

# FINANCIAL INSIGHTS BLOG

BUDGETING | SAVING & INVESTING | THE ECONOMY

## 5 Smart Ways to Use Your Bonus or Raise

*The holiday season is upon us again and during this time many companies give their employees a well-deserved performance bonus or raise. If you are lucky enough to receive extra compensation this year, here are 5 smart ways to put it to work (no luxury car purchases, or shopping sprees included).*

### 1. Pay off or reduce any outstanding debt.

One of the soundest financial strategies you can ever undertake is to pay off debt early. Doing so can save you thousands of dollars in interest payments over time. When you get your bonus or raise, plan to use a portion of this “extra” income to pay off or reduce any outstanding loans, starting with those that have the highest interest rates. If using funds from a bonus, consider making a lump sum principal payment. For monies from a raise, look at directing a portion of your monthly salary increase towards regular principal repayments in accordance with your budget. Remember to check with your financial institution on whether prepayments are permitted, and the maximum principal payment allowed without penalty.

### 2. Increase contributions to your retirement or investment portfolio.

It is no secret that the more money you put aside today, the more financially secure you will be in the future. Using money from your bonus or raise to shore up your personal investments is an excellent way to achieve your long-term financial goals sooner. You can start by increasing your monthly contributions to your retirement fund and also use your extra compensation to add money to a new or existing investment portfolio that is aligned with your financial goals. Both strategies can leave you better prepared in retirement and help you build wealth over time.

### 3. Boost your emergency fund.

An emergency fund is an important financial safety net to protect yourself and your family in the event of an unforeseen circumstance, including medical emergencies, job loss, natural disasters or, as we have all recently experienced, pandemics. Ideally the fund should contain at least three to six months of living expenses depending on your personal situation. If you have not yet started an emergency fund or deem your current one insufficient, it is always a solid choice to use monies from your bonus or raise to help you prepare for the unexpected.

### 4. Invest in yourself.

You have worked hard for your bonus or raise. You’ve been following healthy financial practices, your budget is sound, and your debt is under control. Don’t feel guilty about rewarding yourself. Maybe you have always wanted to join the gym or check out that fancy new restaurant or go on a travel adventure. Enjoy yourself responsibly by carefully planning your activity and keeping everything within your budget.

### 5. Give back.

A bonus or raise presents a great opportunity to give back and share the wealth with others. Look at areas in your community where help is most needed and consider donating. Research has shown that giving back is good for your health and it has often been said that your health is your wealth!

**CFAL is here to help.** *If you need additional help, feel free to reach out to us for a Financial Planning Session. Our Certified Financial Planners are here to assist you with your budgeting, saving, and investing needs.*

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