Our credit card debt threatens to swamp our savings. Here's how to deal with both

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The nation’s mounting credit card debt threatens to swamp its savings.

More than one-third of American adults – 36% – have more credit card debt than emergency savings, according to an annual survey by Bankrate, the personal finance site. In more than a decade of polling, the figure has never been higher.

That is one of several recent reports that show consumers falling behind on their credit cards.

Roughly half of all credit card holders now carry balances from month to month, Bankrate found in another survey, up from 39% in 2021.

The average borrower holds $6,360 in card debt, TransUnion reports, an all-time high.

Learn more: Best credit cards of 2023

“It’s worrisome because credit card rates are at record highs,” said Ted Rossman, senior industry analyst at Bankrate. “Unfortunately, we’re moving in the wrong direction on a lot of this.”

Credit card balances and interest rates are rising apace

Card balances are rising apace with interest rates: The higher the rate, the more you must pay to bring the balance down.

The average credit card now charges 21.5% interest, according to a WalletHub index. That's the highest rate on record.

On top of that, Bankrate found, 43% of cardholders with debt don't know how much interest they're paying.

Credit card debt is rising at a time when America is struggling to save.

The personal savings rate stood at 3.8% in January, according to federal data, meaning that consumers set aside only a smidgen of their income as savings.

That's not an all-time low, but it's close. For most of the past 10 years, the savings rate has ranged above 5%.

In Bankrate's annual emergency savings report, published last month, more than two-fifths of adults said they lacked the savings to cover an emergency expense of $1,000 or more. The report draws from several recent surveys.

Over the longer term, however, Americans are doing a better job at saving.

The median household held $8,000 "transaction accounts" in 2022, up from about $5,000 in 2010, according to the federal Survey of Consumer Finances. Transaction accounts include savings and checking.

But the federal survey doesn't fully capture the run-up in credit card rates, which began in mid-2022.

The average interest rate charged on credit cards rose to 21.5% in November 2023 from 15.1% in May 2022, according to WalletHub.

Card rates rose along with interest rates generally: Federal regulators launched a historic campaign of rate increases to tamp down inflation, which peaked at a 40-year high of over 9% in the summer of 2022.

Build your savings, or pay down your credit card debt?

Taken together, the data suggest many Americans face a dilemma: Build your emergency savings, or pay down your credit card debt?

Financial planners generally advise Americans to build enough emergency savings to cover three to six months' expenses.

But fewer than half of us do.

Bankrate found that 30% of adults had enough emergency savings to cover six months' expenses. Roughly half had savings to cover three months' expenses. One-fifth of respondents reported no emergency savings at all.

We asked experts to pick a priority: Build savings, or pay off credit card debt.

Most delivered an unequivocal response: Pay down the card debt, even if it means raiding your emergency savings.

For some advisers, the choice is all about interest rates.

"Not all debt is equal," said Corey Carlisle, head of public policy for Varo Bank.

Even the most robust high-yield savings accounts generally pay no more than 4% or 5% interest. Those rates don't begin to approach the interest on the typical credit card.

Credit card debt costs more than you earn from savings

Simply put: The card debt costs you more than you're earning from the savings.

If the annual percentage rate on the credit card is higher than the rate on the savings account, "it makes sense to prioritize paying off that credit card debt," said Niv Persaud, a certified financial planner in Atlanta.

"You should absolutely use savings to pay down the credit card debt," echoed Randy Bruns, a certified financial planner in Naperville, Illinois.

Once you've paid off the card debt, Bruns said, consider setting up regular deposits into your savings to rebuild the balance.

Another way to jump-start your savings: Make a generous contribution when you receive a windfall, Carlisle said: a bonus at work or a tax refund.

Catherine Valega, a certified financial planner in Boston, recommends striking a balance between reducing debt and building savings.

"We often split payments, so that there is some going to that emergency savings," to cover new tires or home repairs, "and some going to pay down debt," she said.

If you use emergency savings to pay off credit card debt, "try to keep at least one month of essential expenses in your emergency reserve," Persaud said. "This way, you don't have to rely on your credit card if an emergency arises."

Pro tip for credit cards: Pay more than the minimum

If you're determined to pay down your card balance, experts say, get aggressive with your payments.

The minimum payment, calculated by the card company, typically covers the interest due and 1% of the balance, Rossman said.

Let's say you have a balance of $6,360, at an interest rate of 22%. If you make the minimum payments, it'll take you about 25 years to retire the debt, and you'll pay $11,000 in interest on top of the principal, according to a Bankrate calculator.

To make a real dent, experts say, stop making new charges on the card.

"Shift your spending over to cash and debit," Rossman said.

Cap on fees: Government sets limits on credit card late fees

Next, bump up your payments. Consider a monthly sum equal to 5% of your gross income. Alternatively, make double the minimum payment in the first month. Pay the same dollar amount in the months that follow, as the balance falls.

If you have more than one card, pick one and get serious about paying it off. Start with the card that carries the highest interest rate, or the one with the smallest balance. Soon enough, you'll be able to turn your attention to savings.

“It’s hard to build wealth when you’re paying 20% or 25% interest,” Rossman said.

Daniel de Visé covers personal finance for USA TODAY.