

Don't Save When You Have Debt.

Humans are funny creatures. We don't always do what's best for us – instead, we do what feels best, and try to blank out any reasons why it might not be the best thing to do. Maybe that's why there are so many people who have both savings and debts.

It's a Matter of Psychology.

Yes, it feels better to save. Saving feels like building a foundation for your future, while paying off debt feels like throwing your money down a hole. That money is for the kids' education, or for improving your house, or whatever else – and it's in an account earning a good rate of interest. What could be wrong with that? Lots, if you have debts.

Don't Be Fooled.

There are almost no savings accounts that offer interest rates as high as the ones credit cards charge. Here's a question: if you have \$10,000 in a savings account earning 5% per year and \$5,000 on a credit card at an interest rate of 20% per year, how much money do you have? After just five years, the answer is effectively \$0 – your debt would have grown to around \$12,500, the same amount that your savings are now worth.

You might not believe it now, but it really is much better to pay off your debt. If you used half your savings to pay off that debt, you'd be in such a better position that it's really amazing. You avoid five years of compound interest on the debt, but you still get to keep \$5,000 in your savings account, earning interest – after five years, that's about \$6,380.

If you'd still rather keep your savings intact instead of using them to pay off your debts, ask yourself this simple question: is your pride worth \$6,380 of your family's money?

Think of Your Financial Health.

When you have enough money to pay off your debt, there's absolutely no reason to keep it. Debt is for people who don't have the money, and need to borrow it. Debt costs money, and savings make money – you want as much of your finances as possible to be savings, not debts. If your savings account and credit card are with the same bank, then you're effectively paying for the privilege of borrowing your own money from them. Why would you do that?

There are other benefits to paying off your debt with savings. You'll be less stressed about your debts, and your credit report will show that you were able to pay everything back – getting you a much better interest rate if you ever need to go into debt again.

I know it can be hard. You just have to remember that any money you've 'saved' hasn't really been saved at all. It's money you should have been spending instead of making purchases with a credit card. Yes, it feels much worse to spend money thinking that you're spending away your future – but always remember that when you use a credit card to spend that same money, you're

spending away your future, plus interest. Anyway, if you've got the debt, then those savings have already been spent – stop denying it to yourself.

