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How to Use Your \$1,200 Stimulus Check Wisely



By Simon Zhen Updated: Apr 22, 2020



As Americans [receive their stimulus payments from the IRS](#), you may be wondering how you should spend the money -- up to \$1,200 -- in your particular case.

For some people, this money comes at a time when financial relief is needed. For others, this money doesn't have to go toward necessities.

To use the stimulus payment most wisely, here's a guide on how to prioritize where the money goes:

Address Immediate, Unavoidable Expenses

Currently, there are various ways to stall your biggest financial obligations:

- **Housing:** You may be able to work out a payment plan for rent or suspend mortgage payments without late payment fees



Jump To:

- Other loans: Similar to mortgages, you may be able to suspend payments on student loans, auto loans, and even credit card debt
- Utilities: Utility providers are most likely not imposing late-payment fees and vowing to not cut off service for nonpayment
- Recurring monthly expenses: Membership and subscription fees should be paused or canceled if not accessible or in use

Even with the above options, you may still find yourself struggling financially.

For instance, your landlord may have rejected your request for a payment plan and you're trying to come up with the money to pay rent.

Look:

If you've been eagerly waiting for the stimulus payment, you probably know what you already need the money for -- expenses that cannot be avoided at the moment.

But, if you want to make sure that the money goes to the right expense, you should be focusing on critical necessities that include shelter, food, and urgent healthcare.

Build (or Increase) Your Emergency Fund

For those who don't need the stimulus payment for urgent financial expenses, it would be smart to put that money toward an emergency fund -- if you don't already have one.

And, if you already have rainy-day savings, you can't go wrong by making it bigger.

Typically, we recommend **a minimum of 3 months worth of living expenses**.

You might consider increasing the emergency fund to be equivalent to 6 months of living expenses.

Why?

While you might still have income or a large amount of accessible assets, economic conditions can change drastically at the moment. So, it is best to prepare for an unexpected job or income loss now.

Pay Off Debt

If you're still working and already have a good amount of savings, the next best use for your stimulus payment is to pay off debt.

An extra \$1,200 can help significantly to reduce interest charges over the life of your loans.

Furthermore, it will speed up the process of becoming debt-free.

Generally, you'd want to prioritize high-interest debt, especially credit card balances that are not under a 0% APR introductory period.

Making an extra payment on a mortgage (toward principal) can also result in major savings on interest over the life of the loan.

Invest It Carefully

Those who have their finances in order, the stimulus check offers extra funds for investing.

As a caution:

The stock market has proven to be extremely volatile during these times of uncertainty.

Still, the big decline in the overall stock market has presented an opportunity for investors to get in at lower prices.

Just remember to invest in a diversified portfolio to reduce the risk of your holdings -- commonly done with [index funds, mutual funds, and exchange-traded funds \(ETFs\)](#).

If you do plan to invest more in the stock market, it is generally advised to do in the following order:

401(k)

Bump up your contribution to a 401(k) plan if you aren't already on track to hit the annual contribution limit (\$19,500 for 2020; an additional \$6,500 for those who are age 50 or older).

IRA

You could funnel the stimulus payment directly into an IRA and enjoy tax benefits [whether you have a traditional IRA or Roth IRA](#).

Since the tax-filing deadline for tax year 2019 has been pushed back to July 15, 2020, you still have time to make an IRA contribution for tax year 2019 (annual contribution limit is \$6,000; an additional \$1,000 for those who are age 50 or older).

Otherwise, you can use it toward your 2020 tax year contribution (same contribution limits at tax year 2019).

Taxable brokerage

After using the common tax-advantaged retirement accounts, you can put the stimulus check in a taxable brokerage account.

Conclusion

The massive economic impact of the coronavirus pandemic has led to many Americans losing control of their finances.

By using the stimulus check wisely, you can take back more control of your finances and put yourself in a better financial position.



About the author Simon Zhen Simon Zhen is a research analyst for MyBankTracker. He is an expert on consumer banking products, bank innovations, and financial technology. Simon has contributed and/or been quoted in major publications and outlets including Consumer Reports, American Banker, Yahoo Finance, U.S. News - World Report, The Huffington Post, Business Insider, Lifehacker, and AOL.com.



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