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3 Ways to Grow Your Tax Refund

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According to the IRS, at the end of February nearly 40 million tax refunds worth \$125 billion had been issued with the average refund check at \$3,120. If you already received a tax refund or are expecting a check from Uncle Sam this year, instead of blowing it in one place, consider adding a little padding to your

nest egg for your retirement.

“If you are receiving a tax refund this year, you have an opportunity to put that money to work for you,” said Mark Chandik, president and CIO at **FDP Wealth Management** and author of “10 Financial Strategies for the Smart Investor.”

Chandik offered the following three strategies on how to get a big “bang for your buck.”

Pay Down Your Credit Cards

If you're like most Americans, then you have balances on high-interest credit cards or maxed out credit lines. Chandik said eliminating that debt will save you from paying the annual non-tax deductible interest payments, and also free up cash flow that you can redirect into savings and investment options, like your company's 401k program. If you're already participating in a 401k, then consider increasing your contribution so that your tax refund is plowed back into retirement savings.

By paying off consumer debt and redirecting the cash flow you are receiving several benefits with the same dollars. According to Chandik, “this is the type of efficiency that helps you reach your financial goals.”

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Invest in a 529 College Savings Plan

If you have children or grandchildren, then Chandik said you should consider

investing your tax refund in a 529 College Savings Plan. These special plans allow your money to grow tax free in stock and bond investments. The funds can only be accessed when you need to pay for higher education expenses, and you may also change the beneficiary to other children if the funds aren't fully utilized. Some states have plans that allow for tax deductible contributions as well.

Look into After Tax Investment Portfolio

If you have no consumer debt to pay off and your maximizing your 401k contributions, then consider beginning or adding to an after tax investment portfolio. According to Chandik, most people are “moderate investors” and are willing to take a moderate amount of risk to reach their retirement goals. He recommends utilizing indexed ETFs, because they are both inexpensive and tax favored.

“You don't have to get complicated here in order to be effective,” he said. One option he recommends is to invest 40% in the S&P 500 Index ETF, 20% in the MSCI All World – Ex US ETF and 40% in the Barclays US Agg Bond ETF. “This 60/40 portfolio should perform well over time IF you leave it alone and let long term market returns work in your favor,” he said.

As always, speak with your financial advisor to decide which strategies work best for your individual needs.

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