

BUDGETING

‘Where did all the money go?’ How to handle a windfall

By Hal M. Bundrick NERDWALLET



Ted Shaffrey / Associated Press

Receiving a financial windfall is exciting. It's your money personality that drives your response to sudden cash.

Tax refunds. Child tax credits. COVID-19 relief checks. We dream of the next unexpected bundle of money that lands in our lap. Perhaps it's a few hundred dollars earned from a garage sale, maybe even more from a job bonus — or hundreds of thousands from a winning lottery ticket or inheritance. Our minds race with the possibilities.

A windfall can either be a lifeline to short-term financial relief or a stepping stone to longterm financial stability. But because of our inherent money personality, we may not make the best use of the surprise cash.

Money decisions amid a crisis

A 2021 study published in *Journal of Family and Economic Issues* found that emotions tied to money can dictate whether we decide to spend or save a windfall — even in a crisis environment.

The research examined how recipients of COVID-19 relief checks used the money. People with existing financial resources who were previously inclined to save and invest did just that with the COVID-19 windfall, says Sarah D. Asebedo, lead author of

the study. Asebedo holds a doctorate in financial planning and is an assistant professor at Texas Tech University in Lubbock, Texas.

“When people with those characteristics enter crisis environments, they likely have built some resilience in their financial situations such as an emergency fund or having investments,” Asebedo says. “So they might use their windfall on things like ‘wants’ or further saving and investing because that’s what they’re wired to do to some degree.”

Those who needed to make ends meet during the pandemic mostly used the money to pay off debt, Asebedo adds.

Defining your money personality

How you handle a windfall, whether it’s a federal stimulus check or an inheritance, is largely tied to the way you handle money on a day-to-day basis.

Thomas Shortreed, a behavioral financial advisor in Cortland, Ohio, uses a questionnaire to determine a client’s money personality. It provides insight into our relationship with financial matters. Questions include:

- How emotional about money are you?
- Do you prefer to save or spend?
- Are you reflective about your decisions?
- How trusting are you?
- How involved are you in financial decisions?

Based on how you answer the questions, your personality type is identified, Shortreed says. “I can look at that personality type and have a general sense of how you probably think and process decisions about money.”

Personality types include Money Master, Optimist, Perfectionist, Producer and Safety Player. You can find similar money personality tools online.

Difference between earned and unearned windfalls

Your mind can also react in different ways to the type of windfall you receive.

In many cases, earned windfalls, such as an employment bonus, trigger more long-term focus on how the money is spent, Shortreed says. There is often a little more

attention to spending it wisely.

However, sudden unearned money — such as winning the lottery or getting an inheritance — may trigger a different reaction. Because it wasn't worked for, he says in many cases it's spent recklessly.

“Money is very emotional. It feels good in the short run to buy things you haven't had or always wanted.”

An example: Shortreed advised some members of a group of lottery winners.

“The ones that I dealt with put money aside for their kids' college. The other ones were buying all kinds of fun stuff. My clients got their kids through college and had peace of mind.”

How to handle extra money

Debt can be erased or reduced with a windfall. But many times, we later repeat the same spending mistakes, failing to break recurring debt habits.

When a windfall is received, Shortreed suggests:

- Pausing and reflecting on the good and bad money decisions of your past.
- Focusing on intermediate to long-term goals, not short-term wants.
- Considering your core values (family, security, autonomy, etc.).
- Reviewing your money personality type.
- Asking a partner to help hold you accountable.

The key to making the most of a windfall: Take some time.

“Put some separation between the receipt of that money and the use of that money. Give yourself time to sort through all of those emotions,” Asebedo says.

Consider your attitudes about money, your values and longterm goals before receiving a windfall to help relieve that stress, Asebedo adds.

“Thinking through some of those things before you get a windfall is healthy because if and when you do eventually get a larger lump sum, you'll be more psychologically prepared to make a decision that you feel good about later.”

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