

Money 2000 *and Beyond*

Using power payments to pay off debt

When you enrolled in *Money 2000 and Beyond*, your goal may have been to reduce debt. Writing down your debt reduction goal was just the first step. Now it's time to get to work. Use "power payments" to pay off debt and save money in the process!

Power payments work like this: As soon as you pay off one debt, you roll that monthly amount — the power payment — over to another debt. The process continues until you repay all creditors. The total amount paid for debt repayment stays the same each month. You don't have to come up with extra money to make this technique work.

But to be successful, you must make a commitment not to take on any new debts — or make any new charges to existing accounts — until you repay all creditors.

PowerPay © is a computer program that calculates what your repayment and interest costs will be if you continue making payments at the current level. It then calculates possible savings by using power payments.



To see how this works, take a look at the PowerPay analysis summary printout shown in Table 1. In this example, a *Money 2000 and Beyond* participant is making monthly payments on three debts: \$50 on a department store revolving charge account, \$150 for a car loan, and \$19 minimum payment on a credit card balance. Each debt has a different interest rate, ranging from the 22% annual percentage rate (APR) for the department store account to the 6.99% 6-month introductory rate on the credit card. The total debt is \$6,950.

The analysis summary compares the amount of time and cost of paying off the debts — with and without power payments:

- **Without power payments**, it will take 7 years (84 months) to pay off the \$6,950 balance, and will cost \$1,711 in interest charges.
- **With power payments**, it will take about 3 years (38 months) to pay off this balance, and will cost \$1,202 in interest charges — **saving \$508 and reducing the repayment time by almost 4 years!**

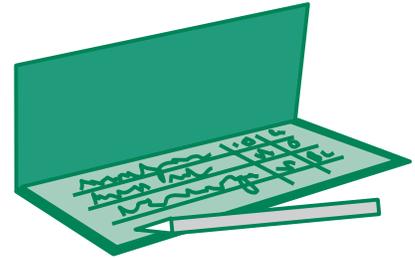


Table 1. Analysis summary

Name: *Money 2000 and Beyond* participant

Creditor name	Current balance	Monthly payment	Annual % rate	Approximate time without power payments
# 1 Dept store	500.00	50.00	22.00%	1 year 0 months
# 2 Car loan	5500.00	150.00	9.50%	3 years 8 months
# 3 Credit card	950.00	19.00 *	6.99%	7 years 0 months

Creditor name	Without power payments			Power payments		
	Number of payments	Total paid	Interest paid	Number of payments	Total paid	Interest paid
# 1 Dept store	12	557.44	57.44	12	557.44	57.44
# 2 Car loan	44	6522.55	1022.55	38	6454.91	954.91
# 3 Credit card	84	1581.45	631.45	25	1140.60	190.60

Without power payments		Power payments	
(Paying debt with highest interest rate first)			
Total monthly payment	varies	Total monthly payment	219.00
Time to repay	7 years	Time to repay	3 years 2 months
Loan amount repaid	\$6950.00	Loan amount repaid	\$6950.00
Interest paid	\$1711.44	Interest paid	\$1202.95
Total amount paid	\$8661.44	Total amount paid	\$8152.95

Summary of benefits from making power payments

Time required to pay off all debt reduced by 3 years 10 months

Amount of money saved \$ 508.49

* Credit card multiple interest rates:

Introductory rate (first 6 months) 6.99 %; Rate (after 6 months) 17.89 %

Table 2. PowerPay © debt reduction calendar

Debt with highest interest rate paid first

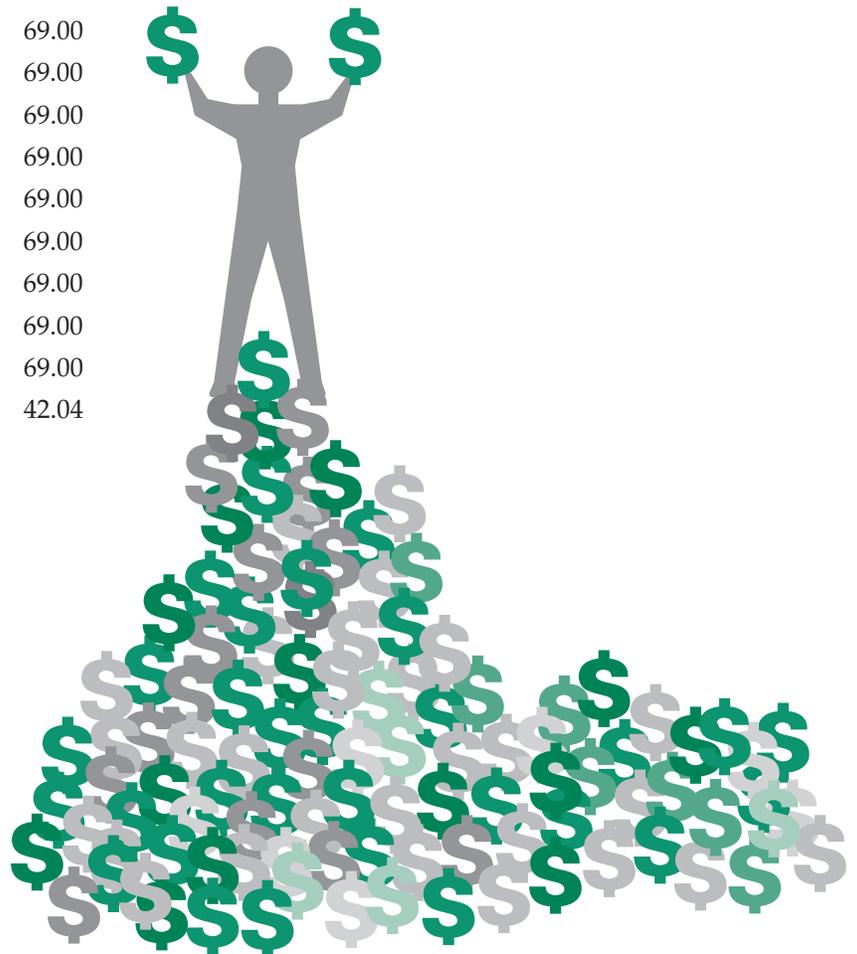
Name: *Money 2000 and Beyond* participant

Monthly total of all payments 219.00

Month	Dept. store	Car loan	Credit card
Dec-99	50.00	150.00	19.00
Jan-00	50.00	150.00	19.00
Feb-00	50.00	150.00	19.00
Mar-00	50.00	150.00	19.00
Apr-00	50.00	150.00	19.00
May-00	50.00	150.00	19.00
Jun-00	50.00	150.00	19.00
Jul-00	50.00	150.00	19.00
Aug-00	50.00	150.00	19.00
Sep-00	50.00	150.00	19.00
Oct-00	50.00	150.00	19.00
Nov-00	7.44	150.00	61.56
Dec-00		150.00	69.00
Jan-01		150.00	69.00
Feb-01		150.00	69.00
Mar-01		150.00	69.00
Apr-01		150.00	69.00
May-01		150.00	69.00
Jun-01		150.00	69.00
Jul-01		150.00	69.00
Aug-01		150.00	69.00
Sep-01		150.00	69.00
Oct-01		150.00	69.00
Nov-01		150.00	69.00
Dec-01		176.96	42.04
Jan-02		219.00	
Feb-02		219.00	
Mar-02		219.00	
Apr-02		219.00	
May-02		219.00	
Jun-02		219.00	
Jul-02		219.00	
Aug-02		219.00	
Sep-02		219.00	
Oct-02		219.00	
Nov-02		219.00	
Dec-02		219.00	
Jan-03		49.95	

The PowerPay © debt reduction calendar (Table 2) illustrates how power payments are used. Notice that in November 2000, the department store balance is paid off. The \$50 monthly debt payment is now applied to the credit card balance, because it has the highest interest rate — 17.89% after the introductory rate ends. Then, after the credit card debt is repaid, the total monthly debt payment is applied to the car loan.

Note: Because the car loan is an installment loan with fixed payments, be sure your lender will accept higher monthly payments.



Adding lump sum or increasing monthly payments

In addition to power payments, you can get out of debt faster by increasing the amount of your monthly payments.

Sometimes you may be able to make an additional one-time lump sum payment on your debts. For example, you could use an income tax refund or overtime paycheck to increase the amount paid to creditors for a month. Table 3 shows how an additional \$300 lump sum payment made in April 2000 increases the amount of savings and shortens the time it would take to repay the three debts.

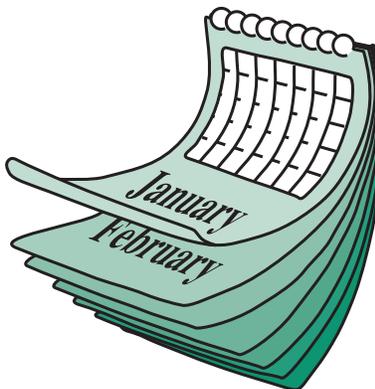
Increasing the amount of your payments each month will also reduce the length of time it takes to repay your debts and reduce the interest charges. Notice in Table 3 that by adding \$25 a month to the payment amount, the debts are paid off in less than 3 years (2 years, 9 months) — **saving nearly \$700 in interest costs.**

Finding the money to increase your payments

Where can you find the money to increase your monthly payments?

Review your spending habits to find some small changes you can make that could add up to big savings. For example, cutting back on eating out, long distance calls, or lottery tickets could free up an additional \$20 to \$30 a month to repay debts.

And as the examples in the tables show, a small increase in your monthly payments can make a big difference in getting out of debt.



Making power payments work for you

Power payments can get you out of debt faster and save you money.

- First, make a commitment to stop borrowing or charging until all your debts are repaid.
- Determine how much money you have to repay debts. Instead of making only minimum payments on credit card accounts, try to make the largest monthly payment you can afford.
- Next, use power payments to repay your debts faster and reduce the interest costs. As soon as one debt is totally repaid, apply the monthly payment from that debt to pay off another creditor.
- Continue to combine the money from paid debts until you repay all creditors.
- Consider adding lump sums to your power payments or increasing your monthly payment amount when you have extra money.

Learning how to use power payments can put you on the path to being debt-free. It can save you hundreds of dollars in interest and get you out of debt months or years sooner.

Table 3. Adding lump sum or increasing monthly payments

	Total amount paid	Interest paid	Amount saved	Time to repay
Without power payments	\$8,661.44	\$1,711.44	none	7 years
With power payments	8,152.95	1,202.95	508.49	3 yrs 2 mo
Power payments plus \$300 lump sum	8,014.09	1,064.09	647.35	3 years
Power payments plus additional \$25 per month	7,968.77	1,018.77	692.67	2 yrs 9 mo

For more information or to request a personalized PowerPay © analysis, contact your county UW-Extension office.*

Resources

University of Wisconsin-Extension publications that will help you track and spend your money wisely:

Advance Directives for Health Care: Wisconsin Living Will and Power of Attorney for Health Care B3604

Family Estate Planning in Wisconsin B1442

HomeWise: Help for New Homeowners B3618

Investment Basics B3683

Look Before You Leap: A Guide to the Legal and Financial Implications of Marriage... and Remarriage in Wisconsin B2707

Money 2000 and Beyond: Organizing Your Financial Records B3709-1

Taking Control of Your Spending B3709-2

Tracking Your Spending B3709-3

Using Power Payments to Pay Off Debt B3709-4

Using a Check Register to Track Your Expenses B3709-5

Use with: *Check Register Tracking System* B3709-6

Our Family Account Book B2372

Our Family Records B2369

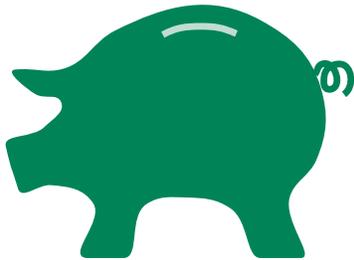
Web sites — If you do not have Internet access, try your local library. Many libraries have computers linked to the World Wide Web.

Money 2000 & Beyond, UW-Extension Cooperative Extension:
<http://www.uwex.edu/ces/money2000>

Your Money Matters, Wisconsin Department of Financial Institutions:
<http://www.wdfi.org>



* PowerPay © 4.0 Debt Reduction Software for Windows was developed in 1999 by F. Dean Miner Jr. and Judy L. Harris of Utah State University Cooperative Extension.



© 2000 by the Board of Regents of the University of Wisconsin System doing business as the division of Cooperative Extension of the University of Wisconsin-Extension. Send inquiries about copyright permission to: Director, Cooperative Extension Publications, 201 Hiram Smith Hall, 1545 Observatory Dr., Madison, WI 53706.

Authors: D. Elizabeth Kiss, assistant professor and extension specialist, Department of Human Development and Family Studies, Iowa State University; and Linda A. Boelter, CFP, family resource management specialist, University of Wisconsin-Extension. Produced by Cooperative Extension Publications, UW-Extension: Rhonda Lee, editor; Susan Anderson, designer.

Reviewers: Jan Garkey, Johnson County Iowa State University Extension, Iowa City, Iowa; David Mancl, administrator, Division of Corporate and Consumer Services, Wisconsin Department of Financial Institutions; F. Dean Miner Jr., Utah County extension agent, Provo, Utah; Kathy Sweedler, University of Illinois.

University of Wisconsin-Extension, Cooperative Extension, in cooperation with the U.S. Department of Agriculture and Wisconsin counties, publishes this information to further the purpose of the May 8 and June 30, 1914, Acts of Congress. UW-Extension provides equal opportunities and affirmative action in employment and programming, including Title IX and ADA requirements. If you need this material in an alternative format, contact Cooperative Extension Publications at (608) 262-2655 (Voice & TDD) or the UW-Extension Office of Equal Opportunity and Diversity Programs. Before publicizing, please check this publication's availability.

This publication is available from your Wisconsin county UW-Extension office or:

Cooperative Extension Publications
630 W. Mifflin St., Room 170, Madison, WI 53703
Toll-free: (877) 947-7827 (877-WIS-PUBS)
In Madison: 262-3346; Fax (608) 265-8052
Internet: <http://www.uwex.edu/ces/pubs>

^{UW}Extension