

Dig Out Of Credit Card Debt

Retirement—the house is paid off, tuition bills are a thing of the past. It's a time in life when debt is but a distant memory, right?

Research shows that this isn't the case for a growing number of older adults. In households with people age 65 and older, credit-card debt doubled from 1992 to 2004, to an average of \$4,907. People age 75 and older with debt saw their average balance shoot up 160% to \$20,234. No wonder about 20% of credit counseling agency clients are over the age of 60!

While it's easy to fall into the credit card trap, it's difficult to get out of it. If you find yourself struggling with credit card bills, here's a strategy you may use to break free. First things first: Write down the balance you owe and the interest rate you pay on each and every credit card you own.

Then create a repayment schedule, concentrating on paying off the card that charges the highest rate first. Consider transferring balances to a lower-rate card, but first check the transfer fees, and find out how long any advertised rate lasts. You don't want a new card to end up costing more than the old. You also don't want to miss any credit card payments. Not only will you be charged a late fee, but the interest rate may be raised on that card and all the other cards you own. While you're paying off your debt, limit your use of credit cards by paying in cash when you can. And consider ditching the cards you don't need, if only to avoid future temptation. Hold onto the ones that charge the lowest rate or offer the most perks, such as airline miles. Let go of the ones that charge an annual fee or carry a high interest rate. Store cards typically charge high interest rates and should be among the first to go, unless they offer benefits that are meaningful to you, like savings days for cardholders or free alterations on clothing purchases.

Before you cancel a credit card, keep this in mind: Doing so will increase your debt-to-credit ratio, which may lower your credit score, the number lenders use to determine your creditworthiness. Also, if the card you cancel is one you've owned for many years, you may hurt your credit score because lenders see having a long credit history as a positive. But don't think that means you have to hold onto cards you don't want forever. Yes, if you close an account your credit score may be affected right away, but over time it may rebound, especially if you keep paying down your debt.

Source: "The Life and Debt Cycle: The Implications of Rising Credit Card Debt Among Older Consumers," National Consumer Law Center, 2006

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