What should I do first: invest or pay off my student loans?

How do you pay off expenses from your past while also making smart investments for your future? This week's guest, a 26-year-old living in New York City, is struggling with this dilemma right now. To help her, and others like her, host Stefanie O'Connell Rodrgiuez interviews viral TikTok money coach Delyanne Barros about how to strike the right balance between your financial obligations and your goals for the future, as well as easy strategies for growing your money (no matter how much you have).

Avery: I only recently, within the last year, started contributing to my 401k for the first time. I was embarrassed that I waited as long as I did, but it kind of goes back to feeling just like I need to deal with my loans before I do anything else.

Nadia: When I think about planning for the future, I feel trapped by my student loans.

Emily: I'm trying to figure out what my priorities should be. A lot of it is just guesswork. 'Cause I don't know.

Claire: When you really look at inflation and what the costs are to live, it's kind of staggering. It's like, oh my God, like, we're going to need a million dollars.

Stefanie O'Connell Rodriguez: This is Money Confidential, a podcast from *Real Simple* about our money stories, struggles and secrets. I'm your host, Stefanie O'Connell Rodriguez. And today our guest is a 26-year-old living in New York City who we're calling Avery—not her real name

Avery: I grew up with a pretty frugal dad who was very big on saving, so I think that's pretty ingrained in me. Despite that I chose to go to a private university and ended up with quite a lot of student debt. So now I'm sort of figuring out how to make my monthly payments on my loans, but I don't want that to be the only focus on my finances right now. I'm interested in investing. I'm interested in making my money work for me. So I'm trying to figure out how I can make both of those things happen.

Stefanie O'Connell Rodriguez: This phrase, "making your money work for you" is something we hear a lot, but what does that mean to you?

Avery: Making sure if I have money, it's not just sitting in an account collecting dust. But I kind of feel like that is what my money is doing now. And I don't feel free enough to move it around as much because of my loans.

It's not like I have that much of an excess to work with, but even if it's an emergency fund, I am hoping to figure out how to put it somewhere where it's going to increase over time if it's going to be sitting there anyways.

Stefanie O'Connell Rodriguez: Avery's instinct to maximize and grow her money is a fundamental part of building wealth. One reason for that is inflation, the slow and steady increase in prices over time. With an average rate of inflation around 2-3% each year, sometimes higher, our money buys us less and less over time. So tools that allow our money to grow at a rate that can outpace inflation, that is more than 2-3% each year, like investing, are a key part of any long-term financial plan.

But knowing where to get started when it comes to investing can be overwhelming. In fact 41% of millennials in a 2020 survey said they aren't currently investing in any financial products.

Avery: My friend texted me like, you need to get into Ethereum. And I'm like, I don't know what that means. And I don't really want to figure it out right now. But I also am like, I shouldn't shy away from these things. And then of course, more traditional things, like I was talking about my dad earlier, he's sort of my basis of financial information and he talks about the S&P 500 and these sort of like safer versions of investments.

So I have sort of these different pictures in my mind, and I feel like one is very traditional and maybe the other is a little bit more contemporary, but still both of them, I don't feel like I understand well enough to make a move in either area.

Stefanie O'Connell Rodriguez: Among millennials who weren't investing in that 2020 survey, not understanding how to invest was a key barrier to getting started, but the biggest thing holding them back was feeling like they didn't have enough money to invest.
When you get your paycheck now, how do you divide it up?

Avery: I live in New York City, so a large portion goes directly to rent and utilities. And then another large chunk goes to the student loans. That one's always the hardest one to do, but I've got the auto payments, so it happens. I don't think about it.

I only recently, within the last year started contributing to my 401k for the first time. I was embarrassed that I waited as long as I did, but it kind of goes back to feeling just like I need to deal with my loans before I do anything else.

Stefanie O'Connell Rodriguez: How did you decide how much you're going to put into your 401k?

Avery: When I first did it, I did like the bare minimum that you could even do, probably like one or 2%, because I was still kind of scared of it. Just not having it in my bank account too, you know? If something were to happen. And then I did that for a couple months, and then I realized that I wasn't taking advantage of the matching program that my company had.

My mindset was, "Okay. Start here." And then maybe next time I get a raise or if my finances changed, then I'll reevaluate from there.

It's hard to think that far in the future. I'm still pretty new in my career. And I think a lot of people my age kind of feel like we're probably not going to be able to retire anyways. So like why even save for it, but I guess I'm sort of just trying to be optimistic in terms of my future with finances and hope for the best there.

Stefanie O'Connell Rodriguez: I think there's some legitimacy to the idea that the retirement of sitting around doing nothing is probably not going to be the reality for many of us. That said, having some money with which to pay medical bills, with which to shoulder times where we might have disability and are unable to work—that stuff is still going to be critical. And I think it's great that you've made retirement savings a priority because we're all going to need it. Do you know where your money is invested in the 401k?

Avery: I'd have to look that up. I haven't really taken the time to understand that and maybe make a change or reprioritize something there.

Stefanie O'Connell Rodriguez: You know, it's interesting because we're talking about investing and getting the most for our money. And there is this chatter around things like Ethereum but the fundamentals start with what you already have in place. And I wonder how you feel about starting there with maximizing the 401k rather than picking individual GameStop stocks.

Avery: Exactly. And that I do think is an easier place to start.

But that's my other question. In terms of investing with the student loans is, obviously this 401k is for so far down in the line, and I understand that it makes sense to put money into that, but would it make more sense for me to do what I'm doing, but to also maybe have this other chunk of cash that I put somewhere else to maybe grow quicker and to potentially put that towards student loan debt to shorten the span? Because right now I'm at like a 20-year payment plan on two different loans. So I'm still thinking like, how do I shrink that down?

Stefanie O'Connell Rodriguez: So I wonder how you feel about the debt.

Avery: It used to really scare me and I didn't even like want to look at my balances.

You know, I mentioned I have auto pay, so it goes out of the account. I don't think about it. But recently I've been much more adamant at looking at it regularly, watching it move and seeing how I can maybe do things differently.

So I feel a bit more empowered to deal with it recently, even if I'm not making huge changes. And I feel like I can live my lifestyle with it, so it's not entirely pressing down on me until I get into situations where I start thinking like, oh, that $800, what could I do with that every single month and where it would be if I was putting that in the S&P 500 or Ethereum or wherever else. I wish it wasn't there, but you know, it's there. I'm dealing with it. I think it gets less scary as the time goes on and I look at it and face it.

Stefanie O'Connell Rodriguez: Based on your current repayment schedule do you know when it will be paid off?

Avery: Probably 15 years from now? But, yeah, this was an investment that I made in my career. So I hope that as time goes on, it only repays me further. And then I can maybe hopefully eliminate the debt quicker.

Stefanie O'Connell Rodriguez: I wonder what the feeling of being debt free would feel like to you.

Avery: I mean, definitely hopping on a plane to wherever I feel like going on a whim is up there for sure.

The freedom to buy that pair of shoes because I can afford it and just not think, well, no, you got to save that money for that repayment or to travel and to spend too much money at a nice restaurant with my friends.

Stefanie O'Connell Rodriguez: You've already done your fundamentals, but you don't go from fundamentals to crypto. And I think it's hard because the dialogue is so news driven and so noise driven. So after my fundamentals what do I need to do to optimize next steps?

So great high-yield savings account, easy win. What is next? Looking at the interest rate on the debt. Thinking about how much more could I potentially contribute to the employer 401k to see if I could really max out the match.

Maybe spend some time in the portal. What is my money invested in? What does that mean? I bet you, your 401k has a lot of educational resources built into the platform.

And I bet you can just ask the questions as they come up.

Oh, it's a target date fund. Well, what does that mean? Okay, what is asset allocation? What's the difference between a stock and a bond? What should my risk tolerance be?

Avery: I'm not above Googling my financial questions because you're right—it's something that I'm just kind of starting now to really want to invest my own personal time in. I didn't study it in school and I've sort of seen it as this like elusive thing that I'm not really a part of. And then I was like, wait, no, um, I am a person, I have a bank account. This is just kinda how it is and anyone can do it. So yeah, I will definitely take a look at where my money is in that 401k and see what's happening and, and learn from there.

Stefanie O'Connell Rodriguez: Nobody cares about your money more than you do. Right? So really make sure that you're being the boss of it. After the break, we'll talk about what it really means to be the boss of your own money, and how Avery, or anyone, can approach that fundamental wealth-building question—should I pay off my debt or invest?

Delyanne Barros: All of a sudden investing has become very sexy. So they're hearing about GameStop and they're hearing about Robin Hood and AMC and NFTs and this coin and that coin. And they're like, where do I enter this space?

Stefanie O'Connell Rodriguez: That's Delyanne Barros, you might know her from her viral Tiktok and Instagram videos, @DelyanneBarrosthemoneycoach.

Delyanne Barros: In one way, it's great because people are talking about investing and that's fantastic.

But on the other hand, I think people are getting more overwhelmed than ever because it's that paradox of too many choices. And therefore investing has taken the back burner to a lot of other things in life—like, yeah, I'll get to it someday.

I have no idea where I start. I have a 401k at work. I don't know what that is. I put some money in it. I don't understand it.

Stefanie O'Connell Rodriguez: It sounds a lot like our listener this week. She was saying her friends are texting her saying, you need to get into Ethereum. And meanwhile, she's just trying to figure out, how do I manage growing my money with paying off my student loans?

Delyanne Barros: Right. It's like such a massive concept of crypto versus I'm just trying to pay my bills and maybe save some money. Like we're still skipping over the fundamentals.

And that's troubling, because I don't want people to jump into something they're unfamiliar with that is high risk, and therefore they lose money and they're like, ah, I knew it. I knew this wasn't going to work out. I told you this was a scam. I told you this was a casino. It's rigged against us. Because they entered into the wrong door. So there's many doors right to the stock market, to invest, to the world of investing. And so there are better doors depending on what level you're at.

Stefanie O'Connell Rodriguez: I want to talk a little bit about this specific listener, because I think what she's grappling with is something that a lot of people are dealing with. She is making minimum payments on her student loans. She is building an emergency fund. She has dipped her toe into investing in her employer 401k plan.

If there is extra money, there is this huge question and overwhelm around which of those buckets to put it in.

Delyanne Barros: I always like to give that caveat that there is no blanket rule for everyone. But I would say the one that I would prioritize would be my emergency fund because at the end of the day, if something goes wrong, guess what?

I'm going to be doing anything I can to solve the emergency. Right? That's why it's an emergency. So emergency fund, always the priority.

And then I'm a huge proponent of investing while paying off debt. I am not one of those people who believes you need to be a hundred percent debt free in order to invest. I didn't do that. It took me 12 years to pay off my student loans and I built my 401k at while I did that.

And I'm so glad because right now that 401k sits at $310,000 and it's a huge part of my portfolio.

You should do whatever split you want. Doesn't have to be 50/50. Maybe you're throwing 50 bucks and investing it, and you're just tackling the debt.

But I really think that you should be doing both and not wasting any time because that compound interest, that time where you're going to grow your wealth, you're never going to get that back ever, ever.

The first thing is you have to know your numbers, right? That's really one thing that you can't escape. Do like a rough budget.

It doesn't have to be down to like the very dollar. I don't need to know how many times you go to Starbucks. But we need to have an idea of, where's the money going. Right. And we have a lot of blind spots. We give ourselves a lot of leeway when it comes to our spending. We're like, oh I'm sure I don't spend that much.

So you do have to do some legwork here and go look at your numbers. And then we're going to sit down and list out our debts.

What is the debt? How much are you paying an interest? Oh, I don't know. It's somewhere between 10 to 15%. Well that's a big difference. 10 or 15.

Right? And so do what works for you. But getting your numbers together, making a plan for paying off the debt and knowing a debt-free date. I think that's crucial.

You need that debt-free date. You need to know, okay. When am I going to be done paying this off if I pay X amount per month? And then stick with it. Automate it as much as possible. If you can automate that payment from your checking account, do it, because the less amount of mental power that you have to use and willpower to make this happen the more successful you're going to be.

Paying off debt is not exciting, so it's okay that you want to avoid it. I understand. But we're going to try to automate this process as much as possible. So you don't think about it and that's how you're going to make it as easy as possible for yourself.

Stefanie O'Connell Rodriguez: And then where does the investing start to come into that? And how do you weigh how much of that you should be doing?

Delyanne Barros: So once you figured out, okay, this is my debt payoff plan. Whatever money is left over, because then you're thinking about your time horizon. Okay. I have X amount leftover per month. If I put this amount per, towards debt, I'm going to be paid off in nine months. But if I lower that a little bit more, it's actually going to take me 12 months.

But am I okay stretching that timeline by 12 months if that means that I can start putting some money in a Roth IRA? I can maybe increase my contribution to my 401k by 1%. Right. So then it's like that push and pull.

Stefanie O'Connell Rodriguez: I also love how that target debt payoff date comes into play here, because I think it's a way to conceptualize the trade off a little bit more clearly.

I think when I talk about, okay, how do I manage my debt pay off against my investing? It's so hard. I'm picking numbers out of thin air, but as you framed it like, oh, well, if I shift my debt payoff date by this much, that gives me this much more time, this much more money, specifically in concrete numbers to think about investing and giving my money, time to grow and work for me. So I think that it is a really subtle but powerful difference.

Delyanne Barros: That's what people need. They need concrete numbers. People need a way to structure this. And so this is one way.

Stefanie O'Connell Rodriguez: The other part I love about this is that when we were talking about, okay, we want to start investing, the first place we went to was not crypto. It was budgeting.

Delyanne Barros: It's funny, because we call it budgeting, but the wealthy call it cashflow management. And when we're talking about debt, they don't call it debt. They call it leverage, oh, I'm over leveraged. I'm under leveraged. it's all about it is a mentality thing. It's how you view your money. Right. So I feel like budget sounds very budget.

I'm like, let's elevate the budget. it doesn't have to be something that you manually track. Download an app, make it do that for you. You do not have to do that stuff manually.
You do not have to live a life inside a spreadsheet. That is no way to live. No one wants to live life that way.

So if you look at your paycheck and you see that there's withdrawals being made. And you're like, what is this? Maybe it says 401k, 403B, 457. there's a bunch of names for these things, and you don't know where to go, the first place you need to go is your HR department. They will tell you the next step. And they will tell you to contact, what's called the 401k administrator, and it's usually like a broker that manages the 401k plan.

They're there to help you. You can ask them all of the questions now. Some of them will offer additional services if you pay a fee, so you can opt into like a management style, a service, and for a fee, they will manage your portfolio.

Now I manage my own 401k. But in the beginning, maybe you do want a little extra layer, right? So you can ask questions so you can have somebody else manage it, balance it for you. Then as you get more knowledge, maybe you decide to cancel that part of your plan, up to you. But that's the first step is finding out where's your 401k and yes, you can log into it online and see everything. You can see how much you're contributing. You can see how much your employer's contributing.

You can see the funds that you're invested in. More likely than not you're investing in what's called a target date fund. Which means they basically looked at your age. Nobody asked you this, right? This was all done pretty much automatically. They looked at your age like, oh, she's this old, or he's that old?

We're gonna assume they're going to retire at 60 or 65 and they pick a target date fund tied to that date.

So target date fund is basically a super fund that includes both stocks and bonds. And then it's automatically balanced for you as you age, meaning that it's going to move from like an aggressive to moderately aggressive, to a more conservative portfolio as you age so that we can protect the wealth that you built.

Stefanie O'Connell Rodriguez: Let's say I am maxing out my 401k or at least the match. What then?

Delyanne Barros: Usually when I ask people, are you maxing out your 401k? They're like, yeah. And I'm like, oh, that's great. You're putting in $19,500 a year. And they're like, whoa, what are you talking? No, we're like, I'm maxing out my match. Right? Meaning like if my employer is matching my contribution. So like they're putting in 3% or they're putting in 5%, I'm putting it up to that match. Right. But that's not what the max is. The maximum that you can put in a 401k is $19,500, assuming you're 50 and younger. And then if you're older, you get to put extra catch-up contributions, but that's what maxing out is, right?

So when people are like, well, how do I max it out? Well, you just got to find out how many paychecks you have per year divided by 12, and then decide like what the percentage is to match that contribution.

Stefanie O'Connell Rodriguez: Even without the noise of cryptocurrency and Reddit and all the news headlines, even when we're just talking about fundamentals, I think it can get really, really overwhelming, especially when we don't have the existing vocabulary.

How do you work with people so they just don't get totally overwhelmed with the jargon and all of the steps and all the decisions and all the unfamiliar things?

Delyanne Barros: First of all, I tell people, it is like learning a new language. Don't beat yourself up about it. If you're like, wow, this is a lot of new vocabulary that I've never heard before. Am I going to have to become like the Wolf of Wall Street to be able to manage my 401k?

And I'm like, absolutely not. But there is some vocabulary in the beginning that you're going to have to get used to, but it's fine. Read as many books as you can, follow people in person on social media, listen to podcasts, too, so that you can start getting used to this vocabulary. It will become second nature. And you don't need to know all the nitty gritties of it. It's like, I'm a money nerd. Stefanie's a money nerd. Like we get in the weeds about this stuff, because this is what we do, but you do not need to be at this level of nerdom to be able to be a successful investor and build wealth.

So the idea is to like ease into it—whether it's going to be through books, whether it's going to be self-learning, whether you get a mentor, just find whatever works for you and stick with it. Do it all the way through whichever path that you choose.

It's worth it to put in the time in the beginning to learn something new, because we're talking about life-changing wealth that possibly will change your life, your children's life, their children's life. So when I tell you it's worth putting in the few hours, I'm not being facetious. Like I'm not exaggerating, it's a hundred percent worth it.

Stefanie O'Connell Rodriguez: This is really a good point because I think in those moments of overwhelm, it feels like the last thing on my to-do list. But there is a cost to putting that off. And I think there is an enormous benefit to being proactive about this, that is probably so much bigger and more life-changing than any clipping coupon you could ever do.

Delyanne Barros: I've seen people spend more time deciding on a high yield savings account than they will on learning how to invest. And I'm like, you guys are funneling your energy and your time into the wrong things.

Not that high yield savings account isn't worth it. It is. But please 30 minutes at the most, pick it and move on. Like there are bigger fish to fry and investing is where you need to focus your time and your energy.

I mean, if you've got places to cut your expenses great. But again, that's not where all the time and the energy should be going, it should be going to, how can I actually take the money that I have and optimize it and grow it so that I don't have to be living in this budget lifestyle forever and ever. I want you to live beyond the budget.

Anybody is capable of wrapping their head around investing in the stock market. You do not need to become a day trader. You do not need to learn how to pick sexy stocks. You do not need to learn how to read financials. You don't have to do any of that, that stuff. I promise.

Stefanie O'Connell Rodriguez: Before I let you go. Where would you keep your emergency fund?

Delyanne Barros: I keep it in a high yield savings account. Yes, for sure.

Stefanie O'Connell Rodriguez: Same, same.

Delyanne Barros: I'm very transparent with my net worth and I share everything that's in my accounts. And I recently shared my balances for everything. People are like, oh my God, why do you keep so much in cash. Isn't cash, like horrible. Aren't you only supposed to keep three months of expenses and then that's it.

And I'm like, no it all depends on, your goals, your preferences, like how do you know what I'm going to be doing with my cash? Right. So my cash has multiple purposes. One is the emergency fund. Two is I'm saving for a down payment for a home that I'm going to buy some day in Portugal.

All of your money doesn't have to be invested.

Stefanie O'Connell Rodriguez: Yeah. So, so, so true. As much as there is an overemphasis on budgeting, I sometimes think there is this overemphasis on, "Oh, I have to make my money work for me" that we kind of forget that having the money there for you in a moment of crisis is so, so, so fundamental.

Delyanne Barros: Absolutely. And it's not just like emergency, right? Because people are like, well, in an emergency, you can go and take money out of your brokerage account, which is true, but I don't want to be selling investments.

Because usually emergency surrounds times of crisis in the economy. So what if you are out of a job? You're having to cash out your brokerage account. The stock market may not be doing so hot—all these things can coincide. So now you're out of a job cashing out your investments at the bottom of the market.

Maybe you would have been better off if the money had been in cash. So there's a time and place for everything, right? That's why it's called asset allocation. That's why location of your assets matter, like where you have your money matters. And again, there's no set rule for everybody.

It's so specific. So you've got to ask yourself, why do I have this amount of cash in this place? What is the purpose of each bucket of cash? It's not just a huge lump sum of cash. Are there different priorities there? And do what's best for you. Like don't let anybody bully you into how you manage your money.

Stefanie O'Connell Rodriguez: Don't let your friend texting you about Ethereum, be the one who makes the final call on your money, because I promise you, they do not care about your money more than you do.

Delyanne Barros: A hundred percent. Nobody does. Not the financial planner you're talking to, not the 401k administrator. Nobody cares about your money more than you do, so you have to be plugged into it. You're your best advocate.

Stefanie O'Connell Rodriguez: So should you use your extra money to pay off debt or invest? While fundamentals like paying the bills, making at least minimum payments on all of your debts and building up an emergency savings fund might be relatively universal, the truth is, there isn't really a one size fits all answer beyond that.

If your projected rate of return investing is higher than the interest rate on your debt, you might decide to prioritize investing any extra money you have leftover after meeting your minimums, but there are so many other factors to take into account. Being the boss of your own money means taking the time to sit with your numbers and look at your options and ask lots of questions, so you can come to an answer that works for you, your circumstances and your goals. And yes, that can be overwhelming, especially with all of the noise around investing these days.

But it's ok to start small and simple, like in Avery's case, with learning to maximize what she already has through her 401k at work, and utilizing all of the resources and educational support tools that come with it to build her investing habit and her investing knowledge while paying off her debt. More than any single financial tool or strategy, it's that process of dedicating the time to managing and maximizing your money that ultimately matters most.

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