

# I received a large tax refund. Should I invest it, or pay off some debt?

Every Friday, The Star asks local financial experts to respond to readers' questions on consumer and investor issues. If you have a question, e-mail it to [dwight.adams@indystar.com](mailto:dwight.adams@indystar.com) or mail it to: Personal Finance, The Star, P.O. Box 145, Indianapolis, IN 46206-0145.

From paying off high-interest credit-card debt, to paying a little more on a personal loan or mortgage, to contributing to the maximum allowed on your chosen retirement investment vehicle, you can do a lot if you received a little extra money on your tax refund this year. Let members of the Financial Planning Association of Greater Indiana help you sort out the details. Visit the group's Web site at [www.fpagrindiana.org](http://www.fpagrindiana.org).

## Bob Fredrikson

CFD INVESTMENTS

Your question begs the question: "Why do you have a large unexpected refund AND debt?"



There may be a flaw in your financial plan or tax planning. Perhaps your circumstances have changed and your plan merits review? Please meet with your adviser to review your financial plan, budget, tax withholding and estimated tax payment amounts. Doing so may allow you to have more cash during the year, reduce consumer debt and avoid giving an interest-free loan to the government.

If your debt is consumer debt, pay it off! Borrowing money to live beyond one's means is a huge hindrance to accumulating wealth. If your debt is strategic long-term debt such as your home mortgage, I generally do not recommend paying these off early until the rest of your wealth accumulation plan is on target.

Second, ensure you have reserve funds to cover emergencies and the occasional large consumer purchase. This amount varies but is generally in the range of three to six months of living expenses.

Next, ensure your investments are on track to reach your long-term goals. If not, deploy these funds in accordance with your investment plan. If you don't have an adviser, use these funds to hire a good one.

Lastly, as much as my writings advocate saving and investing, if all is on course, it's your choice. You can get ahead of your plans and invest or spend it. Good luck!

◆ Bob Fredrikson is a certified financial planner.