BUSINESS INSIDER

7 steps anyone can take to get out of debt

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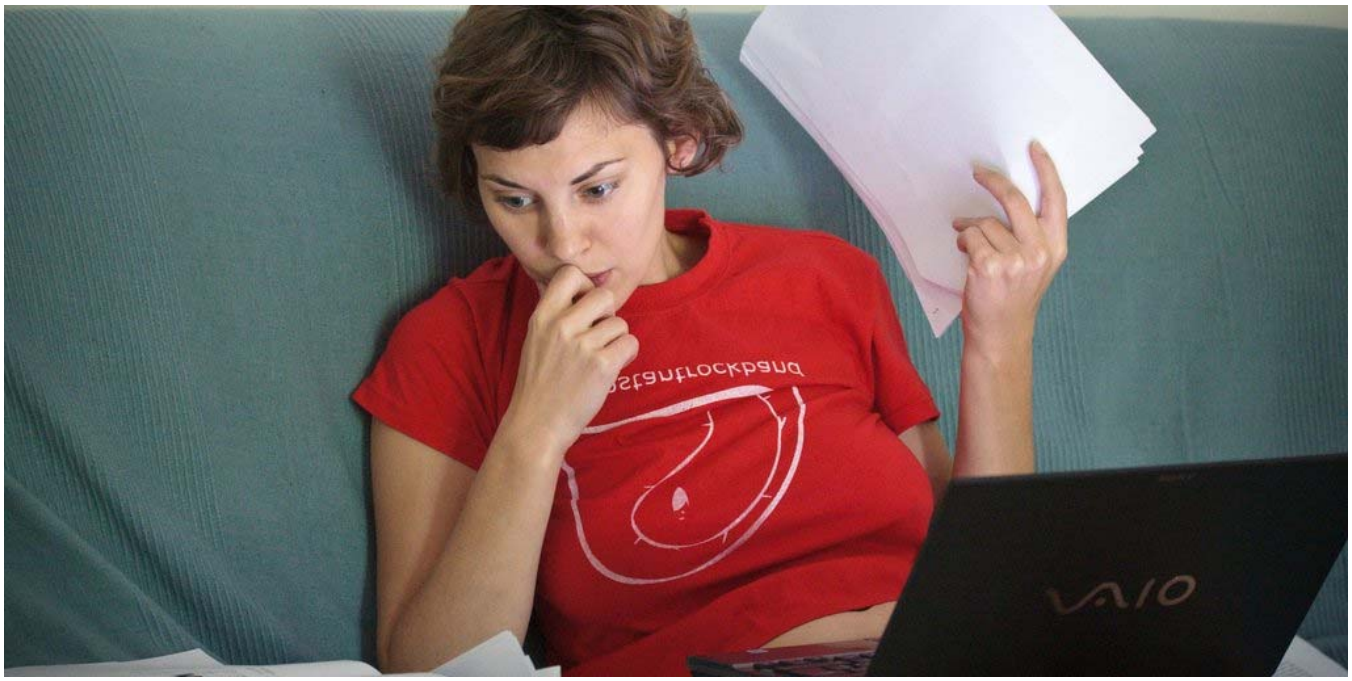
Kanye West recently claimed that he's deep in personal debt: about $53 million worth.

That's a lot — although frankly, it's not that big of a deal for the rapper whose tour earned $25 million, the second-highest grossing of 2013.

Kanye has his options, but for the rest of us, what is the most efficient way to dig out of a financial hole?

We asked John Gajkowski, a certified financial planner at Money Managers Financial, for debt-repayment tips and strategies for those of us who aren't Kanye West:



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1. Make a list of all the debt you owe.

Before you can start tackling your debt, you have to know exactly how much you need to pay back. "Build a spreadsheet listing all of your outstanding debts so you know exactly where you stand," says Gajkowski.

You'll want to list specific information, he explains, including:

- Who you owe and how much you owe them
- Interest rates being charged
- The minimum payment required
- Length of your loan
- A projected pay-off date to keep you on track

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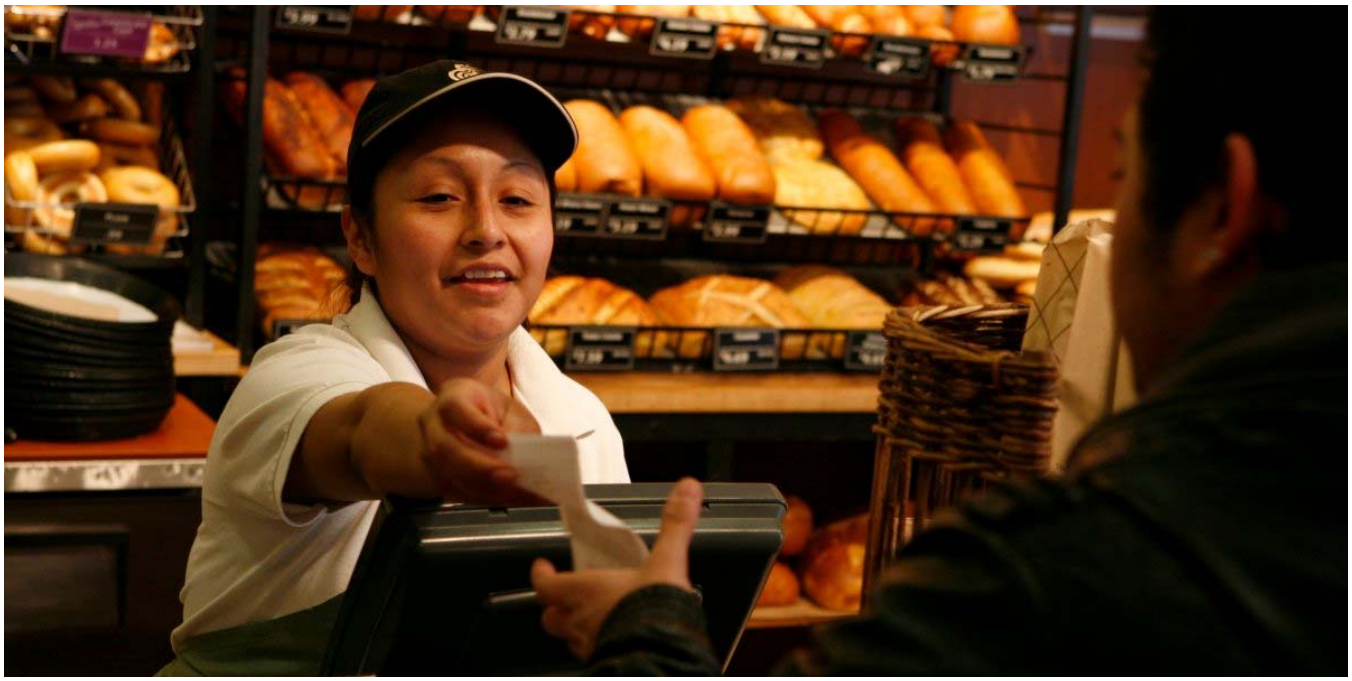
2. Rank your debt.

Now that you have everything out on the table, it's time to create a plan of action.

Take out your spreadsheet from step one and rank your debt in order of interest rate — from highest to lowest interest rate charged, Gajkowski says. You'll want to prioritize the debt with the highest interest rate in order to pay less over the life of your loans.

You can also rank your debt in order of size. A repayment strategy advocated by personal finance expert Dave Ramsey is the "snowball method," where you pay off your smallest debt first, then use the mental boost and momentum to tackle the next biggest, and so on.



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3. Determine how much you're spending.

It's important do a cash flow analysis, which essentially means figuring out how much you're earning versus how much you're spending. "We all have a vague idea of where the money comes from," says Gajkowski. "But none of us have a clue where it goes out." If you don't know where your money is going — or how much is leaving your pocket every month — you'll never be able to figure out how much cash you can devote to your debt.

"Take a spiral notebook and write down every dollar you spend over the next month to really get a good handle on where your money is going," Gajkowski recommends. Alternatively, you can use a spreadsheet on your computer or an app that will automatically track your expenses, such as Mint, You Need a Budget, or Personal Capital.

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4. Allot cash for minimum payments.

"Once you've ranked your debt from highest to lowest, pay the minimum on every one *expect* the highest one," Gajkowski says. For that one, plan on paying as much money as you possibly can in order to pay it off as quickly as possible.

How much extra cash would you need to meet all of your minimums, and pay extra on your top-priority debt?

5. Cut your costs.

Now that you know just how much you're spending and how much you need for your debts, figure out which expenses you can cut, or at least lower, so you'll have enough cash to make your payments.

Plus, overspending is what gets most people into debt in the first place and it will be good practice to start living below your means.

Start by negotiating lower fees for cable, internet, and insurance, Gajkowski recommends. Negotiating just $10 off your monthly bills means an extra $120 a year, and you may be surprised at how easy it is to get a lower price by simply picking up the phone.

Next take a look at your "comfort expenditures" — things like Starbucks, dining out, and entertainment. "When you examine those purchases, there are typically a lot of things you can cut out and it probably won't have a significant impact on your life," says Gajkowski.

If you're having a hard time cutting expenses, garner inspiration from regular people who saved enough money to retire before age 40. Another option is to take on a part-time job or freelance work for some extra cash. Read up on 50 ways to bring in additional income, high-paying jobs you can do on the side, and lifestyle changes to make if you want to earn more money.

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6. Automate your payments.

Whether you're making the minimum payment or regularly paying a little extra, set up a regular automatic payment towards your debt, which can often be done effortlessly online. You can also call your bank to set up automatic payments. This way, you'll never forget a payment, and parting with the money won't be as hard.

Giorgio Fochesato / Getty Images

7. Realize that you're never truly 'done' with debt.

"Debt management is like weight management. It's a lifelong thing," says Gajkowski. "You don't want to pay it down and then think you can go back to your old ways — because your old ways are what got you into the problem. It's an ongoing process. It's not a one-and-done type of thing."

Once you've successfully climbed out of debt, ask yourself why you got into debt in the first place, Gajkowski encourages: "Was it a one-off type of thing? Was it a medical expense you weren't ready for? Or was it your lifestyle? If you have a $60,000 lifestyle and a job that only produces $50,000 in income, you're always going to be in debt, so you either have to modify your lifestyle or change careers. A lot of people never come to that realization."