

# Paying Down High-Stress Debt

## The avalanche and snowball methods

There are various ways to pay down and eliminate debt. Consider interest rates, terms, minimum payments, and balances when analyzing debt elimination strategies.

A couple methods to consider when paying down most types of consumer debt are the Avalanche and Snowball Debt Elimination Strategies, described below.

### The Avalanche Method

This method is typically the stronger of the two strategies from a strictly financial perspective. It results in lower overall interest costs. To implement the strategy, rank all debts beginning with the highest interest rate, down to the lowest interest rate. Continue making minimum payments on all these debts. Once you complete a budget or spending plan, direct excess income to the debt with the highest interest rate. Once that debt is paid off, that payment amount *plus* the excess income is then applied to the next highest interest rate, and so on. Again, this method is the most economical from a financial standpoint and works great for people driven *primarily* by analytics and data.

### The Snowball Method

The Snowball Method is a more *behavioral* way to deal with debt. It may not be quite as economical as the Avalanche Method, but it is great for people who may be more motivated by an early success with the program. To use this strategy, rank your debts by balance rather than interest rate; begin with the lowest balance first, and proceed down to the highest balance last. Make minimum payments to all debts, but direct excess income to the lowest balance debt first. Once that is paid, direct those payments to the next lowest balance loan, and repeat. This typically gives people a “win right out-of-the-gate” feeling and motivates people to continue. Bear in mind, no one is a purely rational or emotional decision-maker, so pay attention to which method resonates with you and your household.

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### **Additional and Important Information**

As you implement debt reduction, do not forget about building emergency savings. For many people, consumer debt increases when they have an unexpected expense but insufficient savings to meet it, so they put that expense on a credit card. Remember, debt payment strategies will help reduce debt, but savings will keep you out of it in the first place. Focus on paying off debt but also dedicate some amount to savings to break that emergency-debt cycle.

Finally, it may seem overwhelming to tackle these issues, and you may have temporary setbacks, but do not be discouraged; life happens, unexpected events will occur, but keep going. Finally, do not discount your efforts, so far. The simple fact is that your statistical probability of success is already ahead of the curve because you have taken action by visiting with an advisor and making a plan.

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