Advisor Article

How to Manage a Financial Windfall

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INTRODUCTION

A financial windfall is a significant amount of money that you receive, often unexpectedly. Such a windfall, whether expected or not, can be life-changing and requires a deliberate, structured approach to management. Your primary goal should be to leverage the windfall to help you meet your financial goals while avoiding impulsive, uninformed decisions which may be irreversible.

If you already have a comprehensive, written financial plan, receiving a windfall will be a fortunate event justifying a revisit to your plan to analyze how the windfall affects your plan and to adjust your plan accordingly. A windfall is one of the many "major life events" that I refer to as triggers to revisit and update your financial plan (others include marriage, birth of a child, new job or loss of a job, house purchase, divorce, loss of a spouse, and retirement).

If you do not have a financial plan in place, I strongly encourage you to establish one before making any decisions about how to use the windfall.

COMMON FORMS OF WINDFALLS

1. Legal settlements: settlements include personal injury settlements, divorce, workers compensation and settlements of employment discrimination.
2. Inheritances: this category may include real estate, retirement accounts, securities, cash, and assets held in trust.
3. Gifts.
4. Lottery winnings: taken as a series of payments; or as a lump sum.
5. Insurance settlements: these can be death benefits received as either a lump sum or annuity; as pre-death cash surrender values; or as life settlements, the sale of a life insurance policy by the owner to a third party in exchange for a lump sum.
6. Lump sum payments from an employer: these can be bonus payments or large lump sum severance or retirement payments.
7. Sale of real estate.
8. Sale of a business.
9. Cashing in investments that have significant value vs. your cost. These are often shares from employer stock options or appreciated assets in your investment portfolio.

I cite resources at the end of this article that refer to a broad definition of windfalls, beyond just inheritances, as different types of windfalls will often require varying levels of scrutiny regarding taxation, distribution rules and accessibility.

ESTABLISH A SENSIBLE PLAN OF ACTION

1. Do not make any rash or rushed decisions.

   Give yourself 30–90 days before making major purchases, investments, gifts, or leaving your job.

2. Keep the windfall separate.

   Many advisors recommend keeping a significant windfall in a dedicated account so you can clearly distinguish the new money from your normal finances. I think this can be done simply by investing the windfall in an isolated low-risk and liquid investment such as a bank account, investment settlement account or short-term CD at an institution that you already do business with while you develop a plan.

3. Assess the need for professional assistance and identity security.

For large windfall or one with complicated taxation or distribution rules, consider collaboration with a fee-only fiduciary financial planner, CPA, and (when appropriate) an attorney. Take the time to get references from people you trust and interview candidates until you find an expert with whom you are comfortable. Be cautious of anyone who immediately pushes proprietary investments, insurance products or annuities, private deals, or loans to acquaintances.

If your windfall is known to the public, you will need to be sensitive to your exposure to scams and identity theft. Taking steps to protect your personal information and being more alert to fraudulent inquiries and offers is particularly important.

4. Determine how the windfall will be taxed.

   The tax treatment depends heavily on where the money came from. An inheritance, property sale, bonus, retirement distribution, and lottery winnings can have quite different consequences. For a substantial windfall, I recommend you consult with a CPA, financial advisor or tax attorney since you may owe more taxes than expected and do not want to spend money that is actually owed as tax.

5. Define what the money is supposed to accomplish.

   Instead of asking "What can I buy?", ask:

   - When can I afford to retire?
   - What do I want my lifestyle to look like?
   - Which debts or obligations should disappear?
   - How much should go toward housing, education, or family?
   - How much do I want to give away?
   - How much should remain invested for decades?

6. Eliminate expensive debt.

   Paying off high-interest credit-card or similar debt is usually one of the safest "investments" available. Lower-rate debt requires more careful consideration.

7. Build a strong cash reserve (Emergency Fund)

   Keep enough cash readily accessible for emergencies and near-term expenses—often 6–12 months of required spending - if the windfall gives you the flexibility to do so.

8. Invest gradually and diversely.

   For money you do not need soon, a diversified portfolio appropriate to your time horizon and risk tolerance is generally preferable to concentrating the windfall in one stock, business, property, or speculative investment. You can adjust these investments over time as you make adjustments to your overall Financial Plan.

9. Put boundaries around gifts.

   Family and friends may approach you with requests or ideas. Decide your boundaries in advance and understand the tax implications before executing large financial transfers.

10. Make lifestyle changes slowly.

    A bigger house, expensive cars, memberships, travel, and recurring expenses are not just purchases—they create permanent spending obligations.

Most windfall regret comes from decisions made too fast such as impulsive purchases, hasty investments, or lending money that strains relationships.

CREATE A SIMPLE FRAMEWORK FOR MANAGEMENT OF THE WINDFALL

A common approach to integrate your windfall into your overall financial plan is to classify the windfall destinations into five categories (buckets) that are likely already part of your Plan:

Bucket	Purpose
Taxes	Money you may owe which needs to be set aside
Safety	Emergency fund + near-term needs
Freedom	Debt reduction and long-term financial independence
Growth	Long-term diversified investments to increase your net worth
Joy/Giving	Intentional spending on personal spending and charitable gifts

The exact percentages you apply to each category will depend on the size and source of the windfall, and your financial situation and plan. A $25,000 bonus and a $5 million inheritance require very different strategies.

SUMMARY

A windfall will often allow you to accelerate the achievement of certain financial goals, or to pursue new goals that were not previously feasible. However, it is important that you establish and follow a plan to manage the windfall as part of your overall financial management - preserve the windfall initially, optimize its potential next, then spend it according to your plan. A windfall can permanently improve your financial position — but only if you give yourself enough time to make deliberate decisions and avoid emotional ones.

REFERENCES

The articles below were referenced in preparing this information and are excellent resources to better understand this topic.

1. https://www.eustaceadvisors.com/files/eustace_advisors_article_20250421_new_rules_for_inherited_iras.pdf.
2. FINRA (Financial Industry Regulatory Authority): https://www.finra.org/investors/insights/managing-financial-windfall.
3. CIRO (Canadian Investment Regulatory Organization): https://www.ciro.ca/office-investor/investing-basics/managing-financial-windfall.
4. Fidelity: https://www.fidelity.com/learning-center/wealth-management-insights/what-to-do-with-a-windfall.
5. Bank of America: https://www.privatebank.bankofamerica.com/financial-education/financial-windfall.html.
6. Schwab: https://www.schwab.com/learn/story/how-to-manage-windfall.
7. Bogelheads: https://www.bogleheads.org/wiki/Managing_a_windfall. This site includes pointers to a number of other particularly useful resources.
8. Vanguard: https://investor.vanguard.com/investor-resources-education/article/what-to-do-with-your-inheritance.

9. American Century: https://www.americancentury.com/insights/invest-inheritance-windfall/.
10. Kiplinger: https://www.kiplinger.com/retirement/inheritance/inherited-wealth-your-first-moves.
11. AARP: https://www.aarp.org/money/personal-finance/financial-windfall/.
12. Experian: https://www.experian.com/blogs/ask-experian/how-to-manage-a-windfall/.