Quick Facts: Credit Cards

1. According to the 2012 Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit, the total balance of credit cards in the United States was $672 billion as of June 2012. This is the third largest debt type for Americans, preceded by mortgages and student loans.

2. According to the 2009 Survey of Consumer Payment Choice by the Federal Reserve Bank of Boston, 72.2% of consumers have a credit card, the average credit card user holds 3.7 cards, and 56% of credit card holders maintain a monthly balance.

3. College students are carrying particularly high credit card balances. A 2009 study by Sallie Mae, "How Undergraduate Students Use Credit Cards," noted the average credit card balance for undergraduates in 2009 was $3,173, with only 18% regularly paying off all credit cards each month. Seniors graduated with an average credit card debt of more than $4,100 and close to one-fifth of seniors carried balances greater than $7,000.

4. FINRA's 2009 report, "Financial Capability in the United States," notes that a staggering 36% of credit card users don't know their interest rates.

5. According to the Federal Reserve's G.19 report on consumer credit, the average interest rate on all credit cards as of June 30, 2012 was 12.06%.

6. Morningstar's research* suggests that an investor who first pays off a credit card and then saves for retirement, versus just making the minimum credit card payment, can potentially increase his or her 401(k) balance at retirement by 14.1%.

*Source: "Saving For Retirement? Start by Paying Off Your Credit Cards," Morningstar white paper by David Blanchett, Head of Retirement Research, August 2012.

Saving for an Emergency

According to a recent survey conducted by Bankrate.com, 28% of Americans have no emergency fund, up from 24% a year ago. About 49% of people surveyed said they had no emergency savings or less than three months' expenses.

The traditional prescription for life's financial emergencies is to hold three to six months' worth of living expenses in cash. Only 25% of those surveyed said they had enough to cover six months' or more of expenses. In a low-yielding environment, many are concerned that keeping aside six months' of emergency savings is a lot of money to have sitting in the bank earning next to nothing. While this is a valid concern, customizing your emergency fund to fit your personal situation may serve as a viable solution.

Consider holding a larger emergency fund (six months to a year) if you have a high paying job, are self-employed, work on a freelance/contract basis, have dependents, have a nonworking spouse, have high fixed expenses (mortgage, auto loan, tuition bills), or have a pre-existing medical condition that could result in hefty health-care bills if you were forced to purchase private health insurance. On the flip side, you may be able to get by with a smaller emergency fund if you:

1. Have a good degree of career flexibility because you are in a lower-paying position and/or haven't yet developed a specialized career path.

2. Have other sources of income that could help defray a large share of household expenses, such as a working spouse.

3. Have a great degree of lifestyle flexibility (for example, you would be willing to relocate).

Source: Bankrate.com Financial Security Index survey, June 25, 2012.