



## Millionaire Choices: Controlling Debt Part 4

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November 13, 2019

Let's focus on the big picture of debt. According to the Federal Reserve Bank of New York Research and Statistics Group, household debt at the start of 2019 was \$13.54 trillion. Changes from the previous quarter by category are shown in the table below.

### Household Debt as of Q4 2018

Notice that auto loans increased by \$9 billion, credit card balances jumped \$26 billion, and student loan balances increased by \$15 billion.

When considering the extreme burden of debt and consequential available cash, a painful message arises. A 2018 study by the Board of Governors of the Federal Reserve System reveals that 4 in 10 adults in 2017 would either borrow, sell something, or not be able to pay if faced with a \$400 emergency expense. Equally frightening is that 1 in 5 adults cannot cover their current month's bills, and 1 in 4 skipped a medical treatment in the past year due to an inability to pay.

In a recent nationwide survey of millionaires, we found the debt to equity ratio ranged from 0 to 12%. It seems that most millionaires avoid excessive debt. Of course, credit is an important part of our lives, but it also facilitates living beyond our means. When instant gratification for consumer goods becomes the norm, a compilation of debt will follow. As Benjamin Franklin noted, "Tis easier to suppress the first desire than to satisfy all that follow it." Think about it—you buy a new suit, so you *need* a new tie, shirt, and of course, shoes.

A summary of the "Millionaire Choices: Controlling Debt" series of articles follows.



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CATEGORY	QUARTERLY CHANGE* (BILLIONS \$)	ANNUAL CHANGE** (BILLIONS \$)	TOTAL AS OF Q4 2018 (TRILLIONS \$)
MORTGAGE DEBT	(-) \$16	(+) \$242	\$9.12
HOME EQUITY LINE OF CREDIT	(-) \$10	(-) \$32	\$0.41
STUDENT DEBT	(+) \$15	(+) \$79	\$1.46
AUTO DEBT	(+) \$9	(+) \$53	\$1.27
CREDIT CARD DEBT	(+) \$26	(+) \$36	\$0.87
<b>TOTAL DEBT</b>	(+) \$32	(+) \$396	\$13.54

Article 1 focused on credit card debt. The average household credit card debt is about \$6,700. A balance of that size is an ongoing financial burden. So, why all of this debt? In two words, immediate gratification. For suggestions to resolve this kind of debt refer to the full content of Article 1.

In the “Controlling Debt: Article 2,” there is a focus on student debt which is now \$1.41 trillion. This exceeds all kinds of debt, except home mortgages. Specific recommendations for reducing this colossal burden are provided in Article 2.

“Controlling Debt: Article 3,” addresses taxes. At a macro level, migration is discussed. An IRS study of households with incomes over \$200,000 shows that the largest tax deductions are for state and local taxes paid, charitable contributions, and home mortgage interest. Taxes influence migration. According to the Cato Institute, “the largest out-migration is from high-tax New York, whereas the largest in-migration is to low-tax Florida. Florida is enjoying an influx of wealthy entrepreneurs and retirees looking for a tax climate that boasts no income tax or estate tax.”

So, yes we have all kinds of debt and lots of it. It has never been more important to have careful financial planning. If needed, consult with a trusted competent financial advisor. Remember, millionaires’ are very vigilant about financial planning.