

Abstract. An unexpected influx of money — such as from an inheritance, bonus, legal settlement or lottery win — can feel exciting and full of possibility. But without a clear plan, that financial good fortune might not last as long as hoped. This article discusses how to avoid common pitfalls and use a windfall wisely.

Make smart choices with a sudden windfall

An unexpected influx of money — such as from an inheritance, bonus, legal settlement or lottery win — can feel exciting and full of possibility. But without a clear plan, that financial good fortune might not last as long as you'd hoped.

Avoid common pitfalls

It can be tempting to immediately buy your dream car or home, which could turn out to be an unwise purchase. Or you might be feeling generous when charities come knocking, only to find out later that they were fraudulent.

You can avoid these potential pitfalls by stashing your windfall in a bank or money market account as soon as you receive it. Waiting at least a month before you touch the money can help prevent impulse buys and other mistakes.

Also, you may owe taxes. Some windfalls, such as lottery winnings and certain legal settlements, are subject to federal tax — at a rate as high as 37% if your windfall pushes you into the top income tax bracket. State and local taxes may apply as well. A tax professional can help you determine what you owe.

Use your windfall wisely

What you eventually decide to do with your windfall will depend on many factors. If you have debt, you'll probably want to pay it off — especially if it carries a high interest rate and the interest isn't deductible. Also, establishing or boosting your emergency savings can minimize the need to incur future debt.

Next, consider where you'd like to be five, 10 or 20 years into the future. Develop a budget that will help you move toward your goals — whether that means retiring early, starting a business or something else. You probably shouldn't quit your job without having thought it through carefully. Few windfalls are large enough to see you all the way through retirement (depending on your age).

Plan for the long term

Be cautious about requests for money. Friends and family members may expect to share in your good fortune or may pitch “can't-miss” investment ideas. Before making any commitments, seek professional advice. We can help you evaluate the tax impact, prioritize goals and create a personalized plan to make your windfall last — and grow — for years to come.