

DESCANT

FINANCIAL PARTNERS

An Independent Financial Planning Firm

When a Windfall Lands **A Windfall Changes Everything or Nothing at All**

One of our clients just inherited a large sum of money from her Mother, and while she welcomes the money, she finds the options for using it overwhelming. Should she pay off her credit cards or her mortgage? Save more for retirement or pay off a car loan? Replace her roof or put it towards her children's college loans, or all of the above?

Financial windfalls come in many forms: a year-end bonus, an inheritance, a tax refund, severance / retirement packages or even a winning lottery ticket. But for many people, figuring out what to do when an unexpected sum of money falls in their lap -- whether it's a few thousand or a few hundred thousand dollars -- is no easy call.

Popular options for handling a lump sum include paying down debt and buying a house, but those choices carry their own trade-offs. No matter how you use a windfall, it should have a long-term benefit, such as getting out of debt or saving for retirement. Don't blow it all on a new car or on items that could get you deeper in debt, and don't focus on the short term benefits alone because these too will wear off all too soon and you will find yourself with a lot of stuff and not much else.

THE FIRST STEP – LOOK IN THE MIRROR

What we recommend to make the most of a windfall is to know your financial personality: Do you hoard money or spend too freely, or in amounts beyond your income? An honest assessment is essential for the development of a well-informed Plan and we strongly encourage establishing a plan of action. And, it does not mean you have to accept who you are. You can change, but you have to be honest with yourself before you can change anything.

Recipients should analyze their income and spending to know where their money goes every month, from mortgage payments to lunch, to insurance to miscellaneous items. That cash-flow analysis should also include a tally of all outstanding debts. In our experience, managing cash flow is the key ingredient to a positive outcome and a windfall doesn't ever change that.

HERE'S THE PAYOFF

For many people, an unexpected windfall of money presents an opportunity, an opportunity for a “do-over” if your financial life is in a state of disarray. We will take the time to “listen” to your dreams, what's important and what's not, what this windfall means to you and your family and how best to prudently utilize this windfall to help you live a financially independent retirement. Depending on your situation, you may benefit from paying down current debt, accelerating retirement funding, creating an estate plan, or setting aside funding for your children's future college needs.

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If you have children, you might consider putting a portion of the windfall into a 529 college fund. Each parent and grandparent (or anyone else) can give \$60,000 over five years to a child tax free by using these college savings plans, if the money is eventually used to pay for qualified higher education expenses. But don't rob your retirement to pay for college: You can borrow to pay for tuition, but in general not for retirement.

SMALL TREATS, BIGGER BENEFITS

Of course, many people who get money they weren't expecting feel an urge to spend it on a treat for themselves. We suggest you calm these temptations until you have looked in the mirror and established a plan of action. Take your time, there is no rush. However, there is no reason you can't "treat" yourself to some small outlay as long as it is within reason and doesn't represent a large chunk of the windfall.

The thrill-seeker inside us all is saying we should spend the money on a fancy vacation or maybe make a down payment on a new luxury car, but the practical person inside of us is a bit more rational. Listen to that rational person inside you. You will thank yourself later. Remember, a windfall can change everything OR nothing at all. The choice is yours, so please choose wisely.