

Three ways to prepare for a financial windfall

by Tiffany Irving, CEPA®, CFP® and Gregg Lunceford, Ph.D., CFP®

Do you ever dream of receiving a financial windfall? It may seem like a fantasy, but it happens more often than you might think. And, not unlike other financial issues, having a plan will ensure you make the most of your windfall and have no future regrets.

A financial windfall occurs when you suddenly receive a considerable sum of money you were not expecting, be it a few thousand dollars or even millions. Though it may sound like a good problem to have, it can be overwhelming if you have not experienced a sudden increase in income in the past. Many recipients of financial windfalls find themselves unsure of how to responsibly manage the funds. Good problem to have or not, if you don't plan accordingly, you risk the money being gone before you realize it.

There are numerous possibilities

Winning the lottery may be the first scenario that comes to mind when thinking about a financial windfall or sudden wealth. Interestingly, 44% of lottery winners spend 100% of their winnings within five years.¹ In addition to winning the lottery there are many additional possibilities. For example:

- An unexpected inheritance from a relative
- An unexpected bonus from work
- A settlement from a divorce or a lawsuit.
- You could sell an asset or property that was valued much higher than expected.
- A small investment you made turned into an overnight success

If you are fortunate enough to have such a windfall, advice and planning can prevent you from making short-sighted decisions with that new-found wealth.

This can be an opportunity for you to turn your financial windfall into lasting wealth for you and your family. You can begin to build the financial future you've always dreamed of.

Following are some practical tips to do so:

1 | Be aware of common traps

- Immediate gratification – buying new cars, taking extravagant trips, buying multiple homes, etc. These funds are not burning a hole in your pocket so take your time to build a plan that makes sense for your personal financial situation.
- Gifting to family or charity without a plan – You may want to help family, friends, or a charity that is near and dear to your heart, but being overly generous can cause you to run out of funds earlier than you expected.
- Forgetting about taxes – Be aware that some windfalls are taxable, and you don't want to forget to make any estimated tax payments that may be due. Your CPA and financial advisor can supply guidance here.

2 | Think about your personal financial goals & objectives and ask yourself these questions

- What do I want my financial future to look like?
- How long do I need or want these funds to last?
- Do I have immediate financial needs or high interest debt I need to pay down?
- Do I have adequate savings or emergency funds in place?
- Do I have college tuition to pay in the future?
- Should I create an investment strategy?
- Do I have adequate funds for retirement?

3 | Consult an advisor

Reach out to a financial advisor who will ask you the right questions, help you define your goals & objectives, and create a customized financial plan designed to meet your needs.

Receiving a financial windfall can be very exciting but may also be overwhelming as you determine how this sudden wealth can best be used for your family's overall benefit. Enjoy the moment but remember to strategize and plan accordingly. You don't want to fall into a trap, realize the money is gone and end up right back where you started.

If you or someone you know has a financial windfall and needs guidance, our team can help. We will work with you to define your goals and objectives, prioritize, and create a custom financial plan to help you build that financial future you've dreamed of.

[1] www.statisticbrain.com, "Lottery Winner Statistics," Statistics were compiled from 34 national lottery winners. Average age of 46.

Published February 2024

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2024, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.