

# Basic Money Management Toolkit: Use Power Payments to Get Out of Debt

**Theme:** *Credit & Debt*

**Intended Audience:** General Public - Adults

**Timeframe of Activities:** This brief description and example of the time-tested strategy called “Power Payments” to pay off a number of debts can be explained in 30 minutes. There is no “activity” unless the Educator chooses to go online and help each participant establish their individual ‘Powerpay’ account at the Utah State University Cooperative Extension Service. Setting up accounts and plugging in actual debt details and amounts will take an additional 15-20 minutes per participant.

**Materials Needed For Activity:** A copy of the Powerpay example for each participant. If individual accounts are to be set-up, each participant will need the details of all of their debts as described in the example: the name of each creditor, the balance owed on each debt, the minimum monthly payment due, and the annual interest rate (APR).

**Alternative Uses For Activity:** Participants who establish their own Powerpay accounts (on their own or in class), can be asked if they’d like to regularly report the progress made in paying down their debts.

**Directions For Implementing Activity:** Visit the Utah State University Cooperative Extension Service Powerpay website at <https://powerpay.org> and sign up. Establishing your own account will help you understand and become comfortable enough to share this free online tool with your students. If you desire, you can enter fictitious information just to see how the tool works.

**For more information on this activity:** Visit the <http://powerpay.org> website. In addition to Powerpay, this website has a number of additional tools such as housing and transportation expenses calculators and tool to help in developing a spending plan.

**Author(s) Name:** Although the original source of the strategy of ‘power pay’ is unknown, Dean Miner, USU Extension Utah County, and Ann House, USU Extension Area Finance Agent, are the impetus behind PowerPay 5.0. Building upon earlier CD versions by Miner and Judy Harris (retired), they worked with WebAIM to make this debt elimination program more accessible by creating an online version. New options and supporting features have been added and the site is Rehabilitation Act section 508 compliant.



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Using the concept of power payments will help you get out of debt. The concept is fairly simple:

- The total amount of money spent on debt repayment each month will remain the same until all debts are repaid.
- Make the monthly payment on secured loans/debts your highest priority. Secured loans/debts are those that allow your creditor to repossess things of value (collateral) if you fail to repay them as agreed. A car loan is a good example of a secured loan.
- Prioritize the rest of your debts (unsecured debt) one of three ways:
  - pay off the debt with the highest interest first or
  - pay off the debt with the lowest balance or
  - pay off the loan with the shortest term first.
- When the first debt is paid in full, add the minimum payment from that debt to the minimum payment on the second debt. Pay that total each month on the second debt until it is paid in full. Continue to make the minimum payments on the rest of the debts.
- When the second debt is paid in full, add the amount to the payment on the third debt. Make minimum payments on the rest of the debts. Continue in this manner until all debt is eliminated.



This strategy is called making power payments. Powerpay© software was developed by Utah State University Cooperative Extension Service and will calculate a personal power payment plan for you (<https://powerpay.org>). It allows you to compare repayment plans that begin by first paying off the highest interest, the smallest balance or the shortest term debt. It shows the total interest costs and length of repayment time with and without the use of power payments. It can also incorporate a lump sum payment and show how this will affect the repayment time and total interest paid.

Remember, this repayment method assumes that you have stopped making purchases on credit.



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### Power Pay Example:

Sample list of credits for repayment plan using power payments:

Creditor	Balance Owed	Monthly Payment	Annual Interest Rate (APR)
Department Store	\$1,200.00	\$50.00	20.4%
Primary Credit Card	\$3,000.00	\$65.00	18.0%
School Loan	\$3,000.00	\$100.00	9.0%
Car Loan	\$5,000.00	\$150.00	10.0%
Maxed Credit Card	\$9,000.00	\$200.00	12.9%
<b>Total:</b>	<b>\$21,200.00</b>	<b>\$565.00</b>	

The time required to pay off these debts without using power payments is 6 years 8 months. The amount of interest you will pay will be \$7,161.08.

Example of a repayment plan using power payments for the same debts above:

Month	Department Store	School Loan	Car Loan	Primary Credit Card	Maxed Credit Card
1-31	\$50.00 (times 31 months)	\$100.00 (times 31 months)	\$150.00 (times 31 months)	\$65.00 (times 31 months)	\$200.00 (times 31 months)
32	\$5.05	\$100.00	\$150.00	\$109.95	\$200.00
33-34		\$100.00 (times 2 months)	\$150.00 (times 2 months)	\$115.00 (times 2 months)	\$200.00 (times 2 months)
35		\$11.33	\$150.00	\$203.67	\$200.00
36-39			\$150.00 (times 4 months)	\$215.00 (times 4 months)	\$200.00 (times 4 months)
40			\$32.09	\$332.91	\$200.00
41				\$365.00	\$200.00
42				\$364.80	\$200.20
43-48					\$565.00 (times 6 months)
49					\$311.48
<b>TOTALS:</b>	<b>\$1,555.05</b>	<b>\$3,411.33</b>	<b>\$5,882.05</b>	<b>\$4,481.33</b>	<b>\$12,101.68</b>



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Notes:

Payments remain constant each month (\$565).

This assumes no new credit purchases.

In this example, the shortest term debt is paid first. You could also decide to pay the highest interest rate debt off first.

The time required to pay off these debts using power payments has reduced to 4 years 1 month. The amount of interest you will pay will be \$6,231.48.

In this example, using power payments would reduce the debt repayment time by 2 years 7 months and save you \$929.60 in interest.

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