



## The Bucket Theory of Financial Management

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To become financially worry-free is not an impossible goal. Through a common sense approach, you can achieve this aspiration by working at it systematically.

Imagine five buckets hanging in stair step fashion, each below and a little to the right of the one above it. As water flows into the top bucket the bucket begins to fill. When it reaches its capacity, the water flows over the edge and into the second bucket. This process continues until all the buckets are filled.

Imagine that each bucket represents one of the basic financial priorities. The first bucket represents basic needs; food, shelter, clothing, and transportation. The second bucket represents financial security and includes an emergency fund and savings plan. The third bucket represents a family's insurance needs, including life, health, and property protection. The fourth bucket represents quality of life. The fifth bucket represents investments. The water that flows from bucket to bucket represents the resources a family has.

To build a sound financial base for a family, each bucket must be filled before resources are diverted to the next one. First resources are used to provide basic needs. As income increases and money is left after basic needs are met, the extra is used to develop an emergency fund and begin a regular savings plan. When saving is regular (ideally 10% of income) and the emergency fund complete (containing 3-12 months' salary), the next step is to purchase adequate insurance to protect the family's health, income, and property.

When adequate insurance coverage is provided, extra money is then diverted to building quality of life. Quality of life focuses on acquiring some of the wants, extras, and frills. The last step is to channel the extra money available into investments that will provide a secure future for the family. This might include money for children's education, retirement, or family goals.

This "bucket theory" of financial management is a common sense approach to planning a family's financial future. It provides a systematic way for families to set and reach financial goals and it helps the family build a sound financial foundation.

**RESOURCE:** Successful Money Management (EC 428.1-4) by Dr. Barbara Rowe with Kay W. Hansen and Marsha M. Peterson, Utah State University Cooperative Extension Service, November 1990.