

SUDDEN MONEY

WHAT TO DO WHEN YOU LAND A WINDFALL



Many of us will receive an unexpected windfall

at some point in our lives, with inheritances and retirement payouts being the most common.

Susan Bradley, CFP[®], author of *Sudden Money: Managing a Financial Windfall*, defines “sudden money” as the unexpected receipt of an amount of money that is much larger than you are accustomed to managing. According to her research, there are eight sudden money events: Taking a lump sum retirement payout, inheritance (either spousal or intergenerational), winning the lottery, insurance settlements, divorce settlements, stock options and becoming overnight sensations in entertainment or athletics.

“Many of the issues, decisions and challenges that sudden money recipients encounter are the same ones that they would have faced on

their more gradual journeys to money maturity,” Bradley writes. “But then a situation is thrust upon them, and they feel like they have less time to figure out what is going on in their financial lives; more people want to advise them, go into business with them or borrow money. And new friends come out of the woodwork.”

Even if you are an experienced investor, sudden money puts you in new territory, and you will need objective professional guidance. A windfall can result in a quick transition from the accumulation phase of your financial life to the wealth management phase. Your goals could change along with your tax bracket, and estate planning may become more important.

The sudden money process has three phases, and each phase has to be completed before you move on to the next one, Bradley writes. “Phase one is a time of preparation and planning for the investment and lifestyle decisions you will be making in the second phase. Phase two is a time of action: putting your money to work by investing. Phase three is defined by the monitoring of your annual progress toward the goals you have set, and sharing your wealth with your family and community.

“The turning point of phase three is when you realize that you have enough money and income for your own needs,” Bradley writes,



“and when you begin to think about passing your wealth on to your loved ones and sharing some with charitable causes.” Estate planning and charitable giving typically come later in the process, but they can be the most rewarding aspects of having wealth.

Tips for Financial Success

TAKE TIME TO SETTLE INTO YOUR NEW CIRCUMSTANCES

Before making changes, discuss your options with your financial advisor. Make sure to set short- and long-term goals. You may be able to do anything you want, but you may not be able to do everything you want. The National Endowment for Financial Education estimates that as many as 70 percent of people who receive a windfall fritter it away in just a few years.

How much you spend each year will have a major impact on how long your money lasts. If you don't know how much you spend, prepare a budget. Determine the sources of your income and how much you can spend each year without going broke. Keep an eye on your cash flow. When sudden money

recipients get into financial trouble, it is frequently caused by overspending, bad investments or both, according to Bradley.

DON'T NEGLECT YOUR EMOTIONS

Allow yourself adequate time and space to experience the emotions associated with your windfall. You can explore the emotional aspects of wealth at The Inheritance Project, inheritance-project.com.

If you use your money for the good of your family and yourself and refrain from making financial decisions when you are upset, you will avoid many mistakes.

DON'T QUIT YOUR JOB UNTIL YOU KNOW YOU CAN AFFORD TO

Determine what level of income your windfall will support for life. Receiving \$1 million or \$2 million may support you if you are 65 years old, but not if you are in your 40s. Even a large amount of money can be decimated by inflation over long periods of time.

FIND A FINANCIAL ADVISOR

Ideally, your windfall will be used to create your highest good, but you must take care of financial details. An advisor can help create your financial plan, decide which debts to pay off, determine what amount of income your new money can safely support, establish your tolerance for risk, advise which investments are appropriate for you and minimize your tax burden.

DON'T GIVE UP CONTROL OF OR ACCESS TO YOUR MONEY

This is the No. 1 area of trouble, according to Bradley. "In the beginning stages, the money management process may seem overwhelming or simply unappealing. It is not only OK to hire a professional to help you, but I strongly recommend that you do so. Hiring financial planners, CPAs and lawyers does not mean you have given up control; you always have the right to fire the person or firm you have hired. Never give up your right to control your money."



GIVE YOURSELF AS MUCH TIME AS YOU CAN TO LET YOUR MONEY GROW

Establish your financial security as soon as possible. Even though a modest amount of sudden money may not alter your life today, if managed properly it may provide retirement choices otherwise unavailable to you.

REVIEW YOUR INSURANCE NEEDS

If your inheritance has substantially increased your net worth, you may need to raise your personal liability coverage.

DON'T TAKE TOO MUCH - OR TOO LITTLE - INVESTMENT RISK

Your objective is to use your new wealth to create long-term financial security; for this to work, your investments must keep pace with inflation to avoid jeopardizing your lifestyle and financial security.

DIVERSIFY YOUR PORTFOLIO AND DON'T TRY TO TIME THE MARKET

Diversification will reduce the risk in your portfolio. Research shows that attempts to time the market result in lower performance.

KEEP A VIGILANT EYE ON YOUR TAX SITUATION

If you don't pay attention to taxes, you can establish a lifestyle that you cannot afford. For example, if your investments produce \$100,000 a year, you really have \$60,000 to \$70,000 to spend after federal and state taxes are paid. If you are spending 30-40 percent more money than you have, the result will be unpleasant.

DON'T INVEST IN ILLIQUID INVESTMENTS

If you invest in limited partnerships, real estate investment trusts or real estate, you may not be able to liquidate the investment when you wish to do so.



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DON'T INVEST IN A NEW BUSINESS

These are the ultimate illiquid investments, with high failure rates.

KNOW WHICH DECISIONS ARE IRREVERSIBLE

When researching any investment, one of the fundamental questions is, "How will I get my money back?"

DON'T USE YOUR MONEY TO GET EVEN OR TO MAKE A POINT

If you use your money for the good of your family and yourself and refrain from making financial decisions when you are upset, you will avoid many mistakes.

DELAY GIFTING UNTIL YOU REALLY KNOW WHAT YOU HAVE

If you have plenty to share, your advisor can help you create a giving plan. The key is to determine that you have enough to give some away. Too many windfall recipients give away their money only to discover that they will need it in the future.

DON'T LOAN MONEY TO FRIENDS OR RELATIVES

There will be times when you want to help someone. If you decide to proceed, structure it as a gift, not a loan.

If sudden money recipients use their windfalls to increase their financial security, education and philanthropy, the benefits will be felt far beyond the recipients.