

5 smart ways to use your bonus

By *AJ Smith*

If you get a little something extra in your paycheck, whether it's once a year or a few times a year, you are probably ready to celebrate. But, before you get started, it's a good idea to have a plan for this new sum of money in your lap so it doesn't disappear as quickly as it came. You worked hard for this bonus — make sure it works hard for you. Consider the 50/30/20 rule where 50% goes to pay off debt, 30% goes to savings and 20% goes to fun. These aren't the right percentages for everyone so it's important to look at where you currently stand financially, what your goals are, and these five tips so you can use this bonus the smartest way for you.

1. Pay Off Debt

The first debts that should be paid off with this cash influx are probably personal loans and credit card debt since they usually have the highest interest rates. Get these numbers down to zero, if possible. After you finish these debts, tackle debt with lower interest rates like student loans so you can save on interest and finish these payments ahead of time. The lifetime cost of debt is staggering, so the sooner you can tackle it, the more you can save. Paying down debt can also boost your credit scores, which can save you money in interest on other loans down the road. (You can see how your debt is impacting your credit scores for free on [Credit.com](https://www.credit.com).)

2. Max Out Retirement Contributions

If you aren't at the contribution limit on your tax-deferred plans like 401(k) or a traditional IRA, you may want to put a sizable chunk of your bonus here and reap the rewards later. You can defer paying taxes on the amount contributed, build your retirement savings and compound savings with larger future interest earnings. If your employer makes matching contributions, you can essentially boost the size of your bonus this way.

3. Work on that Mortgage

If you got your mortgage at higher interest rates, you could do some research to see if refinancing your home could save you money in the long run. The bonus could cover the closing costs. Also consider making prepayments to your mortgage to build more equity sooner (only good if you won't be subject to a prepayment penalty). A lump sum payment now can mean you pay less interest overall. If you don't own a home, consider creating an emergency fund specifically for rent or a down payment fund to buy a home in the future.

4. Get a Better Savings Account Rate

Since you should hopefully be putting some of your bonus into a savings account, take the opportunity to make sure your account is offering a competitive rate. Shop around and calculate potential yields so you can choose the best savings account for you. You may even qualify for higher rates because of the larger deposit.

5. Indulge Yourself — a Little

Now, the fun part — you used the majority of your bonus for debt repayment and savings, but you worked hard for that cash and, if you can afford it, can get at least a small reward. Splurging may not be common financial advice, but it can be motivational to treat yourself to a massage, new pair of shoes or any possession that was just out of financial reach before. Also consider experiences like a weekend getaway or concert tickets. Just be sure you set limits and don't get used to this inflated lifestyle — this is a one-time treat.

Remember, the percentages of how you use your bonus are not as important as making sure you are using this money the way it will benefit you most. Assess your current financial situation then calculate the different options and create your own budget for this cash influx

<http://finance.yahoo.com/news/5-smart-ways-bonus-120002064.html>