Tele(k)

A short Webinar Series Presented By

SageRutty

1) Prerequisites to the debt vs. invest conversation

a. Your first priority needs to be building an emergency fund. You should have between 3 to 6 months of expenses set aside in a checking or savings account. Its important to note that this money should be in a place that is easily accessible and will be there to bail you out if a need arises.

b. Your second priority is to make sure you are living within your means. Trying to tackle a debt problem while still racking up credit card bills is like bailing water out of a ship with holes in it.

2) Debt vs. invest

a. Advantages of paying down debt first

  i. Knowing that you have debt that needs to be paid can be just as much of a mental burden as a financial one. Paying down debt first can help you feel more at ease knowing that you have one less thing that demands your time and money.

  ii. When it comes to whether you should pay down debt or invest first you need to look at the interest rates. Once you can compare the rates it typically makes more sense to put your money towards the endeavor with the higher rate. Although investing in the market typically has a higher rate of return over the long run, the day to day is much more volatile. Paying down debt first allows for you to know exactly how much less in interest you are going to be charged.

  iii. Paying down debt also frees up cashflow for you on a regular basis, allowing you to put money towards other things in your life. If you are living paycheck to paycheck or close to it, paying down debt and gives you much more flexibility with how you are can use your money.

  iv. Tackling debt especially before you retire means less expenses during retirement. By eliminating debt and reducing the amount of money needed to fund your lifestyle you reduce the amount of money you need to have saved to retire in the first place.

b. Advantages of investing first

  i. If there is a company match in your 401(k) it would be crazy to not take advantage of it. For example, if your company has a dollar for dollar match on the first 3% that you save you get a 100% rate of return on that first 3%. Its essentially free money that they're giving you.

  ii. Given where interest rates are today, it is historically cheap to take out debt, with the exception of credit card debt. It may have made sense to pay off your mortgage first when rates where around 8%, but now you can have a mortgage with rates around 3% - 4%. With rates being at all-time lows debt doesn't cost as much as it used to. Investing in the stock market for the long run is going to generate more wealth for you than paying off that low interest debt.

  iii. If you are in a pinch and need access to a larger source of money its typically easier to get access to it through your investment account. You may be able to take a loan from your retirement account, but if you have a brokerage account you can easily access that money. Its much more difficult to get a second mortgage or refinance your loans to gain access to cash.

iv. Investing your money not only can help you generate more wealth over the long term, but it can also give you tax benefits. If your saving into a pre-tax retirement account you will actually lower your tax liability this year, giving you guaranteed savings on taxes and if you are investing into a Roth account you will have the benefit of tax free growth on all of your savings.

v. Quite often when people pay off debt first, they have the intention of saving and investing that money that they have free up later. The reality of it though is that people have a spend first save later mindset. So, once the money is freed up people often find other ways to spend it before that invest it. If you know you are one of these people, you could benefit from investing first and paying down debt gradually.

3) Debt tackling strategies

a. The avalanche approach

i. The idea behind the avalanche approach is when you have multiple sources of debt you put any excess cash you have towards the higher interest rate debt first. For example, someone who has credit card debt, a car loan, and a mortgage would pay the credit card first while making the minimum payments on the others. After the credit card debt, it paid all that money would then go to the car loan and then to the mortgage. By tackling the highest interest rate debt first this approach saves you the most money over the long run.

b. The snowball approach

i. The snowball approach works similar to the avalanche approach, except instead of targeting the highest interest rate debt first you tackle the smallest debt first and work your way up to the largest last. Although the avalanche approach will typically save you the most in interest, the snowball approach gives you wins early and often as you pay off the smaller debts. This allows you to start building momentum and helps people avoid getting discouraged by the amount of debt they have.

4) Put into action

a. Your first step should be paying down any credit card debt that you have and building your emergency fund to 3-6 months' worth of expenses.

b. Set your top priorities. If taking care of debt of debt is at the top work on that first and then work your way down your list.

c. Be realistic when it comes to your strategies on how to accomplish your goals. Make sure you are using a practical approach where you won't quit a couple of months into your journey.

d. If you are nearing retirement try to make paying down debt a priority.

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