

How Do I Prioritize Debt Repayment vs. Saving for the Future?

Question:

"I have so many competing financial priorities, and I'm torn! Should I focus on paying off debt or saving for the future? How do I figure out the right balance without feeling like I'm falling behind on both?"

Answer:

You're feeling what so many of us feel: there are only so many dollars to go around, and it's not always clear if we should be paying off debt or saving for tomorrow. On the one hand, paying off debt means you're freeing yourself from the burden of interest payments that eat into your monthly income. On the other, saving for the future — whether that's for emergencies, retirement, or other long-term goals — means you're actively building a safety net and setting yourself up for financial security. The good news is that you don't have to choose one over the other. Even with limited funds, it's still possible to strike a balance without feeling like you're falling behind on everything.

The first step is to get a clear picture of the type of debt you're dealing with. Not all debt is created equal.

- **Good debt:** This includes loans that contribute to your future financial success, like mortgages or student loans. These typically come with lower interest rates and can help you build wealth over time.
- **Bad debt:** This is high-interest debt like credit card balances, payday loans, or other consumer debt that doesn't build any long-term value and can spiral quickly.

If you're juggling both kinds of debt, your first priority should be to pay down the bad debt, which quickly eats away your hard-earned cash to pay interest charges that could otherwise go right into your savings. (Note: You can usually tell which debts are bad because of their higher interest rates.) Start by listing out all your debts, including the balances, interest rates, and minimum monthly payments, which will give you a clear view of which debts to prioritize paying down first.

While you're prioritizing your high-interest debt, you'll need to build a safety net to ensure you don't end up relying on credit cards again should a financial emergency arise. [This is where an emergency fund comes in.](#) Think of your emergency fund as your first step in building savings *and* your financial security blanket. Don't feel pressure

to have thousands stashed immediately — start by setting aside a small amount each month, and know that every dollar counts.

In terms of how to prioritize other forms of saving, it all depends on your interest rates compared to your savings returns. When you are paying off a debt, the return on your money is equal to the interest rate you're paying (minus any tax deductions). So the math move that can help guide your decisions is to compare the interest rates on your debts with the returns on your savings. For example, if you're carrying credit card debt at 20% interest, it doesn't make sense to prioritize savings in a bank account earning just 4%. In a scenario like that, you're better off putting your extra cash toward paying down the high-interest debt.

On the flip side, if you're getting an employer match on retirement contributions at a rate of 50 cents for every \$1 you kick in, that's a 50% return on your money. So, grabbing those matching funds goes higher on the scale of priorities than even those high rate credit card debts and emergency funds.

Speaking of those extra dollars, you'll need to know exactly how much you can put towards your goals each month, and a budget can help guide your priorities. Here's a rundown on [some of the best and most popular budgeting types](#) — the important thing isn't the type of budget you choose, rather, it's sticking to one that helps you reach your goals. (A good budget is the first step in the process for participants of the successful [FinanceFixx financial coaching program!](#))

While it might feel tempting to throw every spare dollar toward debt repayment, you don't want to completely neglect your savings. For example, if you have high-interest debt, you might allocate 70% of your financial goals money toward debt repayment and 30% toward building savings...Or, if your debt is manageable, you could do a 50/50 split. The exact ratio is up to you, and you can make changes whenever you like. (Speaking of things being up to you, if you have credit card debt, you'll also want to choose your [favorite debt repayment method](#) — pick the one that works best for your situation and mindset!)

Last but not least, remember that balance is key. Think of it like this: every dollar you save today is a step toward financial security, while every dollar you use to pay off high-interest debt is a step toward financial freedom. Remember to celebrate your wins along the way — no matter how small they seem. Progress builds momentum, and acknowledging your achievements can keep you motivated to stay on track. You got this!