

Spend Your Bonus Wisely *Year End Holidays*



Good Use of a Year-End Bonus

Spending money isn't a bad thing, but spend mindfully

Many companies earmarked 2018 year-end bonuses this past fall – well before the markets reversed course. As such, you may find yourself fortunate: You got a year-end bonus for 2018.

Shelve for a moment your visions of exotic trips and instead evaluate how to make the most of this extra money.

Your year-end bonus remains taxable income and you can make smart decisions to use it responsibly, as you do (presumably) all your other pay. That doesn't mean you can't enjoy yourself a little, but keep priorities in mind. Consider these ideas:

Tackle debt first. Using your bonus to accelerate debt repayment is smart, especially if you put extra funds toward your debt that carries the highest interest rate: the higher the rate, the more money balances cost you over time.

Call your credit card companies if you're not sure which card has the highest rate. Not sure about your student loan rates? Log in to your account at studentloans.gov, where each of your loans' information includes the interest rates.

Set up an emergency fund. If you don't already have an emergency fund, create one in a liquid account (meaning you can get the money fast) and contribute to it. Your emergency fund protects you from

stumbles that might bust your monthly budget, such as sudden job loss.

Aim for three to six months' expenses in your fund if you see a regular, dependable paycheck. If your income or job situation is less stable or less predictable, consider six to twelve months' expenses.

You might also set aside money for other expenses that are difficult to budget for. For example, you can put money in a separate account to cover car or home repairs, set up a health savings account for unpredictable medical bills or just put money in your savings account for medical care. Some pet owners maintain pet emergency funds to cover veterinary bills.

Max out your 401(k) or individual retirement account. If you already regularly contribute to a retirement account, you can use your year-end bonus to put the yearly maximum in your 401(k). This saves for your future, reduces your taxable income and takes full advantage of your job's benefits. If your employer doesn't offer a 401(k), you can use your bonus to open or help fund an IRA.

Of course, you can still use your bonus to open and fund another retirement account even if you already have a 401(k) or similar employer-sponsored plan. If you don't have a Roth IRA, get one and use your bonus money to try to hit the max.

Invest in yourself. Financial professionals talk about investing your money to let it work harder for you. What about investing in you to increase your productivity, happiness or knowledge? Invest your bonus in yourself and take a class, continue your formal education or add to your skills.

Splurge wisely. You can and ought to indulge a little. Money often allows you to build security and stability but it also buys a bit of happiness when you put it to good use: spending on experiences and relationships and not on just more stuff.

Take yourself and a loved one on a fun and economical trip. Go to an event you always dreamed about attending. Travel to visit a friend or family member you haven't seen in too long.

Spending money isn't a bad thing you needn't squirrel away every last cent of your bonus. But spend mindfully on what you really value. Consider dividing your money, perhaps half toward your debt, 30% toward savings and 20% to splurge.

Ultimately, the best use for your bonus depends on your individual needs and goals.