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Retirement Savings Education, Simplified

First Quarter 2020

Saving for Retirement While Paying Off Student Loans, Credit Cards & Other Debt

Paying down debt keeps over 1/3 of MO employees from saving more for retirement!

"Should I save for retirement or pay down my debt?" **If you find yourself struggling with how to answer this question, you are not alone. In fact, just over 1/3 of active state of Missouri employees[1] claim paying down debt is the number one reason keeping them from saving more for retirement. The average amount a state employee spends on his or her total expenses every month ranges from $1,000 to $3,500 and a large portion of that goes toward paying debt.[1] On top of the *typical* mortgage and car payments, over 55% of all active employees are carrying a credit card balance and over 50% of younger employees have student loan payments.[1] Yikes!** Saving money for retirement is crucial for your future financial stability and can be extremely difficult to do when you're burdened with substantial credit card balances, high student loans or other types of debt. While everyone seems to have their opinion, **you can pay down debt and save for retirement at the same time**.

Why should you save for retirement while paying off debt?

Simply stated, the longer that you save, the more years your money has to grow, allowing you to enjoy the benefits of compounding interest. This concept is called ***time value of money*** and the scenarios below illustrate how it works.

Scenario 1: SAVING NOW

In this scenario, you began saving at the beginning of your career. You started with smaller contributions while paying off debt but slowly increased your monthly total contribution by $5 each year over the next 30 years. At retirement you would have an approximate balance of $101,658.[2]

Beginning Monthly Contribution	$50
Average Monthly Contribution Over 30 Years	$123
Total Paycheck Contributions	$44,100
Account Balance at Retirement	$101,658[2]

Scenario 2: WAITING TO SAVE

What if you paid down debt for 15 years and then began saving for retirement for the next 15 years? To achieve approximately the same balance as **Scenario 1**, you would need to save approximately:

Monthly Contribution	$350
Total Paycheck Contributions	$63,000
Account Balance at Retirement	$101,787[2]

SCENARIO 1

$44,100
Total contributions from your paycheck

SCENARIO 2

$63,000
Total contributions from your paycheck

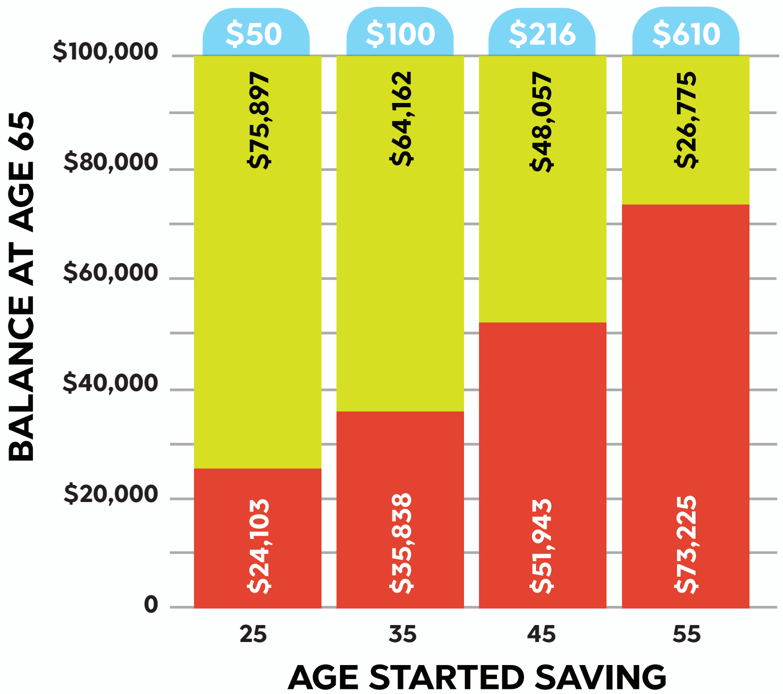
[1] *2019 Retirement Awareness & Savings Survey*

[2] *Assumes a 6% rate of return while employed. Monthly compounding.*

Need more convincing on saving now while paying off debt versus saving later after paying off debt?

You can save with smaller monthly contributions and less of your pay over time by starting early. The chart below illustrates the necessary monthly contribution at various ages in order to reach a savings goal of $100,000 by age 65. In this example, if you began saving at age 25, you would only have to save $50 a month throughout your career for a total of $24,103 in paycheck contributions.[2] If you waited until you were age 45 to start saving, your monthly contribution would be $216 for 20 years for a total of $51,943 in paycheck contributions.[2] **Bottom line, it is a lot more expensive to wait to achieve the same goal.**

Required Monthly Contribution to Reach $100,000 by Age 65



Build Up Your Emergency Savings

Many Missourians are currently feeling the financial pinch. On top of saving for retirement and paying down debt, you should also be stashing away for an emergency. Just for reference, your emergency fund should be equal to 3-6 months of your living expenses.

Suggested Strategies to Pay Down Debt

1. **Stop Accumulating Debt**
   This seems like a no-brainer but it is important to mention – if you are attempting to pay off debt, the first thing you need to do is STOP ACCUMULATING DEBT! Find creative ways to budget your money, be as frugal as possible, pick up a part-time job, and do whatever you need to do to not compound your debt problem.

2. **Pay Down the Highest Interest Rate Debt First**
   The cardinal rule of debt repayment is attacking the highest interest rate debt first. Putting any extra cash you have available towards your loan, whether it's from a part-time job, birthday, holiday, etc., in addition to your minimum monthly payment, can help you pay down your loan quicker and reduce the interest paid over the life of your loan.

3. **Take Advantage of Discounts**
   Some loans, insurance payments, and/or recurring expenses may actually give you a discount for utilizing automatic payment methods. Talk to your loan lenders and service providers about whether they offer a break for setting up automatic recurring payments.

As overwhelming as the process of reducing your loans may be, it's important to not lose sight of your long-term future financial goals. Setting aside money now for your retirement, as well as budgeting your funds, will help you create a positive habit to live by. Paying down debt and saving simultaneously is not easy, but you won't regret the sacrifice you have to make in order to get there.

[2] *Assumes a 6% rate of return while employed. Monthly compounding.*

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