



Making the Most of Your Lump Sum

Whether it is from an inheritance, an insurance settlement or some other source, receiving a lump sum of cash can open up a lot of financial possibilities. Follow these steps to help make sure you will end up feeling like you got the most you could out of your windfall.

Talk with a tax professional

If you've received a large amount of money, it's vital to know how much of that you are actually going to be able to keep and how much will go to Uncle Sam. You don't want to make plans for a certain amount of money and then find that the real number is much less.

Analyze your goals

Receiving a hefty amount of dough creates a great opportunity to take stock of your life and what you would like to accomplish for yourself and for your loved ones. Writing a list of goals can really help you zero in on what you want to achieve. Keep the list handy throughout this process so you have a reminder of what you want your money to do for you.

Complete a budget

Before you know what kind of future you are going to help create with this new money, it's important to know where things stand now. Having a solid grasp on what you are spending and saving currently will inform many of your upcoming decisions.

Get your credit reports

Paying off debt is almost always going to be one of the best things you can do with newfound funds. However, you need to have a solid understanding of what debts you have before you can put a plan in place to aggressively go after them. Call 877.322.8228 or visit www.annualcreditreport.com to get the free credit reports you are entitled to by federal law.

Pay off debts

Most people have multiple debts they are paying

on. If you are trying to decide which debts to go after first, think about which ones are costing you the most to carry a balance on. For example, if you have a credit card with 29% interest, it probably makes more sense to pay that off before you pay off a card with 14% interest, everything else being equal.

Make a list of all of your debts with the corresponding amount you are paying each month in interest and fees. Include:

- Credit cards
- Personal loans
- Lines of credit
- Student loans
- Mortgages
- Car loans
- Collection accounts
- Judgments
- Liens
- Tax debts
- Medical bills
- Person-to-person debts
- Child support or alimony
- Payday loans
- Title loans
- Home equity loans



Keep in mind that one advantage to paying off revolving debts like credit cards or lines of credit is that paying down the balances also helps your credit standing.

Create emergency savings

If you haven't had the chance to get 6 months worth of living expenses in a savings account to guard against future setbacks, now is a terrific time to stash some cash for that purpose.

Invest/save for your goals

Now it's time to focus back in on those goals. Refer back to the list of targets you put together. For each one, research to find out what it will take monetarily to get there. Then start thinking about what timeframe you anticipate for reaching each goal. This will help you to not only think about how much money you want to put toward each goal now and in future months, but also what type of investment accounts will be appropriate for your time horizon. For example, low-yield savings accounts are fine for short-term goals, but you don't want to have your 5-year old child's college savings in one.

If at this stage you find that you are putting sizeable sums of money toward your goals or that your priorities are complicated, it can certainly make sense to consult with a Certified Financial Planner (CFP).

Beef up your retirement

While having a comfortable retirement may have been one of the goals you identified way back in the beginning of this exercise, it bears mentioning that this is an area of planning that could greatly benefit from a lump sum infusion. Talk with your CFP further about your target savings rates and what retirement investing options will be best to get you there.

Invest in yourself

The best investments don't always have account numbers attached to them. Spare money can be put toward expanding your skills in a way that will create new opportunities in the future. Always wanted to go back to school to learn a new field? Now you have an opportunity. Would learning a new language make you more marketable and create travel opportunities? You've got the money to do it!

Examine your insurance coverage

If your newly enlarged cash flow has created a significantly different financial dynamic for you and

your family, it's time to set up meetings with your insurance providers to see if your coverage still fits your needs.

Treat yourself

It doesn't all have to be serious stuff! If you have a trip, or keepsake, or special item you've always wanted, consider splurging a bit. However, give yourself some time to decide on this. If it still seems like a good idea in a month, and it fits in with your overarching plan, then go for it.

Be generous

Often times, people who suddenly receive a large amount of money end up feeling better about what they have done with it if they have given a portion to the less fortunate. Realize though that it's best to put aside a set amount of money for this purpose as a part of plan instead of becoming an ATM for different causes.

Do another budget

After you have begun to distribute your money in the way you have seen fit, it's important to take stock again. Two months after you have begun to implement your plan for your windfall, sit down to complete another spending and savings plan. If you have made major changes to your monthly cash flow, by for example paying off debts or taking on a new car payment, it's vital to have a plan in place going forward that will keep you on track with your goals.

Receiving a large sum of money can be a relief but it can also be stressful if you feel pressure to use the money in the way others are telling you to. It's important to take your time with your decisions and make sure that they are truly what you want to do with what has been given to you.