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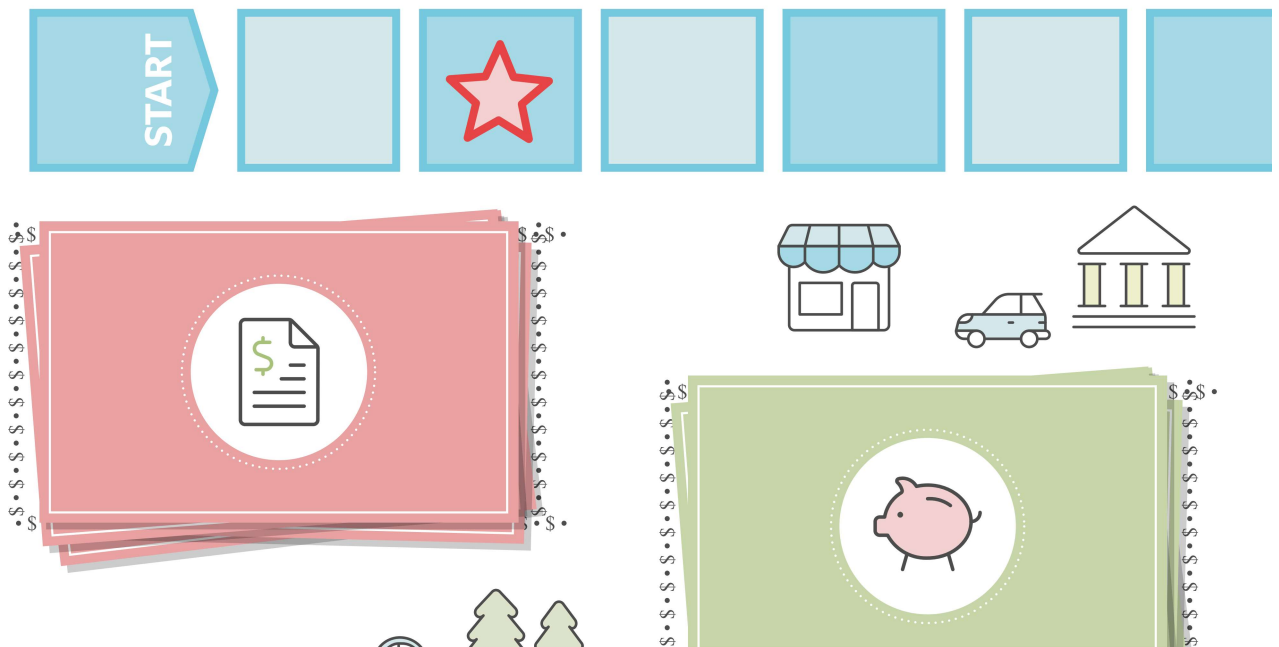


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How to balance debt, saving, and investing

This step-by-step guide can help you decide what to tackle first.

Fidelity Viewpoints



Key takeaways

No matter what other financial priorities you have, always be sure to make at least the minimum payments on all debt, on time.

Your next step should generally be to build up a cash buffer, so you have some wiggle room in your finances to help you meet unexpected expenses.

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Log In While, you should then try to capture the full amount of any offer or match on retirement savings, so you don't leave "free money" on the table.

Paying down any credit card debt and fully funding your emergency savings should generally be your next moves, before you move on to other investing or debt goals.

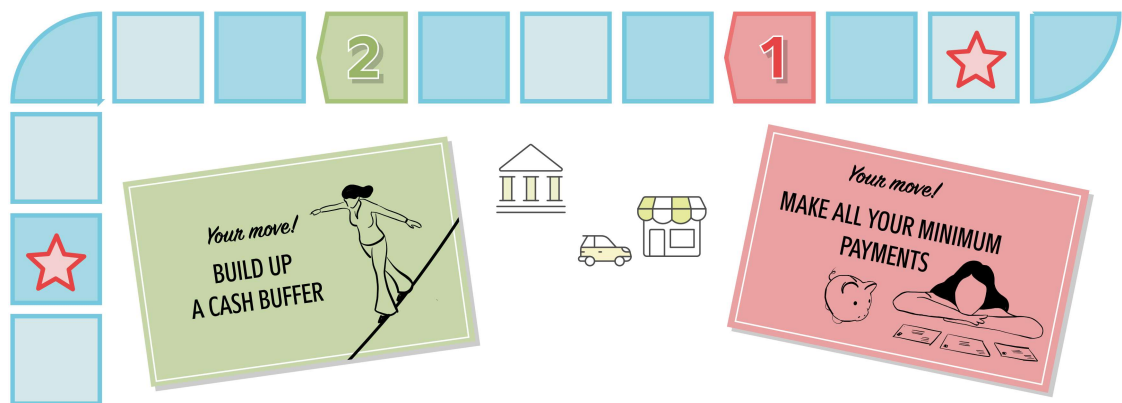
Student loans, credit cards, and mortgages—oh my. Like many people, you may have a variety of debt. And like many people, you may be working to pay off your balances while also trying to build up some savings for a rainy day (not to mention retirement).

Trying to juggle so many competing priorities can be stressful, particularly if you're not sure how best to focus your attentions. So we put together this step-by-step guide to try to help you decide what to tackle first.

Although we may not be able to fund your 401(k) for you or kill your student loans, hopefully we can help take some of the confusion out of the process as you work toward your goals.

Step 1: Make all your minimum payments

This could almost be "Step 0," because it should go without saying: Always make at least the minimum payment on all debts, on time. Keeping your debts in good standing is crucial to protecting your credit score. Plus, missed payments can lead to late fees and compounding interest charges, which can cause debts to quickly spiral out of control (and in extreme cases even lead to bankruptcy).



Step 2: Build up a cash buffer

meeting your minimum obligations, it's time to build some reserves. We start by saving up an initial cash buffer of \$1,000 to give you some breathing room in your day-to-day (fully funding your emergency savings will come later, after you've checked off a few other boxes).

That way, even if occasional bumps come up, you won't run the risk of missing bills because your checking account balance is too low.

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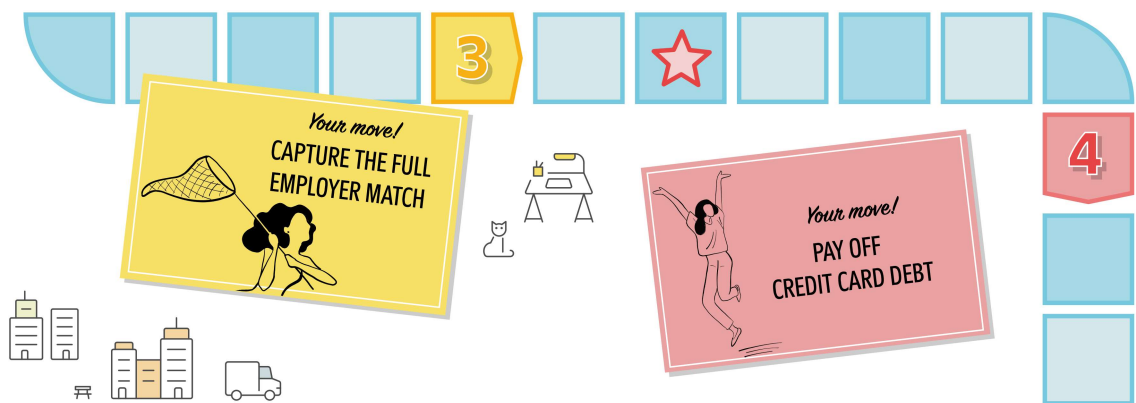


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Step 3: Capture the full employer match

Next, it's time to look around for any low-hanging financial fruit. That means trying to contribute enough to your 401(k) or other workplace retirement plan to capture the full amount of any matching dollars your employer provides.

Your employer's match is essentially "free money," so not taking advantage of it is a bit like leaving money on the table. (That said—look into whether your employer's contributions take time to vest, and think about whether you'll stay at your job long enough for them to fully vest before you start banking on that free money.)



Step 4: Pay off any credit card debt

If you've been carrying balances on any credit cards, now is the time to start chipping away at them by paying more than your monthly minimums. Eliminating this debt is important so that you don't get stuck on a high-interest treadmill.

What if you're carrying a balance on more than one card? There are 2 common strategies to tackle credit card debt: the snowball method and the avalanche method.

Snowball method

In the snowball method, you start by paying extra on the credit card with the smallest balance until it's paid off. Then move on to the card with the next smallest balance, paying the minimum payment plus the amount you were paying on the first card. Continue this until all your cards are paid off. The benefit to this method is that it helps build momentum and it's satisfying to see zero balances.

Avalanche method

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he method, you start by paying extra on the card with the highest interest rate, making the minimum payment plus the amount you were paying on the first card, and continuing this approach until all your cards are paid off. The benefit to this method is that you may save money on interest, especially if your cards have a wide range of interest rates.

Once your cards are paid off, if you continue to use them, make sure to start paying your balance in full every month.

To learn more about the debt snowball and avalanche methods, read [Viewpoints: The debt snowball method vs. the debt avalanche method](#).

Step 5: Fully fund your emergency savings

Next up: Your emergency savings. For this step, you should aim to save at least 3 to 6 months' worth of essential expenses and keep those savings in cash so you could access them easily if you ever needed to.

Although it might feel like a lot to keep in cash, remember that this money is your safety net, protecting you from having to fall back on credit cards if a job loss, medical emergency, or other life curveball were to come up.



Step 6: Weigh investing vs. paying down debt

The good news is, you now have many of your most pressing financial needs covered, so you can start moving down your priority list. That bad news is, this is where your decisions may start to get more complex.

If you still have debt—whether student loans, an auto loan, or a home equity or mortgage loan—try comparing the interest rate on your debt to our [rule of 6%](#). That can help you decide whether your next priority should be paying more than the minimum on remaining debts, or investing additional (unmatched) dollars toward retirement. (If you do have student loans or a mortgage, also make sure you're taking advantage of any tax deductions you're eligible for on the interest you pay.)

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u should aim to save 15% of your pretax income toward retirement each (includes any employer matching contributions). Try to hit that mark before you continue down your priority list.

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Step 7: Turn to your other savings goals

Once your debt, retirement savings, and financial safety net are in a strong position, it might be time to start turning your efforts (and extra cash) to your other goals, whether saving and investing for a child's college education, planning for the trip of a lifetime, paying off other remaining debts, or something else.

What goals you have, and which you choose to fund first, may be personal to you, so there aren't necessarily any hard and fast rules for how to best focus your efforts. (Learn more about [identifying your savings goals](#).)

If you aren't already working with a financial professional, this might be a time to consider bringing in some help. A professional may be able to help you identify and prioritize your goals, plus come up with a saving and investing strategy that can put you on track to reach them.

It will still be up to you to do the hard work of funding your goals, but it never hurts to get some outside reassurance that you're on the right track.

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