What is the best way to pay off debt? Debt Avalanche vs. Debt Snowball

Sarah Brady, NFCC July 1, 2024

When you set your mind on a goal, you want to achieve it in the best way possible. But what does “best” mean, exactly? Sometimes it depends on the person.

For example, let’s say you’re training for a marathon. Naturally, your goal is to finish the race — and it’s an impressive feat to run 26.2 miles! For others, the goal is to make a certain time, break a personal record or finish in first place.

Paying off debt works the same way. The goal of being debt free is a great objective for anyone, but there’s more than one way to do it. For people who struggle with motivation, the snowball method is usually best. For people who want to save money in interest charges, the avalanche method is the way to go.

The Debt Snowball vs. The Debt Avalanche

If you haven’t heard of the debt snowball or the debt avalanche methods before, let us explain.

These are two different strategies for paying off credit cards and some other types of debt. Both are considered do-it-yourself (DIY) methods, because you can follow them on your own, without any outside help. Here's how they work.

How the Debt Avalanche Works

The debt avalanche is a strategy in which you prioritize paying off debt based on the Annual Percentage Rate (APR) — starting from highest rate to lowest. This can also be referred to as the"stacking method" or the "debt ladder."

To be clear, when using this method, you still make the minimum monthly payments on all of your debts, but you put your extra money toward the debt with the highest APR (a number that represents your interest rate and fees).

Once the first debt is paid off, you continue this method by paying off the account with the next highest interest rate. Follow this pattern until you're debt free.

If that sounds simple, it is. It's not a magic formula for erasing debt, but it does help you focus on a goal and save money while becoming debt free. Just make sure you avoid taking on new debt while using this method, or it will take you longer to reach your goal.

How the Debt Snowball Works

The debt snowball method is a payment strategy in which you pay off debts in order of the balances you owe — from smallest to largest.

Just like a snowball starts small and gets bigger as it rolls, you start with the smallest debt and work your way up. Of course, you continue to make your debt payments, but you pay just the minimum monthly payments on most accounts and put all your extra cash toward the account with the smallest balance. Repeat this process until all debts are paid.

As you pay off accounts, you eliminate monthly payments, freeing up even more money to put toward your next smallest debt. In other words, this method is all about momentum and seeing progress as quickly as possible.

To recap, here's how the two methods compare:

	Debt Avalanche	**Debt Snowball**
Priority	Highest APR	Lowest balance
Benefits	• Save money on interest • Shorter timeframe to pay off all debt	• Pay off individual accounts faster • More motivation to stick with your plan

	Debt Avalanche	Debt Snowball
Priority	Highest APR	Lowest balance
Drawback	Less motivating	More expensive

Choosing the Best Method for You

If you're making a plan to pay off debt and you need to choose which method to use, consider these details first.

Your financial personality

Think about how each repayment option aligns with your financial personality, meaning your attitudes, habits, strengths and challenges when it comes to money.

If you're someone who's motivated by efficiency and embraces savings over spontaneity, then the debt avalanche method may be the perfect fit. You're more likely to stay committed to the plan, even if it takes longer to pay off individual accounts.

On the other hand, if you like to see quick results and you struggle with reaching financial goals, the debt snowball is ideal. You won't mind the fact that repayment is slightly more expensive, because it's worth the joy of seeing account balances hit $0 as quickly as possible.

The amounts you owe

Before you make a plan, be sure to take an inventory of your debt. Write down how much you owe one each account, along with the interest rate.

Do you owe similar amounts on each account? If so, choose the debt avalanche, since it could actually help you pay off accounts sooner and save you money. If you have a wide range of balances, the snowball can still make sense.

Student loan debt

Each type of debt has different repayment options, and those options can impact your payment strategy. For example, federal student loans give you far more repayment options than private student loans.

For federal loans, the Department of Education (ED) offers Income-Driven Repayment (IDR) plans with payments as low as $0 a month. Plus, the ED has debt forgiveness programs and can pause your payments if you're facing a financial hardship.

By contrast, private student loan lenders are not required to offer any help to students. In other words, it's worth checking to see what you qualify for before sending extra money to your federal student loan servicer.

Low APR

Once you eliminate your high-APR debt — meaning debt with rates of 8% or higher — you'll want to change your approach. Lower interest debt usually includes accounts that are "secured" by collateral, such as mortgages and home equity loans. You can often get a better payoff by making the minimum payments on these accounts, and putting your extra cash into a low-risk investment such as a retirement account (especially one with an employer match) or a mutual fund.

Eliminate debt for good

As you can see, the "best" way to pay off debt depends on your situation. The most important thing is to stay committed to eliminating debt with whichever plan you choose, whether it's the debt avalanche or the debt snowball method.