should you invest while you're in debt?

SHOULD YOU INVEST WHILE YOU'RE IN DEBT?

You probably have debt. A lot of people do. Living in debt isn't great for your financial life, but as long as you are actively attempting to pay it off, you are on the right track. Here's the thing, though: you can't neglect all other financial priorities while you are attempting to pay off your debt, even if paying off debt is good for your financial life. Paying off debt, depending on how much you have, can take years. If you neglect all other priorities while paying off debt, your financial future will pay the price. Expecting everything to magically line up when you are finished with your debt pay-off plan is unrealistic, especially when it comes to investing. Time is your friend, and losing 2, 3 or 4 years while you are completing your debt pay-off plan is an unacceptable loss to your long-term savings.

How should you prioritize your financial obligations?

While paying off debt, you need to scrounge up every possible dollar to put toward it. This only makes sense. Once you've made a plan to pay off debt, you need to do it as quickly as possible. Dragging the process out will only weaken your resolve. Cutting expenses, picking up a second gig and selling stuff are just a few ways you can come up with the cash to make extra payments on your debt.

What often trips people up in this situation is their other financial responsibilities. Do you save money while you are in debt? What about investing for retirement? How should your priorities line up?

Here's your definitive priority list:

1. RETIREMENT
2. SAVING FOR EMERGENCIES
3. PAYING OFF DEBT

1. Retirement

Retirement is always your number one priority. Yes, it's far away. Yes, you won't see the money for another 20, 30 or 40 years. It doesn't matter. Retirement is always your first priority because of how long it is until you retire.

Time is your friend. Time, combined with money, is what gets you to retirement. You may justify holding off on retirement contributions until after you pay off your debt because you can contribute more with the money that will no longer go to paying down debt, but what that plan doesn't factor in is time. Even if you put in more money after your debt is paid off, it still won't make up for what you didn't contribute while paying off debt.

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EXAMPLE 1*			EXAMPLE 2*		
YEAR	CONTRIBUTIONS	ACCUMULATION	YEAR	CONTRIBUTIONS	ACCUMULATION
1	$5,000.00	$5,400.00	1		
2	$5,000.00	$11,232.00	2		
3	$5,000.00	$17,400.56	3		
4	$5,000.00	$24,333.00	4		
5	$5,000.00	$31,679.65	5		
6		$34,214.02	6		
7		$36,951.14	7		
8		$39,907.23	8		
9		$43,099.81	9		
10		$46,547.79	10		
11		$50,271.62	11		
12		$54,293.34	12		
13		$58,636.81	13		
14		$63,327.76	14		
15		$68,393.98	15		
16		$73,865.50	16	$15,000.00	$16,200.00
17		$79,774.74	17	$15,000.00	$33,696.00
18		$86,156.71	18	$15,000.00	$52,591.68
19		$93,049.25	19	$15,000.00	$72,999.01
20		$100,493.19	20	$15,000.00	$95,038.94

**Based on a hypothetical 8% rate of return.*

***Note**: All numeric examples are hypothetical and were used for explanatory purposes only. The chart above contains hypothetical examples of tax-deferred investments, so taxes have not been calculated.*

2. Saving for Emergencies

Your goal is to pay off your debt, but this also puts you at risk for incurring more debt. Emergencies happen all the time. Your car breaks down. The furnace quits working. Your kid breaks his arm. Life happens. And it's not going to go easy on you just because you are making the smart decision to pay off your debt. By using all available funds to pay off debt, you are left exposed. Having a small emergency fund in place during debt pay down is an excellent way to prevent further debt. Maybe you can only save 10 percent of your income at this time, but every little bit helps. Save up to $1,000 and then stop. Once your debt is paid off, increase your emergency fund to three months' worth of expenses.

3.
Paying off Debt

Your main priority is to pay off your debt, but it's also not. Paying off debt is important because it gets you out of a financial relationship with your past and helps you focus on your future. But you also can't get there without first taking care of a few things. Keep your retirement contributions going. Save up to $1,000 for emergencies. Whatever is left can go toward your debt pay-down plan.

Paying off debt is a process that will stretch you. Adding in your other financial priorities only complicates the process. But that's the point: your financial life is complicated. You will always have balls juggling in the air. Learning how to prioritize effectively is your best bet for success. A shortsighted debt pay-off plan ignores the future and focuses only on the present. Which ironically is the same behavior that got you into debt in the first place. Making smart, future-oriented decisions will help lead your financial life in the right direction.

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