7 TIPS FOR MANAGING A FINANCIAL WINDFALL
Receiving a sudden or unexpected amount of money can have a big impact on your life. And there’s more to managing that financial windfall than simply deciding whether to save or spend.

Around $84.4 trillion in inheritances will transfer from the U.S.’s aging population through 2045,¹ according to a study by Cerulli Associates. But 70% of the time, wealth is lost by the next generation – and 90% of the time by the third generation.²

Understanding how best to manage any extra money you receive is the key to making the most of it.

WHAT IS A FINANCIAL WINDFALL?

A financial windfall is receiving a large sum of money, sometimes unexpectedly, although it’s often something you’ve anticipated. In addition to inheritances, other things include job bonuses, the proceeds of business/property sales and divorce settlements — even a lottery win.

For some people, this money is the answer to realizing lifelong dreams. For others, it can be incredibly overwhelming. People experience a mixture of strong emotions, particularly if the money comes after the loss of a loved one. The presence of grief — and even guilt — can make trying to manage your financial situation an emotional task.

Working with an experienced Edelman Financial Engines wealth planner who understands your needs and circumstances is a valuable approach — they’ll be able to guide and support you along the way.
There’s no set formula for how you should deal with a windfall. Your decision should be influenced by your overall financial goals and your specific needs and circumstances. However, there are several things you should consider as you plan for how to manage this event:

1. **PAY OFF HIGH-INTEREST DEBT**

   Paying off at least some of your high-interest debt is a good starting strategy. Most credit cards charge high interest rates if you don't pay off your balance each month.

   It would be difficult to find any investment that will give you returns of 18%, and that's why you're better off eliminating all credit card debt before investing.

   If you have more than one credit card, pay down the card with the highest interest rate first. The same goes for any other high-interest debt you may have that doesn't offer any tax advantages.

2. **DEVELOP A TAX-EFFICIENT INVESTMENT STRATEGY**

   Tax-loss harvesting to offset future capital gains and managing unused retirement contributions are all strategies to consider, along with the general portfolio advice an Edelman Financial Engines wealth planner can give you.

   There will always be tax consequences that come with investing, but there are ways to manage after-tax returns to help maximize your investment income.
Your wealth planner can help offer tax-planning considerations as part of our overall services. By consulting with in-house certified public accountants, they will be able to discuss tax planning considerations as part of your overall investment strategy.

3. THINK ABOUT YOUR CHILDREN OR GRANDCHILDREN’S EDUCATION

One thing to consider is a 529 account. This type of account allows parents and grandparents to invest in diversified mutual funds and withdraw the money — tax-free — for qualified education expenses including tuition, college fees, textbooks and sometimes room and board expenses. Withdrawals used for tuition and related expenses are not subject to taxation.

Another option is to establish a trust for the benefit of the child or grandchild, and open and fund trust accounts so that the terms of the trust apply to those accounts. It may be more time-consuming, and it would require consultation with an estate planning attorney to draft the trust document. However, it would give you total control over the terms of the trust and how assets held by the trust can be used. This flexibility comes at the cost of losing the tax advantages of the 529 and beneficiaries will likely pay income taxes on any earnings the trust assets accumulate.

4. INVEST MORE FOR RETIREMENT

While it may indeed be possible to retire comfortably with the addition of this money, you need to understand how much you would need to retire now, and what you require as future income in retirement.
An Edelman Financial Engines wealth planner can review your retirement plan options, 401(k), 403(b), traditional IRA and Roth IRA, for example, and help you make the right decisions for your circumstances.

**5. HELP A CAUSE THAT’S IMPORTANT TO YOU**

Charitable giving, if done correctly, can give you some valuable tax benefits. It’s important to fully understand the implications of your donations, which may include ways to avoid paying capital gains tax on appreciation. Again, an Edelman Financial Engines wealth planner can provide information that you can discuss with your tax professional to ensure a strategy is applicable to your situation.

Setting up a donor-advised fund account, for example, lets you contribute to the charity or good cause of your choice with cash, stock or even assets, with several tax benefits. Your funds remain in the account, tax-free, until you decide to donate.

**6. FULLY FUND YOUR CASH RESERVES ACCOUNT**

If you haven’t fully funded your cash reserves, consider using a portion of your windfall to set aside an emergency reserve, if you don’t already have one. You should consider anywhere from three months to 24 months’ worth of expenses, depending on how stable your income.

**7. REMEMBER THE IMPORTANCE OF A DIVERSIFIED PORTFOLIO**

Even in the wake of newfound wealth, a well-thought-out diversification strategy matters. It may be tempting to move into higher-risk investments or be drawn into over-complicated investment schemes.

But it’s important to choose risk-appropriate investments and stay diversified for the long term.

Although past performance is not a guarantee of future results, if managed and invested wisely, a financial windfall has the potential to grow considerably over time and be worth more in the long run. Revisit your investment portfolio on a regular basis so you can fine tune your strategies and make sure that what you’re doing still aligns with your financial goals.

Bear in mind your goals are likely to change throughout your life. This is why a trusted relationship with an Edelman Financial Engines wealth planner can be vitally important.

57% of Americans are uncomfortable with their level of emergency savings.

---

It’s important not to act in haste and make impulse purchases. You’re likely to regret it later. But don’t be too cautious, either. Working with an Edelman Financial Engines wealth planner who understands your goals and unique circumstances can help you grow, maintain and protect your wealth. Through holistic financial planning, you can integrate any windfalls into your financial plans to help you achieve your goals.

Here’s how you can benefit from working with an Edelman Financial Engines professional:

• They can help make sure you understand all the potential implications, including the impact it may have on your current investment strategy.

• They can help you plan strategically and invest wisely. It might seem like you’re set for life, but a financial windfall might not last as long as you think.

• They can help you with general financial planning, retirement planning, investment management, tax planning, estate planning and insurance guidance.

• They’ll take an objective and integrated approach to helping you make financial decisions.

• They can consult with our in-house specialists for information and education specific to your unique situation.

• When it comes to investment advice, Edelman Financial Engines adheres to a fiduciary standard by placing our customers’ best interests first.

Once your plan is in place, you should continue to be disciplined with your spending habits and make prudent and informed financial decisions.
At Edelman Financial Engines, we help clients build, maintain, protect and transition their wealth by looking at their financial life, including retirement, tax planning and legacy planning.

We combine investment advice with other financial services for the complex needs of our clients, and when it comes to investment advice, we’re a fiduciary and act only in the best interests of clients. We’re not a broker-dealer and we don’t earn commissions on the investment advice we provide. Your planner will discuss and fully disclose our fees in detail with you and answer any questions. Our fees are generally a function of your assets that are under our management.

For more information view our Client Relationship Summary.

Our integrated approach provides wealth management services for your financial life:

- Financial planning
- Retirement planning
- Investment management
- Tax planning
- Insurance guidance
- Estate and legacy planning
- Small-business solutions

Our aim is to help you achieve your financial goals, whatever they may be, as well as long-term financial security. With the help of a dedicated Edelman Financial Engines wealth planner, you can better manage your financial windfall for things like home purchases, children's higher education, retirement and estate planning.
LET'S TALK

A financial windfall is likely to change your priorities and your future. With the right support and professional knowledge, you can manage your newfound finances and help protect your wealth as you work toward your financial goals.

Call (866) 227-9963 today to make the most of your financial windfall.
The information provided is for educational purposes only and does not constitute investment, legal or tax advice, an offer to buy or sell any security or insurance product.

Neither Edelman Financial Engines nor its affiliates offer tax or legal advice. Interested parties are strongly encouraged to seek advice from qualified tax and/or legal experts regarding the best options for your particular circumstances.

Neither Financial Engines Advisors L.L.C. nor any of its advisors sell insurance products. Edelman Financial Engines affiliates may receive insurance-related compensation for the referral of insurance opportunities to third parties if individuals elect to purchase insurance through those third parties. You are encouraged to review this information with your insurance agent or broker to determine the best options for your particular circumstances.

Investing strategies, such as asset allocation, diversification or rebalancing, do not ensure or guarantee better performance and cannot eliminate the risk of investment losses. All investments have inherent risks, including loss of principal. There are no guarantees that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies. Past performance does not guarantee future results.

© 2023 Edelman Financial Engines, LLC. Edelman Financial Engines® is a registered trademark of Edelman Financial Engines, LLC. All advisory services provided by Financial Engines Advisors L.L.C., a federally registered investment advisor. Results are not guaranteed. Certain services provided on an educational and guidance basis only. AM3139479.