

I am \$15,000 in debt.

What's the interest rate?

I think it's 20%.

Is that high or low?

I don't think that that's great.

That's really high.

Yeah.

Isn't it amazing how we get comfortable living with debt? Maybe it's credit card debt. Starts off at \$500, built to \$10,000. \$25,000.

I had kind of what I thought to be reasonable credit card debt.

How much was that?

I think maybe I was at like \$7,000 between two cards.

How did you feel about that?

You know, hearing friends be like, I'm \$20,000 in debt. Cool, I'm not doing too bad.

I left my nine to five, started a floral business, and then put some money onto the credit card again when we moved into a new place. Just like little things. And somehow it just racked up.

Maybe it's student loans. We don't really look at the numbers. It just gets paid. But we know it's a lot of money.

How about debt?

Student loans, \$56,000 in charge. The student loans is the only thing that I'll pay until I die, it feels like.

Got it.

We learn to live with debt. Debt gives us so many negative feelings. Feelings of guilt. Why did I do that? Should I have done that? Of shame, I can't talk about this with anyone else. What would people say if they knew I had this kind of debt? And ultimately, this quiet feeling of hopelessness. How am I ever gonna get out of this?

When your relationship with debt contaminates your entire relationship with money, you don't wanna deal with any of it. And that's exactly what this class is about. It's about shining a light on the things that are so taboo, we don't talk about them with anybody else.

In this episode, we're gonna get specific about debt. When you finally shine a light and you see the numbers in black and white, you are gonna feel so much more in control than hiding from debt.

If you walked into a Vegas casino, do you think you could beat the casino? Obviously not, none of us could. They're way smarter than any of us. But most of us don't realize that debt actually works the same way. We're just oblivious to it. If you wanna get clear on your debt, you need a couple pieces of information and they are pretty easy to get. The first off is the balance on your debt. How much do you owe? Most people's debt is a mortgage, maybe student loans, et cetera. The second is the interest rate. What is the interest rate on that debt? For example, for student loans, it might be five, six, seven, eight percent. For credit card debt, it's probably something like 25, 27%. Now, if you don't know what those numbers are, no problem. Call up your lender, whether it's a credit card company or a student loan company. The reality is most of us have no idea what those numbers mean and how they impact us financially. Most of us buy a car and

the only thing we think about is the monthly payment. Please stop talking about monthly payments. Anyone who's savvy with money does not talk about monthly payments. They talk about something called TCO, total cost of ownership. So a car that costs \$40,000 on the sticker price might actually end up costing you 60, \$65,000 depending on a variety of different factors. This is why understanding debt is so important, because your debt costs you way more than the monthly payment alone.

I'm gonna give you a tool to find out exactly how much debt you have and the exact month and year that you're gonna be debt-free. Trust me, this feels amazing.

All right, let's take a look at this tool. There's a debt calculator in your class resources if you wanna follow along. We have your total balance, how much you owe.

All right, I'm going to use my debt payoff calculator and we're gonna plug in some of your numbers. All right, how much is the student loan debt?

57,000.

We have your interest rate. What is the interest rate on the debt?

Standard student loan. 7.1%.

We have how much you are paying towards that debt every single month. Some people pay the minimum, some people pay a lot more. How much are you paying towards it every month right now?

I'm paying about 430 in interest and like 20 to the principal, it's really.

Huh? Now we have the debt payoff date. This is so awesome, we get to see exactly when you will be debt-

free.

Okay, so you wanna guess how long it's gonna take you to pay it off? You'll pay it off in 19 years, just a little over 19 years. And then finally, just for a little kick, for a little fun, you know I have a twisted sense of humor, I thought why not throw in the total amount of interest you're gonna pay and you will pay almost \$50,000 in interest.

I want you to look at this number and realize all the agony you've been causing yourself over should I get that mint lemonade at the coffee shop? Irrelevant, look at the amount of interest you're paying. We are gonna solve this problem and we're gonna do it right now.

Just for easy math, let's raise it by 50 bucks a month, which you wouldn't even notice that money. Okay, so instead of 19 years, you would pay the debt off in 15 years.

Wanna get more aggressive?

Love to do it in five.

Oh, love that. This is what I like to hear. I love someone who comes in with a vision. This is what I wanna do. Okay, I can show you how to do that. So, okay, in this calculator, you told me you wanna pay it off in five years. It's not magic, it's just math. Pay off \$1,128 a month. It will be done in 60 months.

Great.

How old will you be in five years?

45.

45 years old and in your 45th year, you will be debt-free.

Feel a little lighter.

Yeah. It's funny, cause you told me,



you know, half jokingly, I might just die with my debt. But being debt-free of 45, That seems achievable.

Yeah, that's pretty cool.

One thing I wanna encourage you to do is just to be super transparent and honest when you write these numbers down. When I write numbers down, it's not about shame, it's not about guilt, it's not about beating myself up. It's simply about saying, let's look at the facts. Here are the facts. Let's look at the numbers. We can always tweak those things later. But for now, just get the numbers out. In this next lesson, we are going to create a debt payoff plan. Personally, I love this because it helps so many people step out of the shadows of debt and feel comfortable knowing you have a plan.

In this lesson, I'm gonna help you understand the different kinds of debt you have and how that affects

you. And then best of all, we're gonna make a plan to deal with it. It's kind of weird the way people approach their debt. They don't wanna look at it. And when they do, it's haphazard and disorganized. Oh, Ramit, I got six zero interest credit cards for the next 18 to 24 months. Oh, it's great. I go, cool, what are you gonna do after that? Oh, I'll figure it out. That's not a plan. That's just buying yourself another 18 months and you're still in trouble. Or Ramit, I started looking at loan consolidators. Oh, that's really interesting. Have you actually put together a debt payoff plan? People in debt will do everything except pay off their debt.

I would hate debt too if that's how I was treating it. We want to be systematic. We want to decide which debt are we paying off more aggressively. Does it make sense to pay the minimum on some of them? Are we in trouble or is this just an

acceptable level of debt? We wanna understand these things so that we can make a great, great outcome for ourselves, which is taking your debt, writing it down, making a plan and then automating that plan.

If you are in debt, how does it work with your conscious spending plan? Well, once you know how much you are paying towards debt every single month, you plug that number into the debt line in your conscious spending plan. You know that your fixed cost should ideally be less than 60%. If you have to pay a ton of money towards debt, that's gonna pump your fixed cost number really high and that is a sign you have too much debt. What that means is you should probably be cutting back on your guilt-free spending. You should probably be eating out less, traveling less, doing all those kinds of things and redirecting that money to pay the debt off as quickly as possible. You now have clarity. You

now know, hey, I may be paying a little bit more in a certain category for a while, but I know exactly when I'm gonna be debt-free and that gives us all a lot of comfort because we can take some pain in the short term as long as we know when it's gonna be over.

It's common for people to have different amounts of debt at different interest rates. There are different debt payoff techniques like the snowball method or the avalanche approach, but here's a simple way to look at it. Sort your debt from the highest to the lowest rate. Pay the minimum on all of your debt, but pay even more on those super high interest rates so that you can pay your debt off as quickly as possible.

As I have worked with a lot of people who have paid debt off, I have noticed some patterns. The first is that you're probably gonna become pretty impatient. My suggestion to

you is to be patient. The second thing I noticed is that people will sometimes beat themselves up for how much money they are now losing by not being able to save it or invest it. I want you to give yourself a little grace here. Most of us were never taught the intricacies of interest rates. The final thing I wanna suggest to you is make a plan for any unexpected money that you run into. It might be a tax refund, it might be a bonus, you might find something in your couch cushions. Make a plan for what to do with unexpected income and you will watch that debt come down and down and down.

Let's talk about this journey of becoming debt free. Sure, I love the ultimate day of being debt free. I love that day, you should celebrate that. But for some people that may be years or sometimes decades in the future. I'm not gonna wait decades to celebrate. I have learned to take every opportunity to celebrate with

my money.

I paid off all my debt in the last two, three years. That's been, yeah, like good stuff.

Do you ever celebrate everything that's happened? I celebrate by we took a vacation. Oh. Or our honeymoon.

Wait a minute, I don't think your honeymoon was a celebration of your debt payoff, what the hell? I know. Do you ever celebrate money?

Ummm.

That's a no.

You cannot celebrate enough, especially with your debt. So here are a few milestones that you might use to celebrate along your debt payoff journey.

First, just plugging your numbers

into the calculator. High five either your partner or high five yourself. Next up, creating a debt payoff plan and making sure that the money is being automatically transferred, high five. The first time that you pay off \$1,000, high five. The first time you pay off \$10,000, high five. The first time you don't have to wake up in the morning and look at your debt, high five. You'll notice that all of these milestones are a combination of quantitative and qualitative. Again, there are no limits to how many times you can celebrate. And trust me, keeping yourself motivated along this long journey is one of the most important things you can do.

Can I tell you something that drives me insane? There's a common myth that if you are in debt, then the only thing you deserve is to turn off the lights in your house, don't leave for the next seven years, eat rice and beans, and that's it. It's basically a modern day debtor's prison. You've

been bad. I hate this.

I want you to live a rich life even if you have debt. Sure, I don't think you should be going on super extravagant Michelin starred meals if you have credit card debt, but I don't think you should punish yourself for being in debt. So I want you to look forward. You have debt, it happened, but now you've gone from being reactive to being proactive. You've gone from playing defense, just paying off random amounts, to playing offense and making a plan, deciding how you want to strategically pay your debt off. This is how you become debt free and stay debt free forever.