

Which Comes First? Saving for Retirement or Reducing Debt

People often identify two important goals when planning their financial futures: paying off debt and saving for retirement. But it can be tough to decide which goal should receive the higher priority, especially during a struggling market. Is it more important to shrink a large debt load or to grow a retirement nest egg?

The answer may be more complicated than you realize. You could allocate your money based on whether an investment's potential return will be higher than the interest rate on your debt. But this plan may be overly simplistic and leave you shortchanged in the long run. Instead, consider separating "good" debt from "bad" debt, and don't underestimate the hidden returns of your retirement plan.

All Debt Is Not Created Equal

Home mortgages and student loans are often considered "good" debt. Interest rates on mortgages and student loans are often lower than many other types of debt, and the interest you pay may be tax-deductible.* For these reasons, it is usually more appropriate to contribute to an employer-sponsored retirement plan rather than strive to pay off a mortgage or student loan early. Even so, you may be able to pay off good debt more efficiently using loan consolidation or automatic payments. (Find out more about the Education Department's Direct Loan Program and repayment incentives at www.dlsonline.com/index.asp.)

A common form of "bad" debt is high-interest consumer debt, such as that on some credit cards. Unless you expect to earn a higher rate on investments than you pay on your debt, it sometimes makes sense to pay off this debt as quickly as possible. Your retirement plan may offer an exception, however. If your employer matches contributions to a certain level, maximize your contributions to meet that level. Otherwise, you're walking away from free money!

Once you've erased your high-interest consumer debt, you may want to increase your contributions above the matched amount to your retirement plan. By starting to save for retirement sooner rather than later, you give your money more time to benefit from compounding. And, when you have plan contributions automatically reduced from each paycheck, you won't be tempted to spend the money on something else.

Don't Underestimate Retirement Plan Returns

Unlike the money you spend toward shrinking a mortgage, student loan or consumer debt, money contributed to your retirement plan is made with pre-tax dollars, thereby lowering your current taxable income. As noted earlier, your employer may offer a match, immediately boosting the return on your investment, and any contributions, matched or not, can grow tax-deferred until you request a distribution.**

The First Step on the Road to Financial Security

Whether saving for retirement or tackling debt—or both—the most important step is to get started. Consider loan consolidation or meeting with a credit counselor to help eliminate your debt as quickly as possible. And, consult your financial representative to learn more about increasing your plan contributions.

*Consult your tax adviser regarding your individual circumstances.

**Distributions will be taxed as ordinary income. Distributions made before age 59½ (age 55 upon severance from employment) may be subject to a 10 percent penalty tax (the penalty tax does not apply to 457 plans).

Pursuant to IRS Circular 230, MetLife is providing you with the following notification: The information contained in this article is not intended to (and cannot) be used by anyone to avoid IRS penalties. This article supports the promotion and marketing of annuities. You should seek advice based on your particular circumstances from an independent tax advisor.

Neither MetLife nor its representatives or agents are permitted to give legal or tax advice. Any discussion of taxes included in or related to this article is for general information purposes only. Such discussion does not purport to be complete or to cover every situation. Current tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer vary depending on the taxpayer's particular set of facts and

circumstances. A qualified professional should be consulted regarding application of this information. No reference to any MetLife product is intended.

This article is provided by MetLife Resources, a division of Metropolitan Life Insurance Company, 200 Park Avenue, New York, NY 10166. For information on MetLife insurance products and services, please contact Genevie Osborn, Financial Services Representative with MetLife Resources at 800-513-7785 or 800-492-3553 x28762, gosborn1@metlife.com. Genevie osborn is a Registered Representative of Metropolitan Life Insurance Company and MetLife Securities, Inc. Insurance and annuities offered by Metropolitan Life Insurance Company. Mutual funds, other securities and investment advisory services offered by MetLife Securities, Inc. (member FINRA/SIPC), a registered investment advisor.