

Is a Cash Windfall in Your Future?

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–Elaine Floyd, CFP®

It might look like “sudden money,” but cash windfalls are often easy to spot – sometimes years ahead of time – if you know where and how to look.

Never is financial advice more urgently needed than when you come into a large amount of cash.

Complacency is no longer an option when you look at a check with several commas and realize that depositing it into an existing checking or savings account must be a temporary measure only. The opportunity cost on such a large amount of money earning zero or low interest could amount to hundreds of dollars per day, leading to the urgent question “What shall I do with this?”

First up are the tax ramifications of the liquidity event itself. If the cash came from the sale of a major asset, for example, how much should be held out for taxes? And where can that money go now to earn a little interest before it must be withdrawn to pay Uncle Sam?

Besides that, is there anything that can be done to reduce the tax bite? It may be too late to change the terms of this sale, but a savvy tax professional may be able to suggest other strategies and transactions that can reduce the overall liability.

Most important are the investment considerations for the funds that remain after paying taxes and

other obligations. In some cases — such as divorce or inheritance — the receipt of a large amount of cash represents the opportunity of a lifetime. It could be your chance to establish a firm financial footing and develop a long-term plan for financial security.

Anticipate the future

To help you avoid a panicked feeling when facing a sudden cash windfall, do something proactive. Don’t wait for possible liquidity events. Begin preparing early, if possible, so that if and when the money arrives, it will be a simple matter of executing the plan you have already formulated.

To get in front of any future cash windfalls, review your financial situation and the pending disposition of your various assets. The handy checklist on the next page can help.

As you run down the list, consider whether this event or something similar is a possibility, when it would likely happen, the dollar amount of the cash becoming available, and any potential uses for the funds.

| Future Liquidity Events | | | |
|--------------------------|------------------|--------------------|------------------------|
| Possible event | Approximate Date | Approximate Amount | Potential Use of Funds |
| CDs or bonds maturing | | | |
| Sale of business | | | |
| Commercial property sale | | | |
| Other property sale | | | |
| Stock options | | | |
| Severance package | | | |
| Divorce settlement | | | |
| Legal settlement | | | |
| Trust distributions | | | |
| Rollovers | | | |

Potential uses may include:

- Spending decisions – college, vacation, home remodel
- Investment decisions – buy another piece of property, business
- Philanthropic decisions – community foundation, gifts, trusts
- Uncertainty – you have no idea what to do with this money

Of course, as the liquidity event nears, you and your advisors will discuss in more detail how to handle the disposition of the asset(s) and their proceeds, but it is always prudent to identify in advance any “sudden money” possibilities and establish a plan for successfully achieving your long-term objectives.

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