

Financial Psychology and Lifechanging Events

Financial Windfall

Receiving a financial windfall—a large amount of “sudden money”¹—may be an expected event in your life or it may come as a complete surprise. No matter how you receive the money—through an inheritance, retirement payout, lottery winnings, personal injury settlement, divorce settlement, business earnings, or cashing out stock options—it can change your life.



NATIONAL ENDOWMENT FOR
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Partnering for Financial Well-Being

Recipients of financial windfalls are sometimes surprised by the psychological impacts they experience from this event. It may be paralyzing to suddenly have so much money and to realize you might not know how to manage it. It can be confusing—trying to figure out how to deal with family and friends who suddenly want a loan or think you should go into business with them. If you have received a financial windfall due to an unexpected death—your spouse, parent, or child dies in an accident—you

may be dealing with intense personal grief at the same time that you receive enough money to never have to work again.

Like any major lifechanging event, suddenly receiving a large amount of money may require a lengthy transition process as you learn to live with your new circumstances. This brochure was written by the National Endowment for Financial Education® (NEFE®) to help you develop an awareness of financial and psychological matters to consider upon receiving a large sum of money.

ARE THERE DANGERS to Making Impulsive Decisions?

There can be. It is estimated that up to 70% of all people who suddenly receive large amounts of money will lose that money within a few years. Based on that statistic, one of the greatest dangers is impulse spending—making purchases based on a false belief that, no matter what you do, you will never have to worry about money again. Many people do not understand that spending a large portion of the money upfront can greatly decrease their ability to create a portfolio that will last a lifetime.

Are There Any Decisions I Must Make Right Away?

It is usually not necessary to make many decisions immediately. So, allow yourself time to adjust to your new situation.

- You may find it beneficial to decide how much you will need to live for the next six to 12 months and keep that money separate from the rest of your windfall.
- You can put your money in a temporary and safe account—a certificate of deposit or money market mutual fund insured by the FDIC will provide a safe and relatively liquid place for your money.
- You may need to get tax advice so that you can determine if there are any immediate actions you must take because of tax repercussions.

IF I'M NOT HAPPY With All This Money, Is Something Wrong?

Nothing is wrong! In fact, a sudden influx of money often stirs up many emotions that can be conflicting. Many people report feeling that their life is out of control. Especially if you have received enough money to never have to work again, it can feel as if your life has changed forever. If the money was unexpected, you might feel shocked and numb. You may be dealing with feelings of grief and sadness if the money was received through an inheritance. Some experts say that the greatest predictor for success in handling this financial windfall is how well you can deal with the intense emotions that can be aroused by this event.





HOW LONG *Will It Take Before I Feel Comfortable?*

The timeframe depends on you and your particular situation. The source of your financial windfall can be a factor in determining the length of time needed to adjust to this change in your finances. For example, if you have received this windfall because of an expected retirement payout, your adjustment period may be shorter and smoother than someone who received \$1 million because their spouse died in a car accident. Or, if your inheritance from a parent's death resulted in acrimonious family squabbles, you may be dealing with feelings of resentment and anger in addition to grieving a lost loved one.

While experts traditionally suggest that it can take six to 12 months to adjust to a financial windfall, this timeframe will vary depending on your particular situation and emotional response. In some situations, it could be two to five years before you get comfortable with your new financial situation. It's important to remember that it can be very difficult to dream about future opportunities if you are also dealing with intense emotions about your windfall. So, be kind to yourself and give yourself time to work through the emotions first.

Typical Responses to Financial Windfalls

A wide range of responses can accompany a financial windfall. Persons who have experienced financial windfalls have shared that they've experienced some or many of the following emotions as they adjusted to their new circumstances.

Elation	Grief
Fear of loss of money	Distrust
Fear of a change in relationships with others	Numbness
Anxiety	Isolation
Paralysis	Feelings of unworthiness
Inability to see the money as a gift or an advantage	Resentment
Not knowing what to do with the money	Lack of confidence
Depression	Guilt
Resistance	Desire to give it all away
Anger	Intimidation
	Lack of identify
	Sense of loss

HOW DO I FIND *Good Financial Advice?*

If you already have a trusted financial advisor, you will likely turn to that person for help through this period of transition. However, you may need to evaluate your current advisor's ability to manage a financial windfall (see sidebar on "What Questions Should I Ask When Looking for a Financial Advisor?").

If you don't have a financial advisor, you will probably want to find one. The financial advisor may become part of a support team of professionals that you may need to assist you with legal, tax, and related issues. Two methods for finding qualified financial counselors are (1) asking trusted friends or professionals, such as lawyers and accountants, for references, and (2) getting references from

professional associations, such as the Financial Planning Association, the National Association of Personal Financial Advisors, or the American Institute of Certified Public Accountants.

Even with a recommendation from a trusted personal friend or professional, you must do your homework. An in-person interview with the financial advisor is the best way to decide your comfort level with the person and learn answers to questions such as how the advisor earns money (commission or fee-based) or what qualifications the advisor has. You will also want to ask for references from professionals and clients with whom the financial advisor works.

After interviewing the financial advisor, it's important to note how you feel. Do you feel comfortable and trusting of this advisor? Did the financial advisor answer your questions satisfactorily? If you felt intimidated when you asked questions, that may be a signal that a financial advisor is not right for you. Remember, this person is going to be working for you so it's important that you feel comfortable with whomever you choose.

What Questions Should I Ask When Looking for a Financial Advisor?

- Can you describe your typical client?
- Do you specialize in types of clients, level of income, or types of services?
- Do you prepare written plans? How extensive are they?
- What would be the general approach you would take to address my particular needs?
- Have you ever been disciplined by a regulatory agency?
- What do you expect from me in our relationship?
- What is your investment style or philosophy?
- How are you paid? (Commissions? Fee-based? Combination?)

WHAT

Should I Be Cautious About?

If you see yourself in any of the cautionary statements below, take a moment to consider how you might avoid the problems that could result.

- Be careful about impulse spending—spending based on an emotional response to receiving a financial windfall. Impulse spending accounts for a large portion of the people who lose their financial windfall instead of managing the money to create wealth in their lives. Some people find it helpful to make a wish list of all the things they would like to buy. Write down everything you've always wanted—a new house or car, a lavish vacation, spending money on friends and family—whatever it is that comes to mind. Then take your wish list and put it away for 30 days. The 30-day period allows you to take a more reasoned approach to how you will spend your money.
- Watch out for people who may be trying to exploit you or take advantage of your new wealth. It's important to recognize that you can be a target for all kinds of financial schemes.
- When you are ready to deal with your financial windfall, take small steps so that making a mistake will be a good learning experience. If you make changes slowly, you are more likely to be able to recover from mistakes.

MOVING

Into the Future

The first six to 12 months after receiving a financial windfall may be a difficult time of adjustment. Depending on the source and circumstances of your sudden money, you may experience a range of conflicting and confusing emotions. But by following a few simple strategies—resisting the pressure to make decisions until you're ready to do so, utilizing your time to assemble a support team and learn about handling the additional money, setting limits with family and friends, defining your goals and purpose in life, and creating a long-term plan for your money—you can create a financial lifestyle that is most appropriate for you.

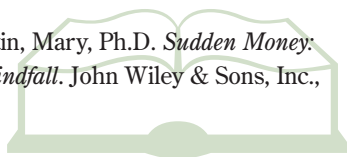
10 Actions You Can Take to Help Yourself Adjust

1. Give yourself as much time as possible before making major decisions about your money or your life. For example, it is probably a good idea to postpone decisions about selling property or changing careers.
2. Consider working through emotional issues with a counselor skilled in the emotional aspects of financial windfalls.
3. Honor your own coping mechanisms. People have different ways to deal with events such as this. In general, it is often helpful not to isolate yourself. However, you may also need time alone to process this lifechanging event. Going to a concert, hiking in the woods, participating with your religious community, or talking quietly with a friend may be helpful activities for you.
4. Educate yourself. Read books on sudden wealth. Visit Web sites, such as the ones listed in the Resources section of this brochure. Talk with your advisors. The more you learn about how to manage your money, the better the position you will be in to preserve and nurture your wealth.
5. You may decide to create a team of advisors whom you respect. This will often consist of professionals such as a financial planner, an accountant, and an estate-planning attorney.
6. Consider taking a workshop or attending a retreat for people who are dealing with financial windfalls.
7. For some people, helping others can provide a sense of meaning and purpose to your life. Explore charity or philanthropic opportunities that suit your values and beliefs.
8. Be aware that news of your financial windfall may evoke some unexpected reactions from family and friends. You may need to develop responses that give you time to think about what your answer will be. As an example, if someone asks you for money, to enter into a business venture, or to make an investment, you may need to say, "Let me think about that and get back to you," or "I'll call you in a few days to discuss this with you."
9. Think of the people you would like to help—siblings, parents, children, spouse, friends, organizations, etc.—and consider your options for helping these people.
10. Some people find that a structured routine helps them when adjusting to a lifechanging event. Consider setting up a schedule or routine that is comfortable for you. Examples of activities are volunteering, taking a class in a subject you enjoy, learning to play a musical instrument, or developing a regular fitness program.

RESOURCES

Books

Bradley, Susan with Martin, Mary, Ph.D. *Sudden Money: Managing a Financial Windfall*. John Wiley & Sons, Inc., New York, 2000.



Domini, Amy with Pearne, Dennis and Rich, Sharon. *The Challenges of Wealth*. Dow Jones-Irwin, Homewood, IL, 1987.



Organizations and Web Sites

American Institute of Certified Public Accountants.
1211 Avenue of the Americas, New York, NY 10036,
(888) 999-9256; www.aicpa.org.

Financial Planning Association. Offices in Atlanta, Denver, and Washington D.C. provide names of members based on location, (800) 282-7526; www.fpanet.org.

More Than Money. P.O. Box 1094, Arlington, MA 02474-8403,
(877) 648-0776; www.morethanmoney.org.

National Association of Family Wealth Counselors.
P.O. Box 298, Morgantown, IN 46160, (888) 597-6575;
www.nafwc.org.

National Association of Personal Financial Advisors.
355 West Dundee Road, Suite 200, Buffalo Grove, IL 60089,
(888) 333-6659; www.napfa.org.

National Endowment for Financial Education. 5299 DTC
Boulevard, Suite 1300, Greenwood Village, CO 80111,
(303) 741-6333; www.nefe.org.

Resource Generation. P.O. Box 400336, North Cambridge,
MA 02140, (617) 441-5567; www.resourcegeneration.org.

Sudden Money Institute. 141 Green Point Circle, Palm Beach
Gardens, FL 33418, (888) 838-9446; www.suddenmoney.com.

In October 2001, the National Endowment for Financial Education® (NEFE®), a nonprofit organization headquartered near Denver, Colorado, held a think tank on the topic “Financial Psychology and Lifechanging Events” to explore the interplay of psychological and financial transitions that individuals are likely to experience when major life events occur. Keynote speaker and facilitator, Kathleen Gurney, Ph.D., CEO of Financial Psychology Corporation in Sonoma, California, led the participants to discover that major lifechanging events transform a person’s identity as a new sense of self, social, and financial realities emerge. A groundbreaking forum, it was the first time that practitioners from fields of financial planning and psychology joined with allied professionals to identify and understand common financial and psychological implications that affect people experiencing various life-changing situations including job loss, becoming suddenly single, remarriage, and

financial windfall. Participants explored how psychological, emotional, and behavioral reactions can affect one’s ability to make sound financial decisions. Working in multidisciplinary teams, the think tank participants contributed their expertise and experience to help NEFE develop a series of brochures, including this one, to help Americans deal with the financial and psychological issues associated with these events.

The National Endowment for Financial Education® (NEFE®) is a nonprofit foundation dedicated to the mission of helping individual Americans acquire the information and gain the skills necessary to take control of their financial destiny. NEFE accomplishes its mission primarily by forming partnerships with other concerned organizations, focusing its efforts on individuals whose basic financial education needs are not being addressed by financial advisors, consumer organizations, or the media.

ACKNOWLEDGEMENTS:

NEFE acknowledges the following “Financial Psychology and Lifechanging Events Think Tank” participants who contributed their experience and expertise to the development of this brochure.

- Kathleen Gurney, Ph.D. CEO of Financial Psychology Corporation in Sonoma, CA, keynote speaker and facilitator of the think tank.
- Heidi Flammang, President, Maginot Group, Ltd., Parker, CO.
- Courtney Pullen, M.A.. President, Pullen Consulting, Wheat Ridge, CO.
- Irwin Rothenberg, B.A., CPA, PFS. Managing Partner, Wealth Management Consultants, Santa Rosa, CA.
- Myra Salzer, CFP. President, The Wealth Conservancy, Inc., Boulder, CO.
- Richard Wagner, J.D., CFP. Manager, WorthLiving, LLC, Denver, CO.
- Phyllis Wordhouse, B.A., M.A., CFP, FWC. Wealth Advisors Group, Canton, MI and member of the Executive Committee for The National Association of Family Wealth Counselors, Morgantown, IN.



NEFE acknowledges and thanks the National Association of Family Wealth Counselors, for its participation in the “Financial Psychology and Lifechanging Events Think Tank” and its assistance in distributing this brochure.



NEFE acknowledges and thanks the American Association of Family and Consumer Sciences, for its assistance in distributing this brochure.



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Note: The content areas in this material are believed to be current as of this printing, but, over time, legislative and regulatory changes as well as new developments, may date this material. This guide is meant to provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.