



Prudential Investment Managers

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## 5 smart ways to spend your bonus

If you were fortunate enough to receive a bonus in 2019, you may be wondering how best to use your new-found cash injection. But with so many options (and distractions) vying for your attention, it can be difficult to know exactly what to do. So to help you out, we've put together a list of five pointers to help you navigate your way to spending your bonus in a smart and effective way.

### 1. Don't give in to temptation

The temptation to splurge on that fancy new mountain bike or latest cool cell phone you so desperately want (but don't really need) becomes very real once you actually have the money to make the purchase. While big-ticket items certainly bring short-term satisfaction, it's important to weigh up the opportunity cost of not using that money more effectively.

So if sanity prevails and you manage to resist the urge to take to the trails on a new set of wheels, the big question becomes: now what?

### 2. Pay down debt

One of the very first options you should consider is to use your windfall to reduce any short-term debt obligations that carry high interest rates, such

as personal loans or credit cards. However, it's important not to make a habit of relying on your annual bonus to settle debt. While your company has shown that they value you as an employee, it would be prudent to view any future bonuses as a possibility, rather than a certainty. It's also best to avoid building up these expensive debts altogether.

### **3. Set up an emergency fund**

It makes good financial sense to allocate a portion of your bonus to a "rainy day" fund (if you don't already have one), that can be used as a safety net to cover unexpected once-off expenses, such as medical emergencies or critical home repairs. This can help you cover the cost of these unforeseen expenses without having to take out expensive short-term loans.

### **4. Invest for your future**

Depending on which survey you read, the general consensus is that only about 6% of South Africans will be able to afford to maintain their standard of living in retirement. You may want to consider using your bonus to top up your retirement savings before the end of the tax year in February. This has the added benefit of saving some income tax - the government provides incentives to save towards retirement by allowing individuals to deduct their contributions from their taxable income (within certain limits).

Another option is to open a tax-free investment. Investors can contribute up to R33,000 to their tax-free account each year, with a maximum allowable lifetime contribution of R500,000. Investment returns earned in the account (i.e. income and capital growth) are completely free from tax, as are any future withdrawals.

### **5. Reward yourself**

Finally, it's important to treat yourself and your family. But before you start swiping your credit card, decide on the percentage that you will be allocating to "luxury expenditure" and stick to it. Anywhere between 10-15% is a good rule of thumb.

The beginning of the year is a good time to review your financial plan to assess whether you are still on track to meet the objectives you've mapped out with your financial adviser. This will serve to bring your investment goals back into focus and help ensure that your spending decisions are made with an objective lens.

Prudential unit trusts and tax-free investments can play an important role in your success: if you aren't already investing with us, contact your financial adviser or our Client Services Team on 0860 105 775 or at [query@prudential.co.za](mailto:query@prudential.co.za).