SHOULD YOU PAYOFF DEBT OR SAVE MORE FOR THE FUTURE?

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The answer is "it depends." It depends on your goals, income, expenses, stage of life, the interest rate on your debt, the term of the debt, the return you are receiving on your cash in the bank, the return you are receiving from your long term investments and other various factors. Consider that the best case scenario is doing both in order to get ahead financially.

There are various types of debts, such as mortgage debt or long-term debt, automobile debt or medium term debt, student loan debt which is also medium term debt and credit card debt or short-term debt. The short-term debt most likely carries the highest finance charge and weighs heavily on your cash flow each month.

Credit card debt should be paid off every single month, but if that is not possible, then list out your credit cards with balances and the interest you pay on each one.

- Make minimum payments to all your credit cards;

- In addition to the minimum payment, use discretionary or surplus cash to pay toward the highest interest credit card;

- Once the highest card is paid off, take that whole payment and add it to the next highest interest credit card, and so on.

Eventually, you will have your credit cards paid off. Essentially, you are getting a return of 10 percent on a credit card with a 10 percent finance charge. Staying out of credit card debt is important to your financial success. If you do not have discretionary or surplus cash, then reexamine your expenses to determine where you can cut back to free up extra cash and also try to increase your income.

Student loan finance charges vary with some debt is as low as 3.5 percent and other debt as high as 12 percent or even higher on private loans. A person with student loan debt should apply the same strategy as above for credit cards. However, paying off student loan debt helps a young person to establish good credit which can be beneficial when it is time to buy a home. Some students and their parents are no doubt overwhelmed by the debt. In this case, it may make sense to refinance the highest interest debts into one lower payment.

Automobile loans generally do not carry a high interest rate, but people don't like paying interest on a depreciating asset. Paying an extra payment regularly or whenever possible will reduce the term thereby freeing up cash that can be saved toward your next vehicle or another goal.

Mortgage debt is not really a "bad" thing and interest rates in recent years have been very low. If you have a mortgage loan of 2.75 to 4 percent, then it is probably better to invest your extra cash for long term growth since you will most likely be able to earn a greater return. The likelihood of earning a greater return in a balanced investment portfolio is a reasonable assumption.

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However, if you have cash in the bank earning a very low yield, then paying down mortgage debt makes sense. On the other hand, if you have a 6 percent mortgage loan, it is probably better to pay one extra payment per year or add extra cash each month toward principal to shorten or eliminate the debt.

There are reasons why people like investing extra cash towards mortgage principal, such as nearing retirement or simply to free up cash for other goals or to reduce monthly obligations. The only way to get cash or equity out of real estate is to borrow against it or sell the property. Depending on your circumstances, building equity outside of your real estate may be more lucrative. Your best approach is dependent on your goals and unique circumstances.

Ideally, by utilizing a balanced financial strategy, many people are able to pay down debt while saving for the future. Many people do not like the thought of budgeting or cash management, but it is essential to get ahead financially and to realize your goals.

Visit www.christinemessmer.com for more resources to assist you.