5 Things To Do With Your Raise Or Bonus

7,754 Views l August 17, 2018

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I help people on their path to Financial Freedom. FULL BIO
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With the economy growing at a rapid pace and unemployment dropping, wages are showing strong increases. According to the [Department of Labor] unemployment is at 3.9% and wages have been rising at a 2.7% annualized rate for the past three months. Companies are being pressured to pay more for talent and to keep their employees happy.

If you are one of the fortunate employees who is getting a raise or bonus or switching jobs in this tight labor market, here are 5 things to do with those newly found dollars:

1. **Increase your contributions into your 401(k) plan or retirement plan**. Few things are more effective in helping you reach your long-term financial goals than automatically saving your income before it hits your checking account. And when you increase your salary deferral (the technical term that retirement plan providers use) into your 401(k) or other retirement plan, you are also making a smart tax move. This is true whether you make a Roth 401(k) or a traditional 401(k) contribution.

2. **Build your emergency-fund savings**. While I prefer to be optimistic, the reality is that good financial times don't last forever. Not going into debt when the economy turns south is extremely beneficial for your long-term success. Therefore, prepare for unexpected and inevitable financial troubles by having an emergency fund. The suggested amount to have in an emergency fund will vary for each person or family. Generally, it should cover six months of living expenses including your mortgage, unexpected home repairs, and medical expenses. This may sound counterintuitive, but the worst time to borrow money is when you really need money; so be ready for the next economic downturn by having your own pile of cash and liquidity.
3. **Pay down any consumer debt**. Consumer debt, such as auto loans and credit card debt, are not tax deductible and usually carry a relatively high interest rate. Aggressively paying these debts down will reduce interest cost, which will leave you more money to invest and help you withstand future economic downturns or gaps in employment. Conversely, mortgage debt is tax deductible and may be lower cost, so don't rush to pay it down.
4. **Reward yourself**. Having a great life isn't just about having money. Think about a trip or activity that you have been meaning to enjoy, and do it! Of course, the financial advisor in me suggests carefully planning your adventure, comparison shop for prices, and keep it within a budget, but definitely commit to doing something you love as a reward for your recent success.
5. **Plan your next career move**. Getting a raise isn't just a sign of a tight labor market, it's also an indication of your own career growth and how valuable you are to an employer. So think big and look at your next progression. Map out a strategy that develops your skill set and consider options such as taking evening classes at a community college or joining a local social or networking group with other successful people in your field—as you climb the corporate ladder, the best jobs aren't always the ones advertised but rather come through word of mouth.

The economy is strong and the labor market is tightening. As the old saying goes, "make hay when the sun shines." When it comes to your personal financial freedom, a variety of strategies will likely make the difference for you. So save some of your increased cash flow, manage your tax bill, and pay down debt, but also enjoy the ride. If Millennials are teaching me anything it's that a work-life balance is important and that not enjoying your success doesn't make a whole lot of sense.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.

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