

# Financial Wellbeing



## What Does “Pay Yourself First” Mean?

**By: Paula Pant** - Budgeting & Personal Finance Expert

One of the key principals of personal finance is "pay yourself first." What does pay yourself first mean, and how does it apply to budgeting?

### What It Means

"Pay yourself first" doesn't actually refer to how you **earn** money. It refers to how to **save** money.

### Why "First"?

Most people say they don't save enough money for retirement, or invest enough, or save a big enough emergency fund, because they *don't have the money* to save more. That's why personal finance advice says that you should pay into those accounts **FIRST**. Treat it like a bill. Approach it the same way that you treat your phone bill or your electric bill.

In fact, prioritize it over and above all of your other bills. Make savings the most important "bill" that you pay. Pay that bill first.

Why? Because this approach increases the likelihood that you'll actually save a substantial amount. It converts saving money from a "desire" into a necessity. Your retirement and your emergency fund savings become a bill that **MUST** be paid every month.

### But I Can't Keep Up!

Many people argue that they can't keep up with their current bills. If they paid themselves first, they'd literally run out of money before the end of the month, they say.

Most experts reply that people should commit to paying themselves first anyhow. Once they make this commitment, they'll be forced to find a way to pay their other bills. It might require taking on a second job. It might involve cutting some bills, like cable TV. Most likely, it'll demand some combination of both earning more and spending less.

But here's the kicker: most people won't be motivated enough to take a second job, wear secondhand clothes and cut their cable TV for the sake of putting an extra \$400 per month into their retirement account. They will, however, be motivated enough to do that if they risk defaulting on their bills and having their heat turned off.

"Pay yourself first," in other words, is personal finance advice that strikes at the core of WHY people earn and save money.

## Analogy

Why do many experts recommend exercising first thing in the morning, at the start of each day? It's not for a physiological reason. The human body doesn't necessarily operate at peak physical performance at 6 a.m.

Instead, it's for a psychological reason. Many people say that they don't have time to exercise. And, indeed, if a person goes to work and then tries to exercise later, they'll often skip the gym. They'll be forced to stay late at work, pick up a child from soccer practice, run errands, or do any number of other tasks.

That's why experts often advise people to pay attention to exercise first thing in the morning, and then proceed with their day.

"Pay yourself first" runs on that same concept. If people try to pay for everything else first, and THEN save, they'll often find that they're left with nothing. But if people save first, and then pay their bills, they'll force themselves to make ends meet.

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