Paying Off Your Debt Can Help Fund Your Retirement

Borrowing money to buy things which you could discipline yourself to save for and delay your own gratification has huge implications when considering your long-term wealth and savings plans. When you are paying huge minimum payments on your existing debt, it's much harder to save for a rainy day or even retirement. Most of this outlay could easily be earning you interest in a savings account or other investment vehicle, but instead it's going to the credit card companies.

Paying off your debt as soon as possible will only put you and your family in a better position long-term. You can start saving your money to pay cash for all the things you want and need, and apply these funds toward your retirement. An Individual Retirement Account (IRA) is a great vehicle to accomplish this.

There are two different types of IRAs: a Traditional IRA and a Roth IRA. There are income limits for each type, but the Traditional IRA will allow for a tax deduction for any contributions up to the annual limit. A Roth IRA does not allow for this deduction, but is not taxed in 20 or 30 years when you reach a certain retirement age, providing a great cushion against inflation.

Any type of savings provides the opportunity to make your money work for you through the wonder of compounding interest. The sooner you start the better, with even the smallest amounts or interest rates you're earning.

It's relatively easy to find a compounding interest calculator on the Internet to input imaginary amounts and estimated earnings on those dollars over time. You'll be amazed at how large even a small $500 contribution can grow over time!

Usually, the government requires that you wait until you are 59 ½ years old before withdrawing from your IRA account, no matter which type it is. However, there are special circumstances which will allow you to take the money out free of penalties.

If you are buying a home, paying for college or have extenuating health circumstances, the federal government may allow you to withdraw these funds before the legally required age. Each situation is different, so you'll need to consult a tax professional before taking any action.

Employer-provided 401k plans also offer a great retirement savings vehicle. Your portion of the contribution is withdrawn from your paycheck before taxes, and is often so small you won't even miss it; but over time you'll enjoy the growing balances!

Ask your place of employment about their matching contributions and how many years of service are required to claim 100% of them. Start contributing the maximum amount they will match any part of – this may match your money dollar for dollar, or at 50% - either way, it's essentially free money and padding your retirement plan.

Finding the motivation to pay off debt and start saving for special purchases and retirement will be different on a case-by-case basis, but one thing's for sure: the sooner you start, the better you'll be off in the long run.