Your MONTHLY MONEY

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Managing Holiday Debt: Steps to Take Before the New Year

Americans are no strangers to holiday debt. In fact, a study from Debt.com showed that almost two-thirds of us planned to go into debt from holiday shopping last year. But here's the good news: you don't have to drag that debt into the new year. By taking charge of your holiday spending before January arrives, you can significantly reduce the financial strain. Early December is the perfect time to act. Spending is peaking right now, giving you a key chance to get a handle on things and make wise choices that will help your budget in the new year.

We'll show you how to quickly figure out what you've spent, stop more debt from building up, and plan to pay it off so you can kick off the new year on a solid financial footing.

Take stock of your spending now

The first step to getting a handle on holiday debt is to see where you stand. To begin, immediately tally up everything you've spent so far on holiday-related items—gifts, decorations, food, travel, parties, you name it. Be honest with yourself about every purchase.

Next, if you set a holiday budget, compare your current spending to what you planned. Are you over, under, or right on track? Even if you didn't create a budget, just knowing your current spending is a great start. Finally, account for any anticipated future spending. Think about those last-minute gifts, upcoming events, or remaining travel costs. Factoring these into your total gives you the fullest picture of your holiday financial outlook.

Pinpoint your debt sources

Once you know how much you've spent and how much more you expect to, it's time to identify where that money is coming from, especially if it's debt. Start by looking at all your credit cards. Which ones have you used for holiday shopping? Pay close attention to cards with high interest rates, as these will cost you the most in the long run.

Also, don't overlook store cards and "Buy Now, Pay Later" options. These can be sneaky; store cards often have very high interest rates, and "Buy Now, Pay Later" plans can hit you with deferred interest or fees if you miss payments. Make sure you understand their terms. Lastly, if you've taken out personal loans or used lines of credit for holiday expenses, include these in your total debt picture. By clearly seeing your spending and where your debt originates, you'll be much better equipped to manage it.

Strategies to minimize further debt

Once you know where you stand, it's time to put the brakes on and prevent more debt from piling up.

Re-evaluate your gift list

It's easy to get carried away, but now's the time to prioritize. Focus on gifts that are truly essential or offer meaningful experiences, rather than just buying more stuff. Consider alternatives to expensive gifts: think about making something thoughtful yourself, giving an experience, or even making a charitable donation in someone's name. If your family or friends are open to it, suggest a Secret Santa or gift exchange. This way, everyone buys just one meaningful gift instead of several, cutting down individual spending.

Rethink holiday activities

Holiday cheer doesn't have to break the bank. For food and entertainment, suggest potlucks where everyone brings a dish, or plan to make homemade meals instead of dining out. Look for free community events like holiday light displays, parades, or concerts. When it comes to travel, think about less expensive options. Could you do a "staycation" and explore local attractions, or carpool with friends or family instead of driving separately?

Use sales wisely

Sales and discounts can be tempting, but it's important to use them smartly. Only buy what's truly needed from your list. Don't fall for impulse purchases just because something is on sale. Always compare prices using online tools or by checking different stores before you buy, ensuring you're getting the best deal on items you actually plan to purchase.

Use available funds

If you have any dedicated holiday savings, now's the time to use them! That's what they're for. Also, if you receive any unexpected income, like a bonus or early holiday gift money, consider putting it towards your remaining holiday purchases. Using cash you already have is always better than racking up more debt.
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Prioritize high-interest debt

First, list all your holiday debts and their interest rates to see the full picture. Then, choose a repayment strategy. The debt avalanche method targets the highest-interest debt first, saving you the most money over time. The debt snowball method focuses on paying off the smallest balance first for a quick win. While snowball offers a psychological boost, avalanche is usually better for your wallet. If you have good credit, consider debt consolidation with either a balance transfer credit card or a consolidation loan. These can potentially save you money by offering a lower interest rate and simplifying your payments into a single monthly bill.

Plan for January (and beyond)

Don't wait until bills arrive in January to start planning. Now is the time to add debt payments to your regular budget. Look at your monthly income and expenses, and specifically set aside money for your holiday debt. Set realistic repayment goals by breaking down larger sums into manageable monthly payments. This makes the task less daunting and more achievable. Finally, if you receive any unexpected income, like a bonus, a tax refund, or even extra gift money, consider putting it directly towards your debt. Every extra payment helps you get out of debt faster and save on interest.

Final thoughts

The real magic of the holidays isn't about how much you spend, but the happy moments you create and share with loved ones. By taking action on your holiday spending now, you're not just dealing with money; you're protecting your peace of mind. Taking these steps now can help you truly enjoy the festive season, knowing you're building a path to a better financial future. So, empower yourself, and step into the new year feeling confident and free from financial worry.