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What to Do If You Receive a Financial Windfall

How to prepare for those rare occasions when a large sum falls into your lap

by Ellen Stark, **AARP**, April 19, 2022

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For most of your life, money comes in at a slow and somewhat steady pace. Maybe you get a paycheck every two weeks or a Social Security payment once a month. Now and then you might get a bump from a raise, bonus, gift or side hustle. Sometimes, though, you have a genuine windfall, the type with three or more zeros at the end of it: an inheritance, an insurance settlement, a lump-sum pension payout or the proceeds from the sale of a long-held family home. Even a tax refund can seem like found money at times.

At these moments, you're faced with the challenge of handling the sudden appearance of a large sum of money that could change your life — or be a lost opportunity. Follow this plan to make the most of the moment.

Slam on the brakes

"The first thing to do is take a deep breath," says New Orleans financial planner H. Jude Boudreaux. "We often rush to make a decision, and quick choices can lead to regret." You need to give yourself time to process your emotions and plan carefully, especially when a windfall is the result of an unhappy event like the death of a family member or a settlement from a traumatic accident.

While you're figuring out your next steps, you may want to park the money in a safe place that's separate from the rest of your savings, making it less tempting to fritter away. Up to \$250,000 of a single depositor's accounts in the same category at a bank or credit union is insured. Alternatively, U.S. Treasury bills are extremely low risk.

Ride out the emotional roller coaster

With an inheritance, you might feel that you don't deserve the bequest or wish that the deceased person had enjoyed the money while alive; the resulting mixture of guilt and grief might cause you to burn through the money quickly or impulsively give it all away. Even if the source of the money isn't tragic — perhaps it's a home sale — your first reaction can be giddily irrational. We have a natural tendency to treat found money differently than income from a paycheck, leading to mindless splurges.

Megan McCoy, a marriage and family therapist who teaches financial therapy at Kansas State University, suggests talking to a friend or therapist to help articulate your emotions and how they might be affecting your financial plans. "Try to have a split in your brain," she says. "Keep the financially smart things to do and the emotional processing distinct."



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Create a timeline

When you're sorting out what to do with a windfall, Boudreaux recommends breaking your plan into three parts: now, soon and later. During the "now" period, figure out what you really have to work with, including whether any of the windfall is subject to taxes. Inheritances, for example, can be taxed in six states. Life insurance proceeds, except for interest, generally aren't taxed, gains on a home might be, and lottery winnings are. Once you determine your net dollar amount, consider shoring up your financial health by paying off high-rate credit card balances and bulking up your [emergency fund](#).

In the "soon" stage, it's time to develop a full financial plan for the money, including an investment strategy and management of your other debt, such as the mortgage on your home. (Don't race to pay off that mortgage in the "now" phase, advises Columbus, Ohio, financial planner Jill Gianola. "Emotionally, it feels good," she adds. "But from a purely financial point of view, you're better off not paying off your mortgage, and investing and letting money grow.")

And the "later" part of the process? That's deciding on big moves like buying a vacation home, making large gifts to charity or family, and updating your estate plan. "Give yourself time to ensure you're happy with your decisions before you do anything," McCoy says.

Prepare for pleas

A windfall may bring friends or family members out of the woodwork, hat in hand, but planning for your own financial security should be your priority. If someone asks for financial help that you'd rather not give, McCoy suggests this defense: First say that you'll think about it and promise to talk later, then practice your assertiveness skills to stay calm during the upcoming conversation. "If a person truly loves you," she says, "they should be able to accept no for an answer." If you're rejecting a request, articulate your reasons; people like hearing the "because," McCoy says. And don't feel guilty about not helping out. "Whatever way you received the money, it is yours to decide what happens to it," she says. If you decide you do want to help out, you may find that it's rewarding. Studies have found that spending money on other people makes us happier than spending money on ourselves.

Build on what you have

If you already have a [plan in place for retirement](#) and other goals, don't scrap it. Instead, see how this newfound money fits in. "If you felt you never could retire, an inheritance can make it possible," Boudreaux says. "Or it might accelerate the timeline or let you move into an encore career." A cash infusion can also fund smart tweaks to your plan, such as delaying to cover the taxes on [converting a traditional IRA to a fully tax-free Roth IRA](#) or put off claiming Social Security. "Delaying from age 67 to 70 means a 24 percent increase in benefits for the rest of your life," Gianola says.

Go slow with the market

If a windfall leaves you with a large amount of money to invest in the stock market, invest over time. "I am not a big fan of investing everything on day one," says Winchester, Massachusetts, financial planner Catherine Valega. Emotionally, it's hard to put a large sum at risk all at once. (As is the case anytime you invest, diversification reduces your risk of major losses; a broad-based mutual fund offers far more safety than shares in a handful of individual companies.) If you feel like an inheritance has made you custodian of a parent's legacy, Gianola notes, "it may hurt more if you invest the money in risky assets and lose it."

Be intentional in your spending

If you want to reward yourself with some of your newfound money, give in to that impulse — within reason. "It's dessert, not the main course," Boudreaux says. "Perhaps carve out 10 percent to 20 percent of the money to spend on stuff." Deploying the money in a way that honors the source can also help you feel better about a windfall, especially one that carries the emotional residue of an inheritance from a family member. You might want to take your family on a vacation or donate money to a charity that was meaningful to the person who left you the money. "Creating a memory increases the long-term remembrance of that person," Boudreaux says. "It's impactful and can be important."

Ellen Stark worked for 25 years as a writer and editor at Money magazine.

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