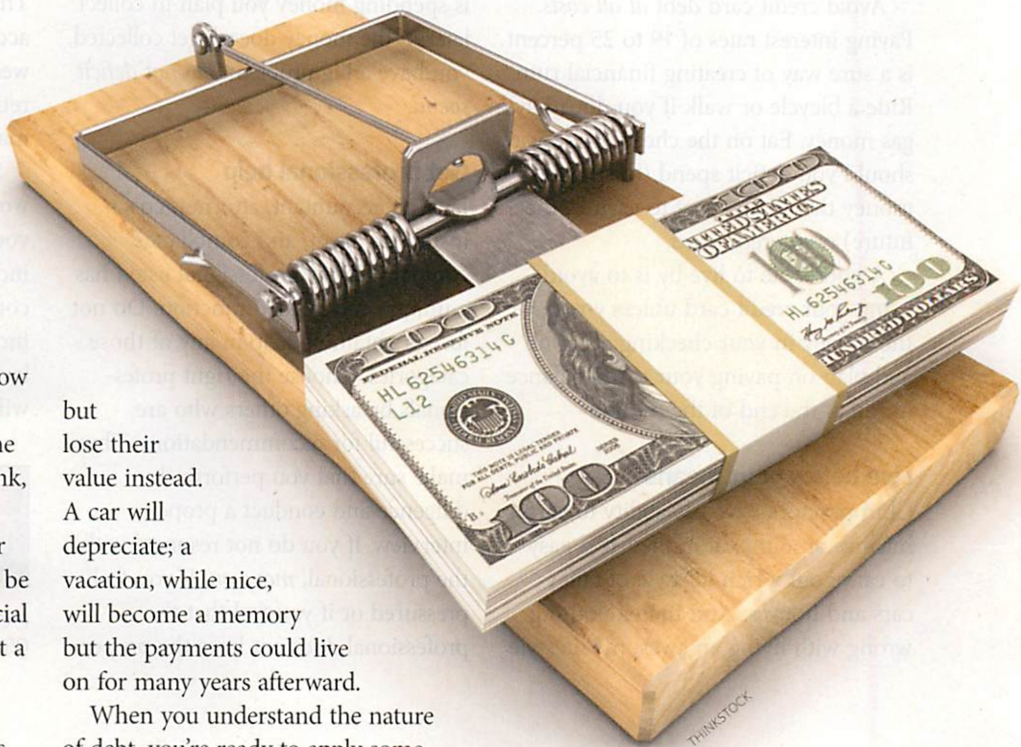
Debt: the killer of dreams

Don't let debt imperil your plans for the future.

BY PAUL S. INSELMAN, DC



IT DOESN'T MATTER IF YOU ARE A NEW PRACTITIONER JUST starting your career or if you are a veteran with 30 years of practice under your belt. If you rack up debt without a clear repayment plan, you are asking for financial disaster.

You need to know what debt is, how to use it wisely, and how to avoid its alluring pitfalls. Debt, of course, is the money that you owe to a person, bank, company, etc.

If you can live by the rule of never borrowing money, you will certainly be well on your way to achieving financial freedom. However, if you want to get a chiropractic education, purchase or open a practice, or buy a home, the likelihood of avoiding debt entirely is probably impossible.

Good debt, bad debt. Good debt is an investment that grows in value or generates long-term income. Taking out a loan to pay for a college education is a perfect example of good debt. Taking a mortgage and buying a rental property to generate positive cash flow is another example of good debt. Good debt is borrowing money that will enable you to earn more money.

Bad debt is debt incurred to purchase things that quickly lose their value and do not generate long-term income. Bad debt also carries a high interest rate, like credit-card debt. The general rule is: If you can't afford it and you don't need it, don't buy it. Examples of bad debt are borrowing money to buy a pricey car when a lower-end model will do. Or using student loan money to take a vacation or buy fancy clothes.

Bad debt is borrowing money to buy things that don't earn you more money but lose their value instead. A car will depreciate; a vacation, while nice, will become a memory but the payments could live on for many years afterward.

When you understand the nature of debt, you're ready to apply some strategic approaches to managing it.

Debt smart

Be advised that student loans are one of the riskiest types of debt you can incur. Why? Because student loans cannot be discharged in a bankruptcy. Student loan debt can follow you all the days of your life. A student loan creditor can even garnish your Social Security check for repayment.

Knowing that student loan debt comes with serious risks means that you must use this type of debt *wisely*. Talk to financial planners, accountants, and others in the know for advice. But don't follow anyone's advice before a financial adviser has evaluated it.

By the time you get out of school, you may have incurred anywhere up to $200,000 or more of debt. That number may be intimidating, but with proper planning it is not insurmountable. Some ideas to discuss with your financial advisers are:

- Having a family member or friend fund your education
- Using home equity lines of credit in place of student loans
- Taking the minimum amount of student loans

Do not defer repayment of your student loans any later than you absolutely must. Remember that these loans are accruing interest. You want to pay them down as quickly as possible.

Plan to live frugally after you graduate. Eat at home instead of going to restaurants. Drive an inexpensive car or take public transportation whenever possible. The little things add up. Get a notebook and write down where every nickel is spent. You will be surprised how much waste is in your daily routine. Then create a budget and *stick to it*. Determine what income you will have against your expenses. Any overage should go into a special fund separate from your checking account. This is your emergency or cash-on-hand fund. Build this account up to equal at least one year's living expenses.

Avoid credit card debt *at all costs.* Paying interest rates of 19 to 25 percent is a sure way of creating financial ruin. Ride a bicycle or walk if you don't have gas money. Eat on the cheap. In no way should you deficit spend (borrowing money that you expect to earn in the future) on a credit card.

A good rule to live by is to avoid using your credit card unless you have the money in your checking account and plan on paying your card's balance in full at the end of the month.

Live below your means

Chiropractors have the ability to earn massive amounts of money. It is easy to carve out a rich lifestyle of fancy cars and houses. And there's nothing wrong with living an awesome lifestyle provided it does not induce deficit spending. This one fatal error has caused many once-successful chiropractors to go bankrupt. The problem is spending money you plan to collect later: if the money doesn't get collected, you have a big problem. *Do not deficit spend.*

Get professional help

Hire an accountant, attorney, coach, insurance agent, and compliance company. Every professional listed has a unique and needed function. Do not forego obtaining help in any of those categories. Choose the right professionals by asking others who are successful for recommendations. Then make sure that you perform due diligence and conduct a proper interview. If you do not resonate with the professional, *move on.* If you feel pressured or if you feel that the professional does not have the proper plan for you, keep searching for the right team.

Plan for the endgame

The sure way to beat debt is to accumulate wealth. The sure route to wealth accumulation is to establish a retirement account and fund it to the max every year.

Speak to your advisers about what would be the best type of account for you. Roth, traditional, and SEP individual retirement accounts are common. As you generate more income and move into higher wealth brackets, other financial instruments will become available to you. CE

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