your debt repayments.
- Another risk of consolidating debt onto your bond is that if you still don't meet your monthly obligations, then you run the risk of losing your home!

Step 6: Use your income after expenses to reduce your debt

- If you now have more income than expenses, then use this additional income to start paying off more than the minimum instalment on your highest interest debt. This will reduce the remaining term of the debt and you will pay it off sooner than expected.
- When that debt is paid off, take the monthly instalment you were paying on that and use this as extra payment on the next debt.
- Before you know it, your credit card and personal loan debt will be cleared!

Step 7: Stop buying on credit

- If you are in a debt-stressed situation, you should immediately stop building up any more debt and rather pay cash for your budgeted expenses.
- Cut up all your store cards immediately and once you have settled the debt, close the accounts.
- If you have more than one credit card, then keep only one. Cut up all the rest and once you have settled the debt, close the accounts.
- Once you have settled all your credit card and personal loan debts, don't build up any more debt of this nature! Only use your one remaining credit card if you can afford to pay the balance in full at the end of the month with no interest.

Step 8: If you must use credit, use credit wisely.

Credit can be very useful and can improve your lifestyle if used properly.

- Debt incurred in buying your home, buying a sensible motor vehicle or educating yourself or your family are all examples of 'good' debt.
 - Before you commit yourself to 'good' debt, make sure you can afford the repayments, you understand all the costs and have included the financial obligation in your monthly budget.
 - Debt to be avoided is any debt incurred where the repayment term exceeds the useful life of the item purchased. Examples of 'bad' debt would be debt incurred to buy food, clothes, luxury appliances or even debt incurred to go on holiday!
 - Any debt incurred on your credit card that you cannot afford to pay off in full at the end of the month is 'bad' debt.
- If you are serious about reducing your debt and are prepared to make some short term sacrifices then follow the eight steps above.
- Before you know it, your debt-stress will be a thing of the past and you will have money left over for saving, investing, creating wealth and splashing out on luxuries!



Been off sick? Remember that certificate!

Employees are entitled to an extremely fair amount of paid sick leave. However, to prevent abuse of this entitlement, certain requirements apply.

A collective agreement that standardised leave entitlements for employees in local government administrations provides for the granting of 80 working days in a three year cycle. The agreement further provides that an employee must submit a medical certificate from a registered medical practitioner for sick leave applications of more than two days.

In the past employees had to submit a medical certificate only when he/she was absent for three or more days (two days in the case of former CCT employees). Because this resulted in the intermittent usage of sick leave, the parties at the South African Local Government Bargaining Council included a clause to this agreement to prevent abuse.

No certificate, no pay

The directive states that an employer is not required to pay an employee if he/she is absent on more than two occasions during an eight-week period. Employees who have been absent from work on more than two occasions during an eight-week period must, regardless of the duration of the sickness or injury, submit a medical certificate stating that he/she was unable to work on account of sickness.

The medical certificate must also reflect the diagnosis of the condition. Failing to submit the required medical certificate will result in days being deducted from annual leave.

If you have any queries, contact your assigned Human Resources official.



Calling all ABET learners

Adult Basic Education and Training (ABET) classes for night shift staff started in February. ABET offers courses in many subjects, from basic literacy to economics, technology, mathematics, human and social sciences, and even entrepreneurship.

If you are interested in joining the programme, contact the ABET team as soon as possible. Take the opportunity to learn!

- For more information on ABET, contact Charmelle Meth or Gary Kannemeyer, tel: 021 386 1223/4.

• Rands & Sense is written by Paul Barnard of North Star Solutions, specialists in financial education who run workshops to help people acquire money management skills.