

Is your debt a snowball or an avalanche?

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‘Layin’ it on the line’

By Lawrence Castillo

Guest Columnist

“10% of the people in this world use debt to get richer. 90% use it to get poorer.” -Warren Buffett

Getting rid of debt at any time is a great idea. After all, carrying a heavy debt load is known to cause various psychological and physical ailments. Being shackled to a pile of bills leads to the loss of opportunities and options that can improve one’s life.

These issues are magnified when a person is ready or forced by circumstances to retire. Although an alarming number of people are doing so, entering retirement with debt is highly inadvisable.

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I often tell my clients, many of whom are retiring from federal jobs, that reducing or eliminating debt is the first step in creating a happier, less stressful, and freer life. But, as most of us know, paying off debt can be a daunting task. Fortunately, there is a consistent rhythm to the process based on various factors other than merely paying off the highest interest rates.

Traditionally, debt elimination has been framed as the “snowball” way or the “avalanche” way. Both are easy to understand and implement and are helpful ways to remove debt from your life.

The snowball and avalanche plans have you list your debts and make minimum payments on all but ONE of those debts. The methods differ when choosing which debt receives the extra payments.

If you select the **DEBT AVALANCHE** method:

1. You make the minimum payments on all your debts. Then use the remaining money to pay down the debt with the **HIGHEST INTEREST** rate.
2. Doing so often results in lower payments over time.
3. In addition to looking at the higher interest rates, you might want to select any debt with a “teaser” rate set to expire. Many credit card companies lure you away from the competition by offering temporary low interest. Don’t forget these are temporary rates, or you’ll find yourself paying higher interest rates than you need to.

Choosing the **SNOWBALL METHOD** also involves making minimum payments on all your debts. This time, though, you’ll first pay off the smaller ones instead of paying extra on the highest interest debts. The snowball method may sound less desirable than the avalanche. However, when considering the psychological factors that impact our money decisions, you can see how feeling a sense of accomplishment and progress could be highly motivating. The debt snowball can keep you dedicated and focused on debt reduction by making your list of debts shorter more quickly.

So, which method should you choose?

You know yourself much better than I do. So, I will say that, given that self-awareness, you

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should select the method to which you are most likely to stick. Many experts feel the debt avalanche math makes it the obvious choice because it will save you money and time. But, since most personal finance decisions are made with emotions rather than head knowledge, this might not work for everyone.

Like getting rid of a few extra pounds, debt reduction is not that fun or exciting. If you are the kind of person that isn't motivated by charts, graphs, and math but needs immediate gratification, consider the snowball instead.

Throwing large wads of cash at a high-interest debt and seeing it reduced only a bit can be discouraging for some folks. If you know you are the kind of person who needs a gentle push in the right direction and needs to see progress right away, then it's okay to pursue the snowball method.

On the other hand, if you are all about the **BIG PICTURE**, love math, and are patient and consistent, a debt reduction avalanche plan offers the potential to lower your monthly payments and save you lots of money in the long term. Of course, it's always possible to create a "hybrid" plan to tackle your consumer debt, such as credit cards, and then pay off things such as car loans, student loans, or other non-credit-card loans.

The takeaways

- Reducing and eliminating debt is always a good idea, regardless of whether you take a snowball or avalanche approach.
- It's essential to understand your level of risk tolerance, motivation, and patience to make the most effective plan.
- Be balanced in your approach to debt.

Eliminating debt in your life is a goal worthy of consideration. It will go a long way toward bringing you more prosperity and peace of mind when you no longer make a paycheck. If you'd like other suggestions about debt elimination, creating more income for retirement, or if you are a federal worker who is overwhelmed by the complexity of your benefits package, consult with a trusted, licensed financial professional.

Lawrence Castillo is a member of *Syndicated Columnists*, a national organization committed to

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a fully transparent approach to money management.

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