MAR 15, 2016 @ 10:58 AM 2,263 VIEWS

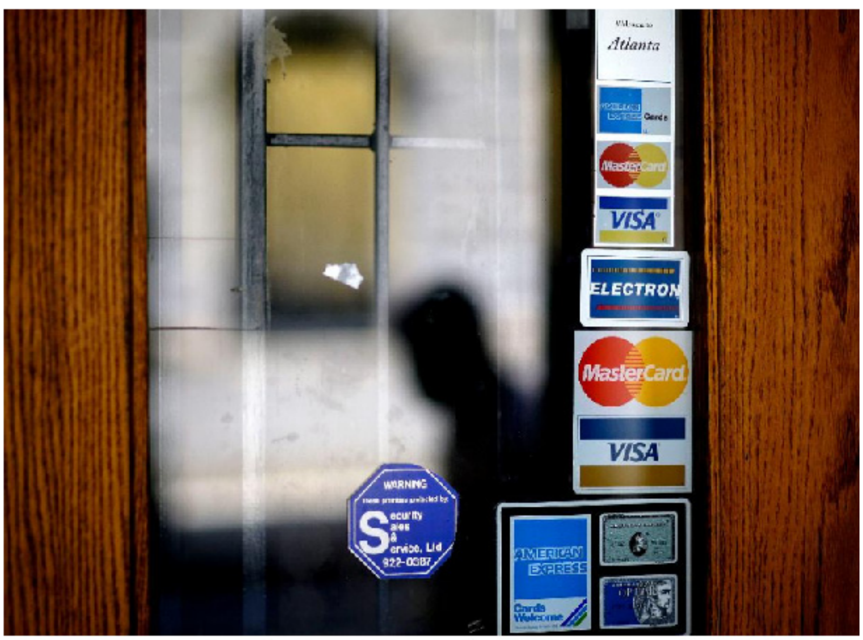
3 Ways Americans Can Curb Their Credit Card Addiction

Mark Avallone, CONTRIBUTOR
I help people on their path to Financial Freedom. **FULL BIO**

On March 3rd, Gallup released an article and poll results that examined "how consumer debt affects different groups of Americans, especially millennials." Gallup found that overall "Americans are buried under a mountain of debt" that continues to grow each day. I've written in past articles about how a person's approach to savings varies from generation to generation, and this Poll confirmed my claims.

"Two-thirds of Americans say they have enough money to live comfortably, with more traditionalists (76%) and baby boomers (67%) saying they do than millennials (62%) and Gen Xers (61%)," the study found. What's more, Gallup says that of "those who don't have enough money to live comfortably appear to be using their credit cards to supplement their available resources with high-interest credit" – these people "carry 36% larger credit card balances than those who say that they do have enough money!"

This is a big problem. Credit card debt is the number one type of debt you should try to avoid. It carries high rates of interest, and for lesser qualified card holders, there is often the risk of running up balances that can result in delinquencies and charge-offs. If this happens it can hurt your credit scores and ability to borrow for a car or a home. To help you with this growing mountain of debt, I've included below my top approaches to getting a handle on and paying off credit card debt.



(AP Photo/David Goldman, File)

1: Get Rid of Extra Credit Cards

If you have an issue managing credit card debt, reducing the number of cards you carry or have access to is a step in the right direction. It's best to have no more than 2 to 3 credit that you use. So, research your current cards' interest rates, rewards, and other perks such as miles, and stop using the cards that fall behind the top 2 or 3. When assessing your cards, make sure that you include store-issued cards as well. These card-issuing merchants are especially adept at adding statement stuffers with coupon offers or other promotions that can be enticing. In my experience, I've found that unless there is a store you frequent often, the rebates and benefits from store cards do not outweigh the added risk of you increasing your non-essential spending.

Be aware, however, that canceling cards may also have an impact on your credit score, but this drawback is small in comparison to the benefits that your new commitment to prudent debt use will bring. If you manage your debts well, each month your credit score can improve and other factors such as your debt-to-income ratio, timely payment record and overall credit history will affect your score. In time, the negative impact of closing cards that are in good standing will be minimal.

2: Set Up Automatic Payments

First, check with your bank and make sure that your checking account has overdraft protection. Then, for your NEW credit cards, set up automatic monthly payments in the FULL AMOUNT from that bank account. Linking your credit card and bank account in this way will help you automatically payoff the full amount each month which will protect you from incurring those famously high interest rates. The overdraft protection is key in this approach as it will avoid you having insufficient funds to pay the credit card issuer and incurring the high overdraft charges that follow. But please do not consider this overdraft line of credit to be another piggy bank. It is there for emergencies only!

For existing credit cards that hold large amounts of debt that you can't feasibly pay in full, set up automatic monthly payments for higher than the suggested minimum amount. Paying the minimum amount that is due on your credit card every month will not have much of an impact on your principal balance and you may incur high interest charges on your remaining balance. So, try to never pay the minimum! If you can't pay the full balance, pay as much as you can so that you can get out of the credit card vortex sooner than later.

3: Focus on Higher Cost Debt First

If you have multiple cards with outstanding balances, analyze which one is charging you the most interest. Then attack this card first with aggressive monthly payments even if it means lowering the payments against the other lower interest rate cards. Then once the highest interest card is paid off, repeat the process until you are credit card debt free.

Overall, use your card carefully. As Spiderman's father famously told him "with great power comes great responsibility." And having a card in your purse or wallet that has thousands of dollars in purchasing power is indeed a force to be managed. Otherwise, you can find yourself enjoying things you really cannot afford. And digging out of hole isn't fun. So avoiding the short-term thinking and spending traps is probably the best way to manage – or entirely avoid – credit card debt.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.