

Life Event: When Receiving a Windfall



What constitutes a “Windfall”?

- “Windfalls” occur when individuals receive **large amounts of money in sudden and sometimes unexpected ways**
- The **sources** of the money can differ, including for example an inheritance, a gift, winnings (e.g., the lottery), a legal settlement, sale of a business, divorce, or a large bonus
- Oftentimes “windfalls” are accompanied by **intense emotions**, for example grief due to the loss of a loved one, or joy due to good fortune – feeling either emotion is very normal
- There is no legal or regulatory minimum size that defines a “windfall” – it is highly subjective, but **feels consequential** to you, the recipient

Traps to avoid?

- **Do not be rushed** – take your time to take stock, gather information, reflect, and then make informed decisions
- While of course allowing yourself some small indulgences, **avoid the temptation to splurge**, to make major purchases fast
- **Be wary of “long-lost-friends”** that may come out of the woodwork

What best practices to consider?

- Depending on the source of your “windfall”, determine the **tax implications**, and set aside cash for any taxes due -- your tax or financial professional can help
- If relevant, it may be a good idea to **pay down debt**, in particular if you hold high-interest debt – this will improve your cash-flow and benefit your credit rating
- If you don’t have one already, establish or top off your **emergency fund** to be prepared for a “rainy day” (3-6 months expenses in safe and liquid cash-type investments, e.g., CDs or savings accounts)
- If there is an opportunity to **take the money over time as opposed to a lump-sum** (sometimes the case e.g., with lottery winnings), compare both options with your financial professional; to note, taking the money over time may have monetary and behavioral benefits
- Update your existing or start a new **Financial Plan** – work with your financial professional to articulate and prioritize your life-defining goals, both short-term and long-term; then construct your investment program to meet these goals
- Work with a financial professional to set up and maximize **investments in both tax-advantaged and taxable account types**
- Update your existing or start your key **Trust & Estate** documents – the windfall will most likely cause major rework given new wealth levels, new goals, and new Trust & Estate opportunities
- If you are philanthropically inclined, rethink your gifting strategies, and explore setting up a **Foundation** or funding a **Donor Advised Fund**
- **Consider keeping your day job** – staying engaged in your current (or another) job has multiple benefits, including purpose, belonging, income, healthcare, Social Security contributions, etc.

Supporting Information

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Key Sources and

Further Reading

- ["Tips for Managing a Financial Windfall" by FINRA](#)
- ["Financial Windfall" by National Endowment for Financial Education](#)
- ["16 Smart Steps to Take When You Receive an Unexpected Financial Windfall" by Forbes](#)
- ["How to Manage a Large Cash Windfall" by Everplans](#)
- ["Unexpected Financial Windfall" Don't Make the 10 Common Mistakes" by Forbes](#)

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