

Rethinking your  
financial opportunities

# How to Handle a Windfall



Citi Personal Wealth Management



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It could be an inheritance, a large year-end bonus or a life insurance settlement.

## Confronting the challenges

It could be proceeds from the sale of a small business or a chunk of money from cashing in stock options. Whatever the source, you might receive a financial windfall, sometimes when you least expect it.

It will be tempting to splurge: to buy a fancy new car, trade up to a larger house or tack on an addition to your current home. But instead, you may want to use the money to help jump-start your financial future.

The windfall could mean a more secure retirement. It could help put your children through college. Or it could just give you a greater sense of financial security.

The sum you receive might seem impressive, but it may not be so large when you consider the cost of major financial goals, such as funding retirement or a child's college education. You'll also need to contend with your emotional reaction, which may range from euphoria to dread to guilt at having so much unexpected wealth.

Remember, most people build up wealth slowly, giving them time for their attitudes toward money to develop. But with a windfall, you often don't get that chance. How are you supposed to live now that you're suddenly rich—or, at least, have a lot more money than you expected? New wealth may also lead to tension with relatives and friends, as well as pleas for charitable donations.

The bottom line: If you don't take time to come up with an appropriate plan, your windfall could make your life more difficult, not less.

What should you do if you receive a financial windfall?

## Next steps

First, take a deep breath and plan each step carefully, beginning with taxes, which could take a big slice of the money. Consider consulting with a tax professional about the tax implications of your windfall. You might leave enough in a money market fund or bank account to cover any federal and state income taxes.

What about the money that is left over? Here are some strategies to consider:

- **Set up an emergency fund.** Financial Advisors often suggest setting aside six months of living expenses in case of financial emergencies.
- **Pay down debt.** If you have outstanding balances on your credit cards, car loans or other debt, look into paying them off, starting with the highest-interest debt. Also, depending on the size of your windfall and the balance on your mortgage, think about putting more money toward principal or even paying off the mortgage altogether.
- **Add to your portfolio.** This might be a good time to meet with a Financial Advisor to discuss ways to use your newfound wealth to round out your portfolio. Thanks to your windfall, you may be more inclined to take risk. But consider how you would feel if another major market downturn sharply reduced your portfolio's value—and what it would mean for your retirement dreams.



- **Fund retirement accounts.** This may not seem as necessary now. Still, Individual Retirement Accounts and employer-sponsored retirement plans offer tax and other advantages that are hard to pass up. In fact, if you are still working and your employer offers a 401(k), 403(b) or similar plan, perhaps you can now afford to contribute as much as the law allows. You can put \$16,500 a year in a 401(k) up to age 50 and \$22,000 a year if you're 50 or older. Similarly, you can contribute up to \$5,000 a year to an IRA if you are younger than 50 and \$6,000 if you are older.
- **Help the kids.** If you have children or grandchildren, consider setting up education savings accounts, such as 529 college savings plans. Earnings accumulate tax-deferred in a 529, and withdrawals are tax-free if used for such qualified college expenses as tuition, books, and room and board. Meanwhile, if your children are older, you might give part of your windfall directly to them.

**Give back.** If you believe you have more than enough money for your family's financial future, you might donate part of your windfall to charity, either directly or through a charitable remainder trust or donor-advised fund.

A Citi Personal Wealth Management advisor, working with your tax specialist, can help you deal with the tax and investment implications of your windfall.

## How Citi can help

Your advisor can also:

- Analyze your current finances
- See what adjustments you might make to your portfolio
- Figure out whether you are on track for your goals
- And even develop an overall financial plan

Citi can also answer your questions about retirement, college funding and charitable giving, and help you with various investment products, such as stocks, bonds, exchange-traded index funds, mutual funds, cash investments, annuities and alternative investments, either directly or through a professionally managed account.

### Make your good fortune last

To learn more about how Citi can help you navigate the complexities of a sudden financial windfall, contact your Citi Personal Wealth Management advisor.



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