

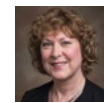


How to Benefit the Most From Your Financial Windfall

Make the most of a bonus, an inheritance, or another type of cash lump sum with these helpful strategies.

KEY INSIGHTS

- A financial windfall can increase your financial flexibility.
- Prioritizing your most important needs will help ensure that you make effective use of your newfound cash.
- Paying down debt can free up cash to meet your longer-term goals.
- A financial windfall can be an opportunity to increase your retirement savings.



Judith Ward, CFP®
Thought Leadership Director

Receiving a large sum of money, such as an [inheritance](#), a tax rebate, or a bonus, may not happen frequently, but with some thoughtful planning, it can bring a certain amount of financial freedom. Whether you see an opportunity to shore up your financial foundation or do something special that you've always wanted to do, the key is to take stock of your priorities before taking action. When you first receive a windfall, your inclination may be to splurge, but if you can prioritize and incorporate some of those unexpected assets into your overall financial plan, you can likely make meaningful progress toward your goals.

Q: How should I prioritize my decision-making to maximize a lump sum of cash?

A: Depending on the size of the windfall, you could make progress across a number of financial priorities. Common opportunities might include short-term goals, such as paying down debt or building an [emergency fund](#). Alternatively, you may be able to use these assets to support new endeavors for yourself or your children.

The important thing is to tailor your plans for this newfound money to your unique priorities. When it comes to an inheritance, for example, you may want to find a way to use the funds to honor your late family member's memory. You may also want to reserve a portion of the inheritance for something enjoyable or meaningful. Just make sure your priorities are clear first.

Q: What are some examples of short-term goals to consider?

A: Freeing up future cash flow by paying down credit cards and loans is likely to be a top priority for most people who come into a lump sum. High-interest credit card debt, in particular, can be a burden on your finances because paying all that interest keeps you from being able to direct funds toward other priorities.

After paying down high-interest debt, it's important to build an emergency fund if you don't already have one. An emergency fund really amounts to a personal safety net. Your financial situation can change rapidly and through no fault of your own. T. Rowe Price suggests you start by keeping three to six months of expenses in liquid assets, such as bank savings accounts and money market accounts. These types of accounts may offer moderate yields and that money won't be at risk of decreasing in value.

Q: How should I prioritize longer-term financial goals?

A: Once you have your immediate financial priorities taken care of, you have a bit more flexibility to think about your future needs. Retirement is a major long-term goal, so it's a good idea to regularly check in on your progress. If you're not on track to meet your retirement goals, investing a portion of a windfall can help you get there.

Start by taking a look at your current plan. We suggest [saving 15%](#) of your pretax salary (including any employer match, if you're saving in a workplace plan). If you have a 401(k) and aren't reaching your savings goal, a windfall may help you increase your savings rate. If you're eligible¹ to make contributions to

a Traditional or Roth individual retirement account (IRA), both offer another way to increase your retirement contributions. You could also build wealth and financial flexibility over the long term by supplementing your retirement savings with a regular brokerage account.

In some cases, you may find things that have been on your wish list for a while move into the realm of possibility once your retirement goals are on track. As long as you aren't risking your financial well-being, now might be the time to plan a long-anticipated vacation or put a down payment on a second home. Lifestyle improvements, such as a home renovation, can also be something to consider. On a smaller scale, you may find you have the resources to take up a new hobby or learn a new skill—or delve further into new areas of interest.

Q: What's the best way to use a windfall to make a difference for others?

A: If you are living comfortably and are on track for retirement, unexpected money may be an opportunity to treat your family to new experiences and create cherished memories. A windfall may also give you an opportunity to think about paying it forward through charitable donations.

One way to simplify your giving and maximize tax benefits is through a donor-advised fund. Establishing this type of giving account can help you create a charitable legacy that can extend your giving for years to come.

If you have children or are a grandparent, consider that contributions to a 529 education savings plan² give you another tax-deferred option for building up college savings for your loved ones. A

¹To contribute to a Roth IRA, single filers must have a modified adjusted gross income (MAGI) under \$153,000 for tax year 2023 and \$161,000 for tax year 2024. Married couples filing jointly must have a MAGI under \$228,000 for tax year 2023 and \$240,000 for tax year 2024.

²A 529 college savings plan's disclosure document includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing. You should review the 529 plan offered by your home state or your beneficiary's home state and, before investing, consider any state tax or other state benefits, such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's 529 plan.

unique feature of these accounts is that you can front-load five years worth of contributions at one time with no gift tax consequences, putting a lump-sum payment to work sooner.

For any children or grandchildren with earned income, you could even open a custodial Roth IRA to help them learn about investing and working toward their own long-term goals. In this type of account, all assets are managed by you (the custodian) until the child reaches age 18 (or 21 in some states).

Understanding your priorities will help you see how to best put your windfall to use. But you don't have to be all business about where you put every last cent. Use the opportunity to improve your current and future financial well-being in a thoughtful and intentional way. At the same time, consider reserving a bit of your newfound money to do something special for yourself and others.

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