Two Strategies to Pay Off Debt

Carrying excess debt in the form of high-interest credit cards, car loans, and school loans can negatively impact life outside of finances, creating stress in your relationships and mental health. According to the St. Louis Federal Reserve's recent study conducted in 2022, the average American spends more than 9% of their monthly income on debt payments. The average household also carries a debt balance of $96,371, according to 2021 Experian data. Approaching the debt payments strategically is often overlooked. The key to effectively managing debt is implementing a strategy to help you pay down the debt faster and save money in the long run.

The Debt Snowball

The key to the debt snowball is paying off debt in order of smallest to largest balance. This strategy is ideal for those looking to change their financial behavior and gain momentum by knocking out small debts quickly, so they have fewer monthly bills.

To execute the debt snowball, pay as much as possible on smallest debt while only making the minimum payment on larger debts. Once you've paid off the smallest debt, you then roll that payment you were making into the next smallest payment, continuing that process until all debt is paid off.

SNOWBALL METHOD

Focuses on balance size

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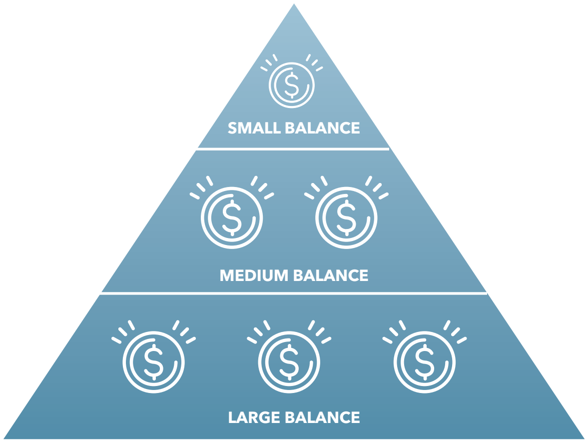

STAY MOTIVATED OVERTIME

The Debt Avalanche

The debt avalanche is similar to the debt snowball, but instead of paying off debt from the smallest balance to the largest—you pay off debt from the highest interest rate to the lowest.

The main benefit of the debt avalanche is getting out of debt faster and paying less interest compared to the debt snowball. While this strategy is the most effective way to pay down debt quickly and reduce interest payments, it can be the most challenging psychologically to those who are looking for instant gratification from the debt snowball.

AVALANCHE METHOD

Focuses on interest rate

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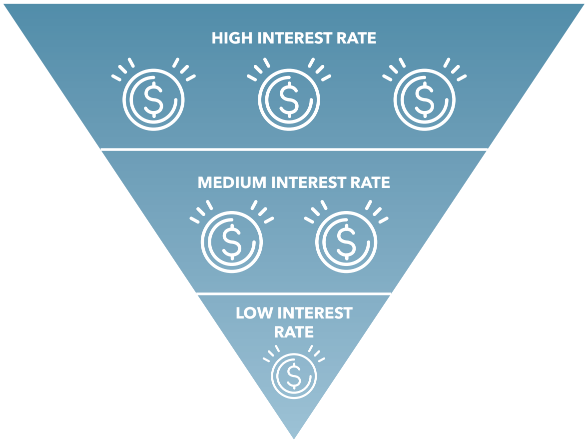

SAVE MONEY ON INTEREST