

MANAGING DEBT

5 steps to take control of your debt

Many Americans have taken on some level of personal debt. The key is to control your debt before it controls you. The sooner you get started paying off these obligations, the more secure you will feel in your financial future.

1. Don't take on new debt

The first step in paying down your debt is to make sure you are not digging yourself in deeper by taking on more debt. A great way to accomplish this is by developing (and sticking to) a budget. To get started on creating a budget, start tracking your expenses for a month. That will give you a better idea of where your money is going.

2. Take a snapshot of your current debts

Taking an inventory of everything you owe is important. This is a good time to check your credit score from one of the three nationwide consumer reporting companies—Equifax, Experian or TransUnion. These organizations are required by law to provide you with a free copy of your credit report, at your request, once every 12 months. For each debt

you owe, write down the current balance due and the interest rate.

3. Add up your debt payment money

Next, you will need to determine how much you can afford to put toward paying down your debt each month. Creating a budget will really help you here. Having taken care of your other living expenses, you will feel more confident the money you are using to pay off your debt has been allocated specifically for that purpose. A budget can also help you see if there are areas of your spending that you can cut down to free up more money for debt payments.

4. Set your debt payoff schedule

Look at your list of outstanding debts and sort them from the highest interest rate to the lowest. This is the order in which you should pay them off because you want to stop paying the highest interest rate as soon as possible.

Now add up all of the minimum payments and subtract that from the total amount you have to put toward your

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debt each month, as figured in step 3. (In the following example: \$850 minus \$550). Take the difference (\$300) and add it to the payment amount for the first debt. That will be your monthly payment for that debt.

Example:

- Total amount available for debt payments = \$850 per month
- Total minimum payments due = \$550 per month
- Total left over after minimum payments = \$300 per month

Monthly debt payments

	Minimum payment	Initial payment amount	Total initial balance due	Interest rate
Debt 1	\$200	\$500 (minimum payment + the \$300 left over)	\$1500	15%
Debt 2	\$250	\$250 (minimum payment)	\$3000	3%
Debt 3	\$100	\$100 (minimum payment)	\$5000	1.5%

“The Snowball Effect” at the right shows more detail on how this works.

5. Get started!

Now you are ready to get started paying down that debt! Pay the payment you calculated for the first debt plus the minimum payments for each other debt until the first debt is completely paid off. Then take the money you were using to pay down the first debt and add it to the second debt’s minimum payment. That is the new monthly payment for the second debt. Continue this with each debt until they are all paid off!

One day you will have a plan to get out from underneath your debt. One Day is Today!® Follow these steps to get started now!

The Snowball Effect

Month	Debt 1 Payments	Debt 2 Payments	Debt 3 Payments
January	\$500	\$250	\$100
February	\$500	\$250	\$100
March	\$500	\$250	\$100
April	No payment— Debt paid in full	\$750 ((\$250 + the \$500 you were paying on Debt 1))	\$100
May	No payment— Debt paid in full	\$750	\$100
June	No payment— Debt paid in full	\$750	\$100
July	No payment— Debt paid in full	No payment— Debt paid in full	\$850 (\$100 + the \$750 you were paying on Debt 2)
August	No payment— Debt paid in full	No payment— Debt paid in full	\$850
September	No payment— Debt paid in full	No payment— Debt paid in full	\$850
October	No payment— Debt paid in full	No payment— Debt paid in full	\$850
November	No payment— Debt paid in full	No payment— Debt paid in full	\$850
December	No payment— Debt paid in full	No payment— Debt paid in full	\$150

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