TRIAGE HEALTH

Finances

Quick Guide to Managing Debt

A chronic or serious illness is expensive. But there are ways to effectively manage finances after a diagnosis. This Quick Guide will cover practical tips to help you manage your debt, including how to: understand your debt; use strategies to pay off debt; use budgeting tools; find help with managing debt; negotiate with creditors; and handle debt left behind by a deceased family member.

A. Understanding Your Debt

Understanding the amount of debt you have, and what type of debt it is, is critical to paying it down. There are two key formulas to consider when assessing your financial health: your net worth and your debt-to-income ratio (DTI).

- **Calculating Your Net Worth:** Creating a "financial big picture" spreadsheet is a good place to start when analyzing the state of your finances. Special software can help you sort through assets and liabilities, but you can also assess your finances yourself with simple spreadsheets available on free platforms, like Google Sheets. Once your finances are organized, you can calculate your net worth with the following math problem: Assets – Liabilities = Net Worth

An example of the Financial Big Picture Spreadsheet can be downloaded for free: TriageHealth.org/FinancialBigPicture

- **Calculating Your DTI:** To calculate your DTI, start by adding up your monthly bills. These may include rent or house payments, alimony or child support, or monthly loan payments. Generally, expenses like groceries and utilities are not included in these calculations. Next, divide this amount by your gross monthly income (your income before taxes). The following equation sums up this process: Monthly Bills / Gross Monthly Income = DTI

This ratio is important to your financial health and to lenders, who use it to determine how risky it will be to offer you a loan. The higher your ratio, the fewer funds you have to save or spend, and the less likely lenders are to offer you a loan.

Understanding what type of debt you have is critical for understanding how to pay it down. There are two types of debt: secured or unsecured debt.

- **Secured Debt:** Secured debt is secured against an asset, like a home. When you obtain a mortgage, your debt is secured against your home. If you stop making payments on your home, a lender could take the home and sell it to pay back the loan. Other examples of secured debt include car loans and Home Equity Lines of Credit (HELOCs).
- **Unsecured Debt:** Unlike secured debt, unsecured debt is not secured by property. Credit card debt is unsecured debt: if you stop paying your credit card bills, the lender cannot take anything away. However, there could be other consequences for failing to make credit card payments, like a lower credit score. Other examples of unsecured debt include personal loans, medical bills, and utility bills.

When you borrow money, your **interest rate** is the fee you pay for borrowing money. In 2023, the national average for credit card interest rates was 20.90%. If you spent $200 on an average credit card and did not pay off the balance by the

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end of the month, your balance would be $241.80. Being aware of the interest rates of loans or credit cards can help you prioritize payments and avoid unnecessary interest payments.

B. Strategies to Pay Down Debt

There is no one-size-fits-all approach to eliminating debt, and your plan should be specific to your needs and debts.

Prioritize which debts you want to pay off first. Many experts suggest prioritizing secured debt (e.g., mortgage, car loan, etc.) to make sure you can keep homes or cars while trying to regain financial stability. However, since these types of loans usually have the lowest interest rates, it could be a good idea to simply make minimum payments, and use any extra funds to pay any legal obligations (e.g., child support or court-ordered payments) and unsecured debt (e.g., medical bills, personal loans, or credit cards). Be careful when considering converting unsecured debt to secured debt, like a home equity line of credit (HELOC). A HELOC would be secured against your home, so failing to make payments could cost you your home.

Decide on a debt reduction strategy: snowball; avalanche; hybrid; or emotional impact method.

- By using the "snowball" debt reduction strategies, you would focus on eliminating the smallest debt first, to create some momentum towards your long-term goal of reducing all debt. This approach would allow you to watch the number of debts you have reduce.
- The "avalanche" method involves paying down the debt with the highest interest rate first. This strategy could help you avoid paying excess interest.
- With the "hybrid" method, you combine the snowball and avalanche methods. This is done by prioritizing relatively small debts with high interest rates.
- The "emotional impact method" includes prioritizing debts that cause you the most emotional stress. This could mean prioritizing debts with the highest interest rates, or a debt that has been looming for several years.

Whichever strategy you chose, make sure to keep paying the minimum amounts due on all debts, and put any remaining funds towards the debt you chose to pay off first. When it comes to debt reduction, math matters: keep interest rates in mind. For example: Billy is trying to pay down these debts:

- Student Loan: $5,000 balance, 4.5% interest rate
- Credit Card: $8,000 balance, 29.99% interest rate
- Medical Debt: $25,000 balance, 10% interest rate

If Billy has an extra $2,000 a month that he can put towards paying off his debt, here are how the two methods differ:

- **Debt Snowball:** Billy would focus on paying off his student loan first (with the lowest balance), then the credit card, and finally, the medical debt (with the highest balance). Billy would be debt free in 18 months. Total interest paid: $4,449.14

- **Debt Avalanche:** Billy would focus on paying off the credit card first (with the highest interest rate), then the medical debt, and, finally, the student loan (with the lowest interest rate). Billy would be debt free in 18 months. Total interest paid: $3,506.25. This method would save Billy $942.89 in interest.

C. Use Budgeting Tools

There are many ways to create a budget.

- **Make one from scratch with a free template.** Choose from one of the thousands of templates available for free online, customizable to fit your situation.
- **Use an app.** Using apps can be a convenient and inexpensive way to budget or plan your finances.
- **Use software.** Similar to apps, software can keep track of your expenses and debt. Visit our Managing Finances module (TriageCancer.org/cancer-finances-managing-finances) for examples of free or affordable financial planning software programs or apps.

- **Use the envelope system.** At the beginning of each month (or on payday, whichever works best for you), withdraw the money you'll need for your expenses over a set amount of time. For example, you could set your budget for every week, every two weeks, or once a month. After withdrawing the money you need, divvy up your cash into different labeled envelopes for things such as groceries, rent, gas, or loan payment funds. Use the funds in these envelopes, and only these funds, when making purchases or payments in your budget.

D. Finding Help With Managing Debt

Managing debt can be overwhelming. Fortunately, there are resources that can help. Professional credit counselors and financial planners can work with you at any income level.

- **Consumer credit counseling agencies** can provide you with practical tools, like financial calculators, budget worksheets, and other resources. A consumer credit counseling agency might also be able to help you negotiate payment plans or settlements with your creditors. To find an agency near you, visit the National Foundation for Credit Counseling (nfcc.org).
- **Financial planners** can also help you understand and plan for your financial situation. To find a certified financial planner in your area, visit the FPA PlannerSearch (plannersearch.org).

Debt solutions might be helpful, but keep in mind they might negatively impact your credit score. Weigh options carefully. If your financial picture is really challenging, debt solutions may be worth the drop in your credit score. Beware of **debt solution scams**. Before working with a credit counseling agency, check with your state attorney general to make sure the company is legitimate.

Consider consulting an accountant to determine how debt forgiveness will affect your taxes. If you are able to negotiate with creditors to have a part of your debt forgiven, the Internal Revenue Service (IRS) could consider the amount that is written off to be taxable income.

E. Negotiate With Creditors

If you get a bill that you are unable to pay, it is important not to ignore it. Consider contacting the creditor to ask for more time to pay the bill, or ask if the creditor would be willing to negotiate a payment plan or accept a lower lump-sum payment. Other options a creditor might offer you include:

- Suspending payments for a few months in exchange for paying a higher amount later
- Converting payments to interest-only repayments for a specific period of time
- Extending the terms of a loan
- Allowing payment by installments
- Reducing the total amount owned

When speaking with creditors, ask for a payment plan that you can actually afford. By contacting your creditors before unpaid bills get sent to collection agencies, you can keep these bills from affecting your credit score. Once you have reached an agreement with your creditor, make sure to get the agreement in writing, either formally (e.g., a signed contract) or informally (e.g., a thank you e-mail that also outlines what you understand is the agreement).

You can apply for financial assistance programs to help offset the cost of your bills. Visit CancerFinances.org for financial assistance resources.

When dealing with debt collectors or collection agencies, be aware of your rights. For example, debt collectors must send you an initial notice or your debt and are not allowed to threaten or harass you. For more information about your consumer rights and debt collectors, visit the Federal Trade Commission's Debt Collection FAQs (consumer.ftc.gov/articles/debt-collection-faqs).

F. Handling Debt Left Behind By Family Members

If you get a bill that you are If you are trying to handle the debts left behind by a family member, it is important to understand how rules might apply, depending on the type of debt.

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When a person dies the assets that they leave behind are called their "estate." The estate includes money, property, and personal belongings. The estate is managed by an "executor." The executor pays any debts using money and assets in the estate through a court probate process. Creditors only have a certain amount of time to submit claims (varies by state). The executor reviews claims and pays any valid bills.

If there are still assets left, then the assets are paid to the beneficiaries. If there are more debts than assets, some debts are prioritized over others. State law determines which creditors receive priority over others; often, taxes owed to the IRS, taxes owed to state governments, unpaid child support or alimony, and medical debt are prioritized over credit card debt.

Family members may receive calls from creditors and collection agencies demanding payment for debts owed, even if they are owed solely by the deceased. However, creditors may not contact family members after the executor posts a notice of the death in a publication, like a local newspaper, which tells creditors who to contact about any debts.

Executors or family members should organize the person's accounts, and:

- Prevent further use of the credit cards (even by family members)
- Get multiple copies of death certificates to send to credit card companies and credit reporting bureaus
- Freeze the person's credit report by contacting the three credit reporting bureaus (Equifax, Experian and TransUnion)
- Ask creditors for proof that their claim is valid before any money is paid. Avoid agreeing to payment plans or making any verbal agreements with creditors.

There are some situations in which family members may be responsible for paying the deceased person's debts. For example:

- *Joint Loans:* Although family members cannot be held responsible for debts solely in the deceased person's name, loans co-signed by family members can become their responsibility.
- *Joint Credit Accounts:* If the deceased person has a joint account with a family member, such as a spouse, the surviving account holder is responsible for any remaining debt.
- *Spouses & State Law Exceptions:* State laws may require spouses to pay particular types of debts, or require executors to pay outstanding bills using property owned jointly by the deceased person and their spouse.
- *Community Property States:* In community property states, surviving spouses may be required to use community property to pay the debts of deceased spouses. Community property states are: AZ, CA, ID, LA, NV, NM, TX, WA, and WI.

Most states protect certain assets for family members, such as:

- *Retirement Plans and Insurance Policies:* Usually, funds from retirement accounts, life insurance policies, or annuities are paid directly to named beneficiaries. However, some states set limits on the amount of funds beneficiaries can receive when the deceased has outstanding debts. Amounts payable to beneficiaries should be kept separately from funds from other sources until the estate is settled to safeguard survivors' funds.
- *Homesteads:* Most states allow surviving spouses or family members to declare their primary residence as a homestead, which will not be subject to creditor claims. In some states, this protection is automatically applied, but in others it must be applied for. Mortgage or tax payments must still be made on the home in order for survivors to protect it.

For more information about managing finances after a medical diagnosis, visit:

- A Toolkit for Navigating Finances after Cancer: CancerFinances.org
- Triage Health Materials & Resources for Navigating Finances (TriageHealth.org/navigating-finances)

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