Should I Save Money, or Pay Off Debt?

When you're getting your financial footing after taking out student loans or recovering from credit card debt, it can be hard to figure out whether you should focus on repaying that debt or saving what you can for a rainy day. There's also the dilemma of whether to set money aside in a **savings account** or make a larger contribution to a 401(k) plan, if you have a full-time job.

If you feel overwhelmed in trying to navigate this conundrum, you're not alone. Here are some questions to ask yourself to help determine the right financial path for you.

What's your interest rate?

You should know the interest rate on your debt, which is almost always expressed as an annual percentage rate (APR). This is the amount that is charged to its balance over the course of a year. The higher the APR, the more you'll have to pay in interest as long as the debt remains unpaid. Credit cards tend to have a higher APR than student loans and some other kinds of debt.

Paying off debt, especially higher interest debt, is a good idea. However, it's important not to overlook the importance of saving for your future.

Do you have a 401(k)?

You can grow your money over time – including money contributed on your behalf by your employer – by taking full advantage of your employer's 401(k) plan. Most employers who offer 401(k) plans also provide a matching contribution. For example, if you contribute a certain percentage of your wages, say 6 %, the employer agrees to match up to 50 % of your contributions. Think of that match as a return on your investment – in this example, a return of over 50%!

Annual Salary = $50,000 You contribute 6 % = $3,000

Employer matches 50 % = $1,500

If you are participating, make sure you are taking full advantage of any employer matching contributions. If you don’t know what your employer offers, check with your human resources department to determine what retirement savings benefits might be available to you.

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