5 questions
to decide whether to pay down debt or save

It can be hard to decide whether to prioritize paying down debt or putting money into savings—especially when you have limited resources. Answering five key questions can help you allocate your funds.

1 Do you have high-interest debt?

Interest rates on credit cards are often high. That can cost you considerably over time, since credit card interest typically accumulates faster than what you can earn on savings.

The average annual percentage rate, or APR, for fixed-rate credit cards: **13%**

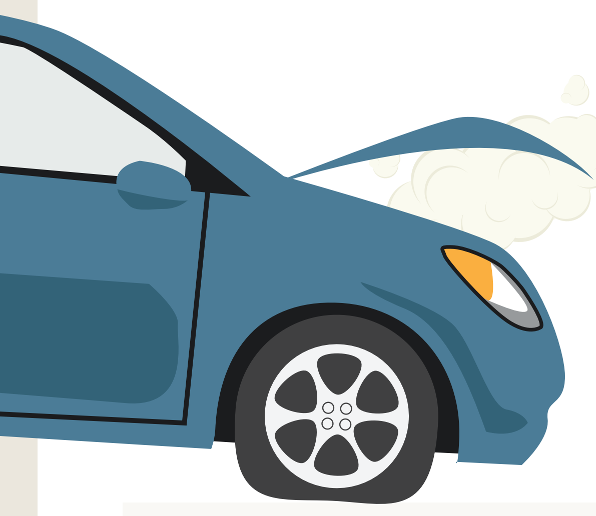
The average 5-year CD yield: **0.87%***

* Bankrate.com

Pay it down.
If you're carrying debt with double-digit rates, it may make sense to prioritize paying it down so you can free up future funds to save or pay other debts.

2 Do you have an emergency fund?

An emergency fund provides cash you can draw on in case of:



- Unexpected car or home repairs
- Medical emergencies
- Essential costs like rent and groceries if you are laid off or out of work

Emergency Fund = 3 months

Save it up.
If you don't have three months' worth of living expenses set aside for emergencies, consider that goal next, while paying at least the minimum on any loans and credit cards.

3 Are you planning for retirement?

Your investment earnings may produce earnings of their own, so the earlier you save, the more growth potential you have. Plus, some retirement contributions help you minimize taxes.

Save it up.
You can't borrow for retirement, so consider this goal next. As you build your retirement accounts, you can continue to chip away at debt at the same time.

4 Do you have other debts?

Are you paying off car loans or student loans?

Average student loan debt for class of 2015 graduate: **$35,000***

* Edvisors analysis

Pay it down.
If your rates and terms are reasonable, you may decide to stay the course with your monthly payments. Or, you could bump up your payments to pay those debts faster—especially any with higher rates. That way you'll save on total interest paid and have more money to allocate to your goals.

5 What are your other goals or needs?

If your high-rate debt is under control, you have savings in an emergency fund and are contributing to your retirement, it's time to consider saving for other things.

Save it up.
Depending on your goals, you can save for:
A new car, education or a down payment on a home. Once you have those up and running, you can look toward the fun stuff, like vacation and other big purchases.

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