



File Bankruptcy, You Don't Have Time Not Too! The True Cost of Not Filing Bankruptcy

Every year you spend struggling with debt is one year closer to risking a poverty level existence in your golden years. Time is our one limited asset. We can't make more of it and once it is passed, it is gone. If for no other reason, if you are in debt, you must seriously consider bankruptcy as an option for getting out of debt; you simply don't have time. Every month and every year spent struggling with debt is a month and year lost to save for the future, your kid's college, invest in your business, or achieve other financial goals.

I know the excuses are running wild in your head right now: I will save later; if I only get that better paying job; once the economy turns around I will make it, bankruptcy is bad because___(fill in the blank)____. Seriously, how many years have you been saying that?

My general rule (the Berkus Bankruptcy Ratio™) for considering bankruptcy is if your total unsecured debt (i.e. credit cards, medical bills, lines of credit, student loans, etc.) is more than 40% of your gross annual income, you are most likely already insolvent and bankrupt and filing bankruptcy is the only meaningful way to get out of debt. Most of my clients far exceed that ratio.

For example, let's take a family of four in Colorado; gross annual income is \$80,000 and credit card debt is \$70,000. That is a debt to income ratio of 87.5%. Gross monthly income is \$6,666.67. The typical minimum payment on that debt would be \$1,750 per month. The effective withholding rate (for Fed/State tax, Medicare and Social Security) for this family is 20.47%. So this family's net take home pay is \$5,302 per month.

Right off the bat, after the credit card payments (only paying minimums), the couple is down too \$3,552 to cover ALL other expenses. To put that amount in perspective, the IRS Collection Standards allow for \$4,850 for living expenses for a family of 4 in Denver County Colorado. Those standards apply to housing, utilities,



insurance, transportation, food, clothing, household supplies, personal care, minor medical, and a token amount for misc. expenses. The IRS standards leave out many categories of expenses that a family typically incurs. The IRS Collection Standards are used by the IRS and Bankruptcy Court to determine if a debtor has any means to pay debt.

So, this family is insolvent and bankrupt at this point. If they only made minimum payments, it would take 30 years to pay off that debt. Even if the family could religiously pay \$1,750 per month, it would take over 5 years. But let's be realistic, there is no way this family could make such payments consistently as they are relying on their credit cards to make-up budget short falls because of the high credit card payments.

So, let's put this problem in perspective. If this couple got out of debt using Chapter 7 bankruptcy and was able to save half of what they were paying to their credit cards, \$875 per month, for 30 years; they would have....wait for it...

\$2,069,040 in savings

I kid you not, that is the power of bankruptcy and that is the true cost of debt and the true cost of not filing bankruptcy. Here is the shocker, let's say that instead of filing chapter 7 bankruptcy, that the couple takes 10 years to get out of debt, and succeed, and then start saving \$875 per month, but now only have 20 years, using the same assumptions, the couple will only have...

\$712,853 in savings

So, the cost of not getting out of debt quickly is not just the interest paid; The TRUE COST OF DEBT IS THE LOST OPPORTUNITY TO SAVE ALL OR SOME OF THOSE DEBT PAYMENTS. In this case, by not filing chapter 7 bankruptcy and getting out of debt in 4 months...



...this family cost themselves **-\$1,356,187 in lost savings**. It might be more dramatic if I say, \$1.3 MILLION DOLLARS. Do yourself a favor, get off the fence, get out of debt, and seriously consider bankruptcy as your best, most cost effective option; you cannot afford not too.

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