

Getting Out of Debt

“One Paycheck at a Time”

By Kevin Gibbons

When Kimberly Griffiths found out that she was over \$50,000 in debt, due to her ex-husband’s gambling, her first reaction was “That’s not fair! Why am I responsible for his addiction?” After resigning herself to the realities of Florida’s community property laws, she did what most people in her situation do. She worked two jobs, making minimum monthly payments on her debts. And like most people, she got nowhere. It wasn’t until she got a job with a major bank and saw how the credit business really worked, that she was able to develop a strategy for getting out of debt. Now, nearly twenty years later, she has been living a debt-free life for 10 years and is sharing her methods with others through her book, *One Paycheck at a Time* and her e-tools online budgeting tools on her website. *Budget Savvy* recently spoke with Kimberly from her home in Southern California to learn how she is helping others become debt-free.

Q: *When you first found yourself in this predicament (\$50,000 in debt, recently divorced, no job) what did you try? Where did you get information and advice?*

A: There was no easy source of information. I didn’t find the solution in one book. This was twenty years ago. The Internet and Web were not available. I collected information from everywhere I could, reading, asking at work, absorbing all information like a sponge. That was when I promised myself that if I ever got

out of debt, I would find a way to tell others how I did it. My book is a compilation of the best practices that worked for me.

Q: *So, how do you get out of debt and lead a debt-free life?*

A: The key is to think about your budget on a paycheck basis rather than a monthly basis. This approach works to your advantage, because if you make four weekly \$25 payments instead of one monthly \$100 payment, you will pay less credit card interest

that uses a compounded rate. Quite simply, thinking and paying on a paycheck basis puts you in charge. Thinking on a monthly basis puts your creditors in charge.

Set up an “envelope” system. A long time ago, families would literally have envelopes for each bill they had to pay. Every paycheck, they would put in so much money into the “Rent” envelope, so much into the “Gas Bill” envelope, so much into the “Grocery” envelope, etc. Today, it can be much more complicated with electronic and automatic bill paying. That is where the e-tools online budgeting program on my website helps. It does all the math and accounting for you on a per pay period basis.

It is a matter of striking a balance, building and maintaining dedicated slush funds to cover expense variations. Debt-average your expenses over a year. When you start, you may come up short (you may have higher power bills in the summer than in the winter), but over time, everything will balance out, as long as you don’t touch the money in the envelope.

Don’t pay all the bills on a weekly (or per paycheck) basis; just set the money aside. Only prepay those bills that accrue

In 2005, One Paycheck at a Time will be donating 10% of its 2005 net income to PXE International. This is a medical research organization dedicated to finding a cure for Pseudoxanthoma Elasticum (PXE), a genetic disease which can cause sudden blindness. Kimberly wants to raise awareness for this disease and show what is possible by following the strategy of One Paycheck at a Time. You can find more information about Pseudoxanthoma Elasticum (PXE) at www.pxe.org.



compounded interest (the power company does not want four payments a month and you don't get any break for it. The credit card company has to give you a break because you are reducing the principle upon which they calculate your interest.)

If you have a 2-income household, consider budgeting your household on a weekly basis. It is easier than trying to synchronize different pay schedules and amounts.

Finally, never be afraid to ask your creditors to adjust your payment schedule to fit your paycheck schedule. Oftentimes a cash flow deficit could simply be due to the timing of your paychecks versus

when your bills are due. If you get paid on the 1st and 15th, for example, ask your utility company if you can pay your bill on the 16th of the month. The worst they can do is say "no."

Q: *What is the biggest mistake people make when trying to get out of debt? Why can't they do it themselves?*

A: 1-Budgeting monthly instead of per paycheck. People are often unaware of the incremental difference partial payments can make to the overall cost of interest..

2-Splitting extra money between many debts rather than focusing, targeting one debt at a time. If you have just \$20 extra to send towards your

bills, choose the desired target to allocate this money. Kimberly admits that she was guilty of sending \$5 to four creditors thinking that it would somehow improve the vicious cycle of debt.

3-Not sticking with the plan. It takes at least 3 months to start showing benefits. Don't give up, persistence is what's needed in fighting the battle of overcoming debt.

Q: *After credit card interest, what's the biggest waste of money?*

A: Poor organization is a BIGGER waste than credit card interest. Poor organization leads to not being able to pay your bills, incurring late fees and extra charges. Generation X is known as "Generation Broke." The average American spends \$1.22 for every \$1.00 they earn. They are going broke.

Q: *So how does the e-tools program work?*

A: Managing your finances is not a simple process, but my goal was to make this tool as simple and user-friendly as possible. It guides you through the entire process, asking some questions about your income and expenses and then setting up an entire payment and savings plan, based on your paychecks. The important thing is that you don't have to be in debt to use e-tools. I created it to help people design their own debt reduction plan based on a per paycheck method. You can find out where you are overspending on things and immediately see where your

money is going, and even set up a savings plan after you're out of debt.

Q: *How about one tip, not in your book?*

A: The website has a monthly newsletter that expands upon topics in the book and answers people's questions. February's letter talks about the mechanics of how to actually make multiple payments in one month (you only get one payment coupon from the company).

Make copies of the payment coupon, write your account number on the check and include a note saying that this is a prepayment to be applied to the principle.

Q: *Do you have any final thoughts to add?*

A: Just sticking a stamp on an envelope every week, writing the check to pay your bills is not enough. All you're doing is maintaining the status quo with these actions. It is necessary to spend time applying the debt-free principles every week to figure out how to improve and stop the leaky holes of where you money is going. At a minimum, take one hour a week to evaluate one of your expenses. Can you lower your car insurance, or your cable bill or your phone service? Evaluate each bill that comes in and try to shave off unnecessary expenses. **bsm**

You can find out more information, purchase the book and sign up for the e-tools program at www.onepaycheckatatime.com.

