

# you owe it to yourself!

**REDUCE DEBT. INCREASE HAPPINESS**



Most of us have some sort of debt, and that may not be a bad thing. But managing everyday expenses on top of everything else that is going on can be difficult.

## **Life is full of surprises.**

You've got a leaky roof. The car won't start. The kids are home and now there's really no hot water. What do you do when these unexpected expenses creep up on you? Do you have an emergency fund?

While you can't really plan for unexpected expenses, you can create an emergency fund to help you cover the surprises.

Put a little bit of money in a separate, readily accessible account such as a FDIC-insured checking or interest-bearing savings account. Just a little bit each paycheck, so you can go into that for the little unexpected costs instead of turning to credit.

In today's world, it is easy to swipe a credit card or our phone screen and be on the way. Whether grabbing a cup of coffee, a new outfit, or a flat screen tv, it's basically the same transaction. So, are we really thinking about these purchases? All of the small stuff adds up over time, especially if we have some big items like a mortgage or college loan thrown in the mix. While things may seem manageable now, they can get out of control quickly.

The key to controlling debt is to balance spending without draining every savings dollar. Here are a few things to consider if you've got debt:

**Size up your debt.** The first step in managing debt is getting a clear picture of how much debt you actually have. By organizing what you owe, you can see where your most debt is to help you make a plan and focus on where to start.

**Realize that not all debt is bad.** There are generally two types of debt: good debt and bad debt. Debt from financing a college education, or paying down a mortgage, is considered good debt, while credit card balances and retail store card balances are examples of bad debt. Why?

Well, student loans are an investment in your future, which will likely lead to a better job and the ability to earn a higher income down the line. And, paying down a mortgage helps you build equity, allowing you to increase your home's market value—and the value to you, should you sell it. Typically this type of debt can be paid off more slowly at lower interest rates compared to other types of loans. You also may have the ability to deduct the interest from your student loans and your mortgage on your income taxes.

On the other hand, consumer debt—also known as credit card debt—is considered bad debt. This is because it's not tied to a value the way a college loan is. Credit cards typically carry high, fluctuating interest rates and penalties for missed payments. This kind of debt basically takes money that you should be putting toward your future and gives it to the credit card companies.

Financial professionals usually suggest paying down bad debt before good debt.

**Don't spend it unless you have it.** Take a closer look at your monthly spending. Live your life in a way that minimizes your need to take on debt. That may mean living on less than you make and—when debt is necessary—using less of it than lenders are willing to give you.

**Refrain from using your cards.** Store your credit cards in a locked place, out of sight, so they're safe but not such an easy temptation to use. Keeping them out of sight allows you to make more thoughtful purchases.

**Keep score.** Your credit report includes a score that summarizes your credit risk. Credit scores have a 300–850 score range. The higher the score, the lower the risk.

Even if you do not plan on financing a car, taking on a mortgage, or applying for any other type of loan in the near future, it is important to maintain a good credit score. Lenders use your credit score to make decisions about whether or not to approve any loans you apply for, and what interest rate to charge. Insurers, employers, and other businesses use it to evaluate your applications for credit, insurance, employment, or renting a home. Your history of using credit cards and paying them on time can have a big impact on your score.

You are allowed to receive a free copy of your credit report once a year. Request yours today at [annualcreditreport.com](http://annualcreditreport.com).

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