

How to Create a Debt Elimination Plan

A spending analysis and budget can help you pay off your debt

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Getting out of debt can feel overwhelming, but with the right repayment plan it's possible to pay down high balances, start saving money, and reach your financial goals.

A debt elimination plan gives you a good grasp of your finances while setting actionable repayment targets. Although paying off your debt won't happen overnight, a good repayment plan can help you stay both motivated and committed to improving your finances.

Here's how you can create a debt elimination plan and get back on track with your budget.

Make a List of Your Debts

The first step in a debt elimination plan is to make a list of all of your debts. If you know all of your credit card and loan accounts, write or type them out.

If you don't know all of your debt accounts, one easy way to identify them is to use a credit monitoring platform to get your credit report. You can get a free credit report from [AnnualCreditReport.com](https://www.annualcreditreport.com). This kind of service typically shows you your active debt accounts and the balances on those accounts. Keep in mind, though, that medical debt might not show up on your credit report.

Double-check your credit report to ensure that you do not miss any accounts, as the goal is to include every account in your debt elimination plan.

Once you have your list compiled, put each account into a spreadsheet along with the account's current balance, credit limit, and minimum monthly payment. You may also want to include the interest rate and payment status (i.e., whether the account is in good standing or behind).

Analyze Your Spending

Now it's time to take a close look at your spending habits. This is the first step in developing your budget—the next step in your debt elimination plan—because it allows you to see how much you're actually spending each month, rather than what you think you're spending.

Try grouping your spending into categories such as:

- Rent/mortgage
- Utilities
- Subscription services
- Groceries
- Gas and transportation
- Insurance (e.g., health, auto, life)
- Dining out
- Discretionary spending (e.g., clothing, home decor, electronics)
- Savings (personal or retirement)

You'll want to go through your bank and credit card statements for the past month or two and calculate how much you've spent in each category.

A free budgeting tool like [Mint](#) might help categorize your spending.

During this process, you might find some categories where you're spending more than you thought. For instance, you might think you only spend about \$200 on dining out each month, but after tracking your spending, you find that this number is closer to \$600. Be sure to note any category where you want to rein in your spending.

Create a Budget

With your spending habits identified, you're ready to create your budget. A basic budget shows two things: how much you've spent and how much you've earned. The goal is to end each month with more money coming in than going out.

There are several different budgeting methods to consider, such as the 50/30/20 method, a zero-based budget, and the envelope system.

The 50/30/20 Method

Allocate 50% of your income to needs (e.g., debt payoff, rent, groceries, insurance), 30% to wants (e.g., dining out, vacations, hobbies), and 20% to savings. Dividing up your spending into needs and wants can help you prioritize your spending. "Once you know the numbers, you can allocate toward those needs and wants and reduce the debt that works the least for you or causes the most financial pain," New York-based financial attorney Leslie H. Tayne told *The Balance*.

The Zero-Based Budget

With this method, every dollar in your budget has a purpose, so that there is no money left at the end of the month. When used for a debt repayment plan, a zero-based budget would include the extra money you put toward your debt.

The Envelope System

First, set limits for how much you'll spend in each category that month. Next, label a series of envelopes with each category name (e.g., takeout, online shopping). Then put cash into each envelope that equals the spending limit. Use the money in the envelope to make purchases in that category until it runs out. Once it's gone, you'll have to wait until the next month to spend in the category again. With the envelope system, you shouldn't use your debit or credit card either.

There may be other budgets that work better for you. Whichever you choose, the goal is to keep track of your budget by reviewing your spending at least once a month. A free budget calculator may also help.

Plan How to Pay Down Debt

Once you have your budget, it's time to decide how to eliminate debt from your life. The snowball and avalanche methods are two popular strategies for paying down debt:

- Snowball method: Put any extra money you have each month toward your smallest debt balance while making minimum payments on your other balances. Once that balance is paid off, move on to the next smallest debt.
- Avalanche method: Put any extra money you have each month toward the balance with the highest interest rate while making minimum payments on your other balances. Once it's paid off, move on to the debt with the next highest interest rate.

While paying down credit card balances with high-interest rates first might make sense for your debt, creating a solution that fits your budget, lifestyle, and financial goals is crucial. You can follow an existing debt repayment method or pull from a few to create your own customized debt elimination plan.

Track Your Debt Elimination Progress

Tracking your debt payments and watching your balances decrease can be rewarding, especially if you set small goals and milestones along the way. Even if you slip up, you'll be able to see how far you've come and how much you've paid so you'll remain encouraged to continue on your debt repayment journey.

There are a few easy ways to track your debt repayment progress:

- Create a spreadsheet with all of your debts, balances, and monthly payments. Enter each payment you make, and watch your balances decrease.
- Use a free credit monitoring service to view your accounts weekly, and watch your balances go down. Hopefully, you'll also see your credit score go up.
- Use a physical or digital calendar to plan out when each debt will be paid off. Set reminders to celebrate each paid-off balance.

If you are paying off a loan, you can use an amortization calculator to clearly see when that debt will be paid off.

Seek Help

If you're struggling to cover your debt payments, there are professional resources available to help you.

Debt relief companies often charge fees to dispute errors on your credit report, but not all of these services are reputable. In fact, some can end up hurting your credit score. Tayne recommended researching debt relief companies before partnering with one. "Some of the larger, for-profit debt settlement/credit repair companies have a less-than-stellar reputation and charge exorbitant fees to those with bad credit for simple credit bureau disputes," Tayne said.

Credit counseling programs offer education and resources to help you find ways to pay down your debt. Some credit counseling programs may be free, while others charge fees.

Debt Elimination Tips

Debt elimination takes time, but with hard work you'll get there. These additional tips may help when setting up and working through your debt repayment plan:

- Make sure you have an emergency fund in place before diverting all extra funds to debt repayment.
- As you pay off accounts, start to pay toward other debts.
- Keep an eye on your credit score as you begin paying down debt. Watching your score increase can be excellent motivation.
- If your income changes during your debt repayment plan, be sure to re-evaluate your budget.
- After your debt is paid off, continue to utilize your budget to help keep yourself out of debt.

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