

#3 - Use the 1/3 Rule: Pay Debt, Build Reserves & Have Fun!

Do you remember how it felt when you got the “Advance to Go, Collect \$200” card in Monopoly? There’s nothing like getting extra money you weren’t counting on.

In real life, though, I’ve seen so many people get excited about tax returns, year end bonuses, small inheritances, and other extra or “found” money. And then I see them get disappointed because they had dreams for the money, but it disappeared into their financial abyss before they used it. Or they used it all to pay down their debt, but then their free spirit was disappointed with their responsible decision. Still others I’ve seen just go spend all the money on something fun, and not use any of it to bolster their financial life, only to regret their decision the next time they got into a financial pickle.

With found money, you have four options: pay down your debt, increase your reserves, spend it on something you’ve wanted or put it in your checking account and let it disappear into the abyss. We all know the abyss is a bad idea. Don’t ever put found money in your checking account.

Of the other three options, we are each predisposed to choosing one over all of the others. Oddly enough, those with debt problems tend to have a compulsion to use found money to pay off their debt. But then they still have a debt problem.

Their next found money, they pay off more debt, and they still have a debt problem. No amount of found money will ever stop the leak of a debt problem if it isn’t attacked with consistency and balance.

Practicing the 1/3 Rule every time you have “found” money brings financial balance. Divide any found money into thirds and make intentional use of it:

1/3 Pays down existing debt.

1/3 Builds your reserves.

1/3 Is yours to have a little fun with it.

When I’ve used the 1/3 Rule with clients I’ve often heard “but I have too much debt to have fun with any of this” or “I don’t deserve to use it on myself.” While those are very logically true statements, we aren’t always logical with our money. And what I’ve seen over and over is that those who try to be uber-responsible tend to go spend extra money anyway, almost subconsciously. If you want long-lasting financial balance, put rules in place that support all of your needs.