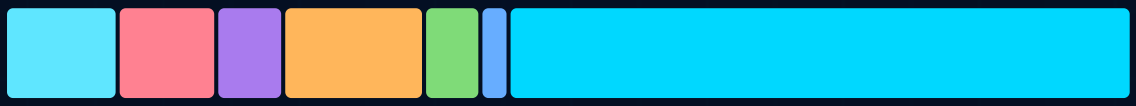
MarketUnclouded

THE WINDFALL PLAYBOOK · 2026–27 EDITION

Windfall Planning

What to do with an inheritance, bonus, settlement, home sale, business sale or prize: how to protect it, plan for the taxes, and put it to work, with 2026 and 2027 figures.

One windfall, seven jobs. An illustrative $400,000 after-tax plan from Chapter 5.



Emergency fund	$40,000	High-interest debt	$35,000
IRAs and HSA	$23,750	529 education plans	$50,000
Enjoy (5%)	$20,000	Giving	$10,000
Long-term portfolio	$221,250		

Windfall Planning

The Windfall Playbook · 2026–27 Edition

By Daniel Higgins · Market Unclouded LLC

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INTRODUCTION

How to use this playbook

Slow down first. Then decide on purpose.

A windfall is any large sum that arrives all at once instead of through your paycheck: an inheritance, a life insurance payout, a bonus or stock vest, a legal settlement, the sale of a home or business, a divorce settlement, a severance package or a prize. The amount can be $25,000 or $25 million. The question is the same: how do you turn one-time money into lasting financial security without losing it to taxes, mistakes or other people's plans for it?

Most windfall problems are not investment problems. They are **timing, tax and behavior** problems. People decide too fast, underestimate the tax bill, say yes to the wrong requests, or let spending quietly rise until the money is gone. This guide puts the decisions in the right order so you deal with each one at the right time.

How the playbook is organized

1. **Part 1 · Pause and protect.** Park the money safely, work out what kind of money it is and how it is taxed, set aside the tax bill, and assemble a small team of professionals.
2. **Part 2 · Make the plan.** Run the money through the windfall waterfall, decide which debts to retire, invest the rest sensibly, and work out how much it can safely support.
3. **Part 3 · Protect it and pass it on.** Handle requests from family and friends, protect against lawsuits and scams, put an estate plan in place, give wisely, and plan for the specific type of windfall you received.
4. **Appendices.** A 90-day action plan, a fill-in worksheet, questions to ask any advisor, a glossary and the sources behind the figures.

A NOTE ON NUMBERS

Federal tax figures are from IRS publications and revenue procedures for 2026 and 2027. Withholding is not the same as tax owed, and state income, estate and inheritance taxes vary widely, so every example in this guide is federal-only unless it says otherwise. Run your own numbers with a tax professional before you act.

The three rules behind everything in this guide

1. **Nothing permanent in the first 30 days.** Park the money where it is safe and liquid. Big decisions made in the first weeks are the ones people most often regret.
2. **Taxes before plans.** Know how much of the money is really yours before you decide what to do with it.
3. **Write it down.** A one-page plan, made when you are calm, is what protects the money when you are not.

KEY TAKEAWAYS

- The goal is not to do everything at once. It is to do the right things in the right order.
- Most windfall losses come from speed, taxes and behavior, not from bad investments.
- Use Appendix A as your checklist and Appendix B to write your plan.

PART 1 · CHAPTER 1

The first 30 days

Pause, park, protect.

The first month after a windfall is when you know the least and feel the most. You may be grieving, relieved, excited or overwhelmed. Salespeople and well-meaning relatives may appear quickly. The right move is almost always the same: **make the money safe, make it boring, and give yourself time.**

1. Declare a decision-free period

Give yourself at least 30 days, and for large or emotional windfalls 3 to 6 months, before making any permanent decision: no big purchases, no gifts or loans, no quitting your job, no investment you cannot easily reverse. Tell anyone who asks, "I'm not making any decisions for a while." It is true, it is polite, and it ends the conversation.

2. Park the money somewhere safe and liquid

While you plan, the money's only job is to stay intact and available. Good parking places:

Where	Protection	Notes
Bank savings, money market deposit accounts, CDs	FDIC insurance up to $250,000 per depositor, per insured bank, per ownership category	Spread large balances across banks or ownership categories (individual, joint, trust) to stay fully insured. Credit unions carry the same $250,000 coverage through the NCUA.
U.S. Treasury bills	Backed by the U.S. government	Short maturities, from a few weeks to one year. Interest is federally taxable but exempt from state and local income tax. Buy at TreasuryDirect.gov or through a brokerage.
Government money market funds	Not FDIC insured; hold mostly Treasuries and government-backed repurchase agreements	Held at a brokerage. SIPC protects up to $500,000 (including $250,000 cash) if the brokerage fails, but it does not protect against market losses.

AVOID DURING THE FIRST 30 DAYS

- Products with surrender charges or lock-ups, such as many annuities and some insurance policies.
- Anything pitched as "guaranteed" high returns, private deals, or "opportunities" that need an answer this week.
- Moving the whole sum into the stock market before you know your tax bill and your plan.

3. Keep it private

Share the news with your spouse or partner and your professional team, and almost no one else, until your plan is in place. Stay off social media about it. Windfalls attract requests, pressure and fraud, and you cannot un-tell people.

4. Gather the paperwork

- Statements, award letters, closing documents, settlement agreements, Forms W-2G, 1099 or K-1.
- For an inheritance: the death certificate, the will or trust, account statements as of the date of death and beneficiary forms.

- Your last two tax returns and a list of every debt with its balance and interest rate.

5. Keep your normal life running

Keep paying bills on time, keep going to work, and keep your normal budget for now. The windfall does not change your monthly obligations until you decide what it is for.

KEY TAKEAWAYS

- Take 30 days or more before any permanent decision.
- Park the money in insured deposits, Treasury bills or a government money market fund.
- Watch the $250,000 FDIC limit per bank and ownership category.
- Tell as few people as possible until you have a plan.

PART 1 · CHAPTER 2

Know what kind of money you have

The source decides the tax, the timing and the rules.

Two windfalls of the same size can leave you with very different amounts. An inheritance of cash is generally not federal income at all; a lottery prize of the same amount is fully taxable in the year you receive it. Before you plan, identify exactly what you received.

Windfall	General federal tax treatment	Watch for
Inherited cash, home or investments	Not taxable income to you. Assets generally get a "step-up" in cost basis to their value at the date of death.	Five states tax heirs directly (KY, MD, NE, NJ, PA). The estate itself may owe estate tax before you receive anything.
Inherited IRA or 401(k)	Withdrawals from traditional accounts are taxed as ordinary income. No step-up in basis.	Most non-spouse heirs must empty the account within 10 years, some with yearly minimums (Chapter 12).
Life insurance death benefit	Generally not taxable income.	Interest paid on the proceeds, or on installment payouts, is taxable.
Gift received	Not taxable income to you. Any gift tax filing is the giver's responsibility.	Gifted property keeps the giver's cost basis, so you may owe capital gains tax when you sell.
Lottery, prize or gambling winnings	Ordinary income in the year received. 24% federal withholding on many prizes above $5,000.	Withholding is usually far below the real tax (Chapter 3). Most states tax winnings too.
Bonus, commission or severance	Wages: ordinary income plus Social Security and Medicare taxes.	Flat 22% federal withholding on supplemental wages, 37% above $1 million in a year.
Stock compensation (RSUs, options)	RSUs are wages when they vest. Options depend on type: NSOs at exercise, ISOs under special rules.	Under-withholding, concentration in one stock, and the alternative minimum tax for ISOs.
Sale of your home	Gain up to $250,000 (single) or $500,000 (married filing jointly) excluded if ownership and use tests are met.	Gain above the exclusion is a capital gain and may be subject to the 3.8% NIIT.
Sale of a business or investments	Capital gains: long-term rates (0/15/20%) if held more than a year.	Deal structure, installment sales, depreciation recapture, NIIT and state tax.

Windfall	General federal tax treatment	Watch for
Legal settlement	Depends on what it compensates: damages for personal physical injury or sickness are generally excluded.	Punitive damages, interest, lost wages and most non-physical claims are taxable. Attorney fees can complicate the math.
Divorce property settlement	Transfers between spouses incident to divorce are generally not taxable.	You take over the original cost basis, so equal-looking assets can carry very different future taxes.

General rules only; exceptions apply. Confirm the treatment of your specific windfall with a CPA or enrolled agent.

Three questions to answer before anything else

1. **Is it taxable, and when?** Income in the year received, capital gain when you sell, ordinary income when withdrawn, or not taxable at all.
2. **Is it really yours yet?** Estates can take months to settle, settlements may have liens or fees attached, and stock may be locked up or restricted.
3. **Does it come with rules?** Inherited retirement accounts, trusts, structured settlements and equity awards all carry deadlines and restrictions you cannot ignore.

KEY TAKEAWAYS

- Name the windfall precisely; its source sets the tax treatment.
- Inheritances and life insurance are generally income-tax-free; prizes, bonuses and stock vests are not.
- Inherited retirement accounts and stock options carry deadlines. Learn them early.

PART 1 · CHAPTER 3

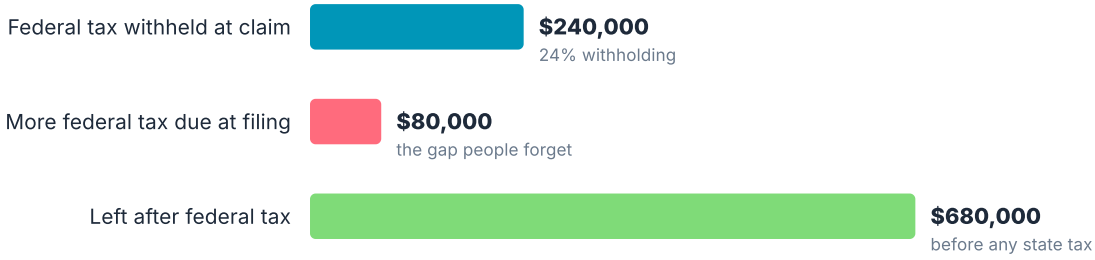
Taxes come first

Withholding is a down payment, not the bill.

The single most common and expensive windfall mistake is spending money that already belongs to the IRS. Payers withhold a flat percentage, but your actual tax depends on your total income for the year. With a large windfall, the gap can be tens or hundreds of thousands of dollars.

A $1,000,000 cash prize, single filer, no other income, 2026

Federal tax ≈ $320,000 (32% average rate). Withholding covers only $240,000.



Market Unclouded calculation using 2026 federal brackets and the $16,100 standard deduction. Federal only; most states add their own tax. Hypothetical.

2026 federal income tax brackets

Rate	Single: taxable income	Married filing jointly: taxable income
10%	$0 – $12,400	$0 – $24,800
12%	$12,401 – $50,400	$24,801 – $100,800
22%	$50,401 – $105,700	$100,801 – $211,400
24%	$105,701 – $201,775	$211,401 – $403,550
32%	$201,776 – $256,225	$403,551 – $512,450
35%	$256,226 – $640,600	$512,451 – $768,700
37%	Over $640,600	Over $768,700

Standard deduction for 2026: $16,100 single, $32,200 married filing jointly. For 2027 the 37% rate starts above $661,375 single and $793,650 joint, and the standard deduction rises to $16,600 and $33,200. Sources: IRS Rev. Proc. 2025-32 and IR-2026-133.

Long-term capital gains rates

Rate	2026 single	2026 joint	2027 single	2027 joint
0%	up to $49,450	up to $98,900	up to $51,050	up to $102,100
15%	to $545,500	to $613,700	to $563,200	to $633,600
20%	above $545,500	above $613,700	above $563,200	above $633,600

Thresholds are taxable income, including the gain. Gains on assets held one year or less are taxed as ordinary income. A separate 3.8% net investment income tax (NIIT) applies to investment income above $200,000 of modified AGI (single) or $250,000 (joint); those thresholds are not indexed. Sources: IRS Rev. Proc. 2025-32 and 2026-35.

Common withholding rates that fall short

- **Lottery and gambling:** 24% federal withholding on many winnings above $5,000. For 2026, payers also report wins of $2,000 or more on Form W-2G. Top earners pay up to 37%.
- **Bonuses, commissions and RSU vests:** a flat 22% on supplemental wages, rising to a mandatory 37% on supplemental wages above $1 million in a calendar year.
- **Investment sales, home sales and most settlements:** often no withholding at all.

How to avoid an underpayment penalty

The IRS expects tax to be paid as income arrives during the year, through withholding or quarterly estimated payments (due around April 15, June 15, September 15 and January 15). You generally avoid a penalty if your withholding and on-time estimates cover the smaller of:

- **90% of this year's tax**, or
- **100% of last year's tax**, or **110%** if last year's adjusted gross income was over $150,000 ($75,000 if married filing separately).

The prior-year test is a powerful planning tool. If your windfall arrives in a year when your prior-year safe harbor is easy to meet, you can avoid a penalty even if you owe a large balance in April. You still owe the tax, so set it aside.

A USEFUL DETAIL

Income tax **withheld** from a paycheck is generally treated as paid evenly through the year, no matter when it was withheld. Raising your withholding late in the year (through Form W-4) can cover a shortfall that a late estimated payment cannot. Ask your tax professional whether this fits your situation.

Build your tax reserve

1. **Estimate the full tax:** federal, state and, for wages, payroll tax, using your total income for the year including the windfall.
2. **Subtract what was already withheld.** The difference is your reserve.
3. **Park the reserve separately** in Treasury bills or an insured savings account that you do not touch until the tax is paid.
4. **Make the estimated payments** at IRS.gov/payments and your state's revenue site, or adjust withholding. Keep confirmations.

Tax moves to discuss with your CPA

- **Bunching deductions** into the windfall year, such as charitable gifts through a donor-advised fund (Chapter 11).
- **Maximizing pre-tax contributions** to your 401(k), 403(b) or HSA in the windfall year.
- **Timing sales** of investments or a business across tax years when you have a choice.
- **Spreading taxable distributions** from an inherited IRA over several lower-income years.
- **Harvesting investment losses** to offset capital gains.

KEY TAKEAWAYS

- Assume withholding is too low on any taxable windfall.
- Calculate the full tax, reserve the difference, and keep it separate.
- Use the 90% / 100% / 110% safe harbors to avoid penalties.
- State tax is in addition to everything shown here.

PART 1 · CHAPTER 4

Build your team

The right professionals pay for themselves. The wrong ones are expensive.

A modest windfall may need only a tax preparer and an afternoon with this guide. A large or complicated one (a seven-figure sum, an inherited business, stock compensation, a settlement with conditions) deserves a small team that works together and answers to you.

Professional	What they do	How to check them
CPA or enrolled agent (EA)	Estimates the tax, sets up estimated payments, plans timing, prepares returns.	CPAs are licensed by state boards of accountancy; EAs are credentialed by the IRS.

Professional	What they do	How to check them
Fee-only fiduciary financial planner	Builds the overall plan: cash flow, investments, insurance, retirement and goals.	Look up advisers at adviserinfo.sec.gov and brokers at brokercheck.finra.org. Verify a CFP® professional at cfp.net.
Estate-planning attorney	Drafts or updates your will, trusts, powers of attorney and health-care directives.	Check your state bar's lawyer directory and disciplinary records.
Insurance professional (as needed)	Reviews liability (umbrella), life and disability coverage.	Check your state insurance department's license lookup.

Understand how each advisor is paid

Model	How it works	What to watch
Flat or hourly fee	You pay for the plan or the hours, not for products.	Fewer conflicts; clarify what ongoing help costs.
Percentage of assets (AUM)	An annual fee on the money managed, commonly around 1% and often lower on larger accounts.	Ask for the fee in dollars. On $2 million, 1% is $20,000 every year.
Commission	Paid by the companies whose products you buy.	A built-in incentive to sell; ask for every commission in writing.

Fiduciary means acting in your best interest

A fiduciary must put your interests first. Ask every advisor to confirm **in writing** that they act as a fiduciary **at all times and on all of your accounts**, not just some. Many advisors can switch roles between accounts.

RED FLAGS

- Pressure to decide quickly, or a product recommendation before they understand your goals.
- A plan that puts a large share of the windfall into one annuity, insurance policy or private investment.
- Promises of returns, or a strategy that "can't lose."
- Reluctance to put fees, conflicts or fiduciary status in writing.
- Unsolicited contact right after news of your windfall.

Appendix C lists the questions to ask in an interview. Meet at least two or three candidates for each role before hiring anyone.

KEY TAKEAWAYS

- For a large windfall, hire a CPA, a fee-only fiduciary planner and an estate attorney.
- Verify every professional's record yourself; it takes minutes.
- Know exactly how, and how much, each advisor is paid, in dollars.

PART 2 · CHAPTER 5

The windfall waterfall

Fill each bucket in order. Money flows down only when the bucket above is full.

Once the tax is reserved, the rest of the money needs a job. The waterfall below is a common order of operations. Each step makes the next one safer: an emergency fund protects your investments from forced selling, paying off expensive debt is a guaranteed return, and tax-advantaged accounts grow faster than taxable ones. Adjust the order to your situation, but have a reason when you do.

1. **Tax reserve.** The full estimated tax, minus withholding (Chapter 3).
2. **Emergency fund.** Three to six months of essential expenses in insured savings or Treasury bills, more if your income is irregular or you are self-employed.
3. **High-interest debt.** Credit cards, personal loans, payday loans and high-rate auto loans (Chapter 6).
4. **Near-term needs.** Anything you will pay for within about two years, such as a car, a wedding or tuition, held in cash or short Treasuries.
5. **Tax-advantaged retirement and health accounts.** IRAs, HSAs and higher 401(k) contributions (see the table below).
6. **Medium-term goals.** 529 education plans, a home down payment, a business you plan to start.
7. **Long-term portfolio.** A diversified, low-cost portfolio in a taxable brokerage account (Chapter 7).
8. **Enjoy and give.** A defined amount for things that make your life better, and for causes and people you care about.

FUNDING A 401(K) FROM A WINDFALL

You cannot deposit a windfall directly into a 401(k); contributions come only through payroll. Instead, raise your contribution rate, up to the annual limit, and use the windfall to replace the take-home pay you lose. The effect is the same: more money in the tax-advantaged account.

Tax-advantaged account limits

Account	2026	2027
401(k), 403(b), governmental 457, TSP employee contribution	$24,500	$25,500
Catch-up, age 50+ (ages 60–63 in 2026: $11,250)	$8,000	see IRS
Traditional and Roth IRA (combined)	$7,500	$7,500
IRA catch-up, age 50+	$1,100	see IRS
HSA, self-only / family coverage (plus $1,000 at 55+)	$4,400 / $8,750	$4,500 / $9,000

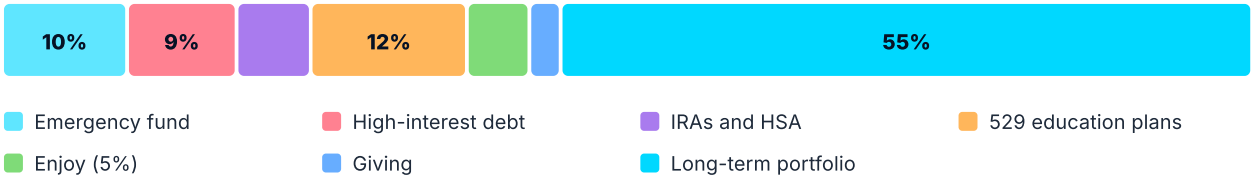
Sources: IRS Notice 2025-67 and IR-2025-111 (2026), IR-2026-136 (2027 401(k) and IRA), Rev. Proc. 2026-24 (2027 HSA). Roth IRA eligibility phases out at higher incomes; confirm current ranges at IRS.gov.

EXAMPLE: A $400,000 AFTER-TAX WINDFALL

A married couple with two young children inherits $400,000 in cash (not taxable to them federally). They spend about $8,000 a month on essentials and carry $35,000 of credit card and car debt at high rates. Their plan:

Bucket	Reasoning	Amount
Emergency fund	Five months of essential expenses	$40,000
High-interest debt	Every card and the high-rate car loan, paid in full	$35,000
IRAs and HSA	Two 2026 IRA contributions ($15,000) plus the family HSA limit ($8,750); they have HSA-eligible health coverage	$23,750
529 education plans	$25,000 for each child	$50,000
Enjoy	About 5%: a family trip and a long-postponed home repair	$20,000
Giving	Gifts in memory of the parent who left the inheritance	$10,000
Long-term portfolio	Diversified index funds in a taxable account	$221,250
Total		**$400,000**

They also raise their 401(k) contributions toward the annual limit and cover the lower paychecks from the portfolio bucket during the first year.



The $400,000 example plan by bucket. Hypothetical illustration, not a recommendation.

The "enjoy" bucket is part of the plan

Many planners suggest setting aside a defined share, often 5% to 10%, for spending that simply makes you happy. Naming it in advance does two things: it lets you enjoy the windfall without guilt, and it puts a ceiling on that spending so it does not quietly eat the rest.

KEY TAKEAWAYS

- Tax reserve, emergency fund and high-interest debt come first.
- Fill tax-advantaged accounts, then medium-term goals, then the long-term portfolio.
- Decide the "enjoy" and "give" amounts in advance and in dollars.

PART 2 · CHAPTER 6

Debt: what to pay off and what to keep

Paying off debt is a guaranteed, tax-free return equal to its interest rate.

Every dollar used to pay off a 22% credit card earns a certain 22% return. No investment reliably does that. But paying off low-rate debt can leave you with less flexibility and a lower expected return than investing. The interest rate, and your need for cash, decide.

Interest rate	Typical debts	General approach
High (about 8% and up)	Credit cards, personal loans, many auto loans, payday loans	Pay off in full, right after the tax reserve and emergency fund. Then close the gap that created the debt.
Moderate (about 4% to 8%)	Some mortgages, private student loans, HELOCs	A judgment call. Paying down is a solid, risk-free return; investing has a higher expected return with risk. Many people split the difference.
Low (below about 4%)	Older fixed-rate mortgages, some federal student loans	Often worth keeping. Safe investments may earn as much or more, and the cash stays available to you.

Rate bands are rules of thumb, not fixed cutoffs. Compare each rate with what you could earn safely, after tax, at the time you decide.

Should you pay off the mortgage?

Reasons to pay it off

- Lower monthly costs and more freedom to change jobs or retire.
- A guaranteed return equal to the mortgage rate.
- Real peace of mind, which has value of its own.

Reasons to wait

- Home equity is hard to get back out without a new loan.
- A low fixed rate may cost less than what safe investments earn.
- It can leave too little in emergency savings and retirement accounts.

A middle path is common: fill the emergency fund and retirement accounts first, then pay down the mortgage, or invest the money in a separate account earmarked for a future payoff. That keeps the option open while the money stays accessible.

Special cases

- **Federal student loans.** Check for forgiveness programs or income-driven plans before paying them off early, and think hard before refinancing into a private loan, which ends federal protections.
- **Debts in collection or in someone else's name.** Get professional advice; paying the wrong way can reset collection timelines or create tax and legal issues.
- **Co-signed loans.** Paying off a family member's debt is a gift (Chapter 9). Decide on purpose.

THE REAL RISK AFTER PAYOFF

Paying off cards fixes the balance, not the behavior. Studies of lottery winners show that a cash infusion can delay financial trouble rather than prevent it (Chapter 13). Build a monthly budget that no longer needs credit before you celebrate.

KEY TAKEAWAYS

- Pay off high-rate debt right after the tax reserve and emergency fund.
- Moderate-rate debt is a judgment call; low-rate debt is often worth keeping.
- Don't pay off a mortgage at the expense of liquidity or retirement savings.

PART 2 · CHAPTER 7

Investing a lump sum

Match each dollar to when you'll need it.

Investing a windfall is not about finding the best stock. It is about matching each part of the money to its time horizon, keeping costs low, spreading risk, and choosing an entry plan you will actually stick with.

Step 1: Sort the money by time horizon

When you'll need it	Where it usually belongs	Why
Within 2 years	Insured savings, CDs, Treasury bills, government money market funds	Stocks can fall 20% or more in a year; this money can't wait for a recovery.
In 3 to 7 years	High-quality bond funds, Treasuries and a moderate share of stocks	Some growth, with limited damage if markets fall just before you need it.
In 7+ years	A diversified, mostly stock portfolio of low-cost index funds	Time lets you ride out declines and capture long-run growth.

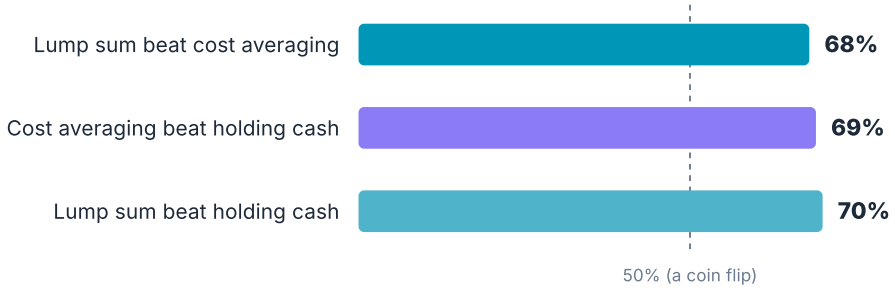
For the long-term bucket, a simple mix of U.S. stocks, international stocks and high-quality bonds, held in low-cost index funds and rebalanced once a year, is hard to beat. Our free guide **Long-Term Investing** walks through five model portfolios with example funds; it is at marketunclouded.com/investment-guides.

Step 2: Lump sum or spread it out?

Once you have decided how much belongs in the long-term portfolio, you can invest it all at once (lump sum) or in equal pieces over several months (dollar-cost averaging, or DCA).

How often each approach came out ahead after one year

Vanguard historical analysis of global markets, 1976–2022



Source: Vanguard, "Cost averaging: Invest now or temporarily hold your cash?" (February 2023), using MSCI World and Bloomberg U.S. Aggregate Bond Index returns, 1976–2022. Past performance does not guarantee future results.

Markets have risen more often than they have fallen, so money invested sooner has usually had more time to grow. Vanguard's research found that investing a lump sum beat cost averaging about two-thirds of the time. But cost averaging still beat holding cash most of the time, and it reduces the regret of investing everything just before a decline. That makes it a reasonable choice for people who would otherwise not invest at all.

IF YOU CHOOSE TO SPREAD IT OUT

- Write the schedule down: equal amounts on set dates, for example monthly over 6 to 12 months.
- Automate it, and don't pause because of headlines. Waiting for the "right moment" is market timing.
- Keep the money waiting to be invested in Treasury bills or a government money market fund.

Step 3: Put each investment in the right account

- **Tax-advantaged accounts** (401(k), IRA, HSA) first, up to the limits you can use.
- **Taxable brokerage account** for the rest. Broad stock index funds and ETFs tend to be tax-efficient there.
- **Hold less tax-efficient investments**, such as taxable bond funds and REITs, inside tax-advantaged accounts when you can.

Step 4: Avoid concentration

Windfalls often arrive concentrated: a block of inherited stock, a pile of company shares from vesting, or the proceeds of one business. A single company can fall sharply and never recover. Many planners suggest keeping any one stock to 10% or less of your portfolio.

- **Inherited stock** usually receives a step-up in basis, so you can often sell soon after inheriting with little or no capital gains tax.
- **Employer stock** ties your paycheck and your savings to the same company. Treat each vest as if it were a cash bonus: would you buy that stock with cash today?
- **Large embedded gains** can be diversified gradually over several tax years, or partly through charitable gifts of appreciated shares (Chapter 11).

What to avoid

- Products you don't fully understand, especially those with surrender charges, high commissions or lock-ups.
- Private deals, real estate syndications or friends' businesses pitched in the first months after a windfall.
- Concentrated bets on a theme you have just discovered, leverage, and options strategies you have not practiced with small amounts.
- Paying high ongoing fees. On a $1 million portfolio, a 1% difference in annual costs is $10,000 a year before compounding.

KEY TAKEAWAYS

- Money needed within two years stays in cash or Treasuries.
- Lump sum has usually come out ahead; cost averaging is fine if it gets you invested on a fixed schedule.
- Use tax-advantaged accounts first and keep any single stock small.
- Keep costs low and avoid complexity you don't need.

PART 2 · CHAPTER 8

Spending it without running out

Think of a windfall as an income stream, not a pile of cash.

A large number feels limitless. A sustainable income from that number is much smaller. Converting the windfall into an annual spending figure is the best reality check there is.

What a windfall can sustainably provide

Invested windfall	3% per year	4% per year	5% per year
$250,000	$7,500	$10,000	$12,500
$500,000	$15,000	$20,000	$25,000
$1,000,000	$30,000	$40,000	$50,000
$2,000,000	$60,000	$80,000	$100,000
$5,000,000	$150,000	$200,000	$250,000

First-year withdrawal before taxes. Simple arithmetic, not a guarantee; sustainable rates depend on the portfolio, fees, taxes, inflation and how long the money must last.

The widely cited "4% rule" comes from historical studies of balanced portfolios lasting 30 years: withdraw 4% in the first year, then raise the dollar amount with inflation. If the money must last longer than 30 years, as it often does for a younger person, a starting rate closer to 3% to 3.5% is more conservative. Treat these as planning ranges, not promises.

THE QUIT-YOUR-JOB TEST

To replace an income with a portfolio, divide the annual spending you need by your withdrawal rate. To cover $60,000 a year at 4%, you would need about $1.5 million ($60,000 ÷ 0.04), before taxes and before health insurance, which can be a major cost until Medicare begins at 65. A $500,000 windfall is life-changing, but at 4% it supports about $20,000 a year. That is a raise, not a retirement.

Big purchases come with permanent costs

A bigger house, a second home, a boat or a luxury car keeps costing money long after you pay for it: property tax, insurance, maintenance, utilities, storage and fees. A common rule of thumb budgets 1% to 2% of a home's value each year for maintenance alone. Before you buy, add up the annual carrying cost and ask whether your sustainable income from the windfall can pay it.

Guard against lifestyle creep

- **Set a spending budget in writing** for the first year, then review it annually.
- **Use a waiting rule** for big purchases: for example, wait 30 days on anything over $5,000.
- **Pay yourself a "salary"** from the portfolio by automatic monthly transfer instead of drawing from it whenever you want.
- **Keep earning if you can.** Income from work lets the windfall compound.

KEY TAKEAWAYS

- Translate the windfall into a sustainable annual income: roughly 3% to 4% of the invested amount.
- Add up the annual carrying cost of any big purchase before you buy.
- Automate a monthly "salary" and review spending once a year.

PART 3 · CHAPTER 9

Family, friends and requests for money

Decide your generosity in advance, so it comes from the plan, not from pressure.

Requests are one of the hardest parts of sudden money. Some come from people in real need, some from people with ideas, and a few from people who see you differently now. A clear policy, decided before the requests arrive, protects both the money and the relationships.

Set a giving budget

Decide how much in total you are willing to give to family and friends, and write it into your plan. When that budget is spent, the answer is no, and it is easier to say because the decision was made earlier.

Gifts versus loans

Gifts

- Simpler, and kinder to relationships.
- No federal gift tax for most people (see below); any gift tax return is filed by you, the giver.
- Give only what you can afford never to see again.

Loans

- Put the terms in a signed note: amount, rate, payments, what happens if payments stop.
- Below-market interest can create tax issues; your CPA can confirm the IRS minimum rate (the applicable federal rate).
- Assume some loans become gifts; plan for it.

Gift tax in plain English

Rule	2026	2027
Annual exclusion: amount you can give each person with no filing	$19,000	$20,000
Married couple, each giving the exclusion, per recipient	$38,000	$40,000
Lifetime gift and estate tax exemption, per person	$15,000,000	$15,480,000

Sources: IRS Rev. Proc. 2025-32 and Rev. Proc. 2026-35 (IR-2026-133).

Giving more than the annual exclusion to one person in a year generally means filing a gift tax return (Form 709), but no tax is due until your lifetime taxable gifts and estate exceed the exemption. Two more rules are worth knowing:

- **Tuition and medical bills paid directly** to the school or provider are not counted as gifts at all, no matter the amount.
- **529 "superfunding":** you can elect to treat one large 529 contribution as spread over five years, up to 5 × the annual exclusion per beneficiary ($95,000 in 2026; $100,000 in 2027), double for a married couple.

Scripts that help

- "Everything is committed to a plan I made with my advisor, so I'm not able to do that."
- "I've set a family budget for this year, and it's already allocated."
- "I don't lend money, but I'd like to help in another way." (Then help with time, a reference or advice.)

THINK TWICE BEFORE YOU

- Co-sign a loan: you become fully liable for someone else's debt.
- Invest in a friend's or relative's business without the same review you would give a stranger's.
- Put another person's name on your accounts or property "for convenience." It can create gift, creditor and estate problems.

KEY TAKEAWAYS

- Set a total giving budget in advance and stick to it.
- Prefer gifts you can afford over loans you can't enforce.
- Most people will never owe federal gift tax; know the filing rules anyway.

PART 3 · CHAPTER 10

Protecting your wealth

More money means more exposure. Close the gaps.

Insurance review

Coverage	Why it matters after a windfall	Action
Umbrella liability	Lawsuits look for assets. An umbrella policy adds liability coverage above your home and auto policies.	Many people with significant assets carry $1 million or more; insurers usually require minimum home and auto liability limits.
Home and auto	Liability limits that were fine before may now be too low.	Raise liability limits to what the umbrella requires.
Life insurance	A windfall may reduce how much you need, or highlight a gap.	Recalculate need; don't buy complex policies in the first 30 days.
Disability	Your ability to earn is still likely your largest asset.	Keep employer coverage; consider individual coverage if needed.

Beneficiaries and titling

Beneficiary designations on retirement accounts, life insurance and transfer-on-death accounts **override your will**. After a windfall, review every one of them, name contingent beneficiaries, and make sure account titles (individual, joint, trust) match your estate plan.

Privacy and scams

- **Freeze your credit** at Equifax, Experian and TransUnion. Freezes are free and you can lift them when you need credit.
- **Turn on two-factor authentication** for email, banks and brokerage accounts, and use unique passwords.
- **Verify before you wire.** Call back on a number you already have before moving money on anyone's instructions; wire fraud often starts with an email that looks real.
- **Expect impostors.** The IRS, the lottery commission and banks do not demand payment by gift card, wire or crypto to release your money.
- **Lottery winners:** some states allow winners to stay anonymous or claim through a trust or other entity, and others do not. Check your state lottery's rules before you claim.

Marriage, divorce and commingling

In many states an inheritance or gift received by one spouse is separate property, but depositing it into a joint account or using it for joint assets can turn it into marital property. If keeping it separate matters to you, hold it in an account in your name alone and talk to a family-law attorney. If you plan to marry after a windfall, consider a prenuptial agreement.

KEY TAKEAWAYS

- Add umbrella liability coverage and raise underlying limits.
- Update every beneficiary designation; they override your will.
- Freeze your credit, lock down your accounts, and verify before you wire.

PART 3 · CHAPTER 11

Estate planning and giving

Decide where the money goes next, so the law doesn't decide for you.

The core documents

Document	What it does
Will	Directs who receives property that has no beneficiary designation and names a guardian for minor children.
Revocable living trust	Holds assets during your life and passes them at death, generally without probate and with more privacy. Only works for assets you retitle into it.
Durable power of attorney	Lets someone you choose manage your finances if you cannot.
Health-care directive and proxy	States your medical wishes and names who decides if you cannot.
Beneficiary designations	Control retirement accounts, life insurance and transfer-on-death accounts directly.

Estate tax

The federal estate and gift tax exemption is **$15 million per person in 2026** and **$15.48 million in 2027**, and a surviving spouse can generally use any unused amount of the first spouse's exemption (portability) if it is elected on a timely estate tax return. Most families will owe no federal estate tax. About a dozen states and the District of Columbia levy

their own estate tax, often with much lower exemptions, and five states impose an inheritance tax on heirs. If you live in or own property in one of them, plan with a local attorney.

Giving with a windfall

- **Donor-advised fund (DAF).** Contribute in the windfall year, take the deduction that year if you itemize, and recommend grants to charities over many years.
- **Give appreciated investments** held more than a year instead of cash. You generally deduct their fair market value and never pay capital gains tax on the growth.
- **Qualified charitable distributions (QCDs).** At 70½ or older, you can give up to $111,000 (2026) directly from an IRA to charity, tax-free, and it counts toward required minimum distributions.

CHARITABLE RULES THAT CHANGED IN 2026

- **Non-itemizers** can deduct up to $1,000 ($2,000 married filing jointly) of cash gifts to qualifying charities. Gifts to donor-advised funds don't count toward this deduction.
- **Itemizers** can deduct only the portion of total charitable gifts above 0.5% of AGI.
- **Top-bracket taxpayers** see the tax benefit of itemized deductions, including charitable ones, capped at 35%.
- Cash gifts to public charities remain deductible up to 60% of AGI, with a five-year carryforward for the excess.

In a high-income windfall year, "bunching" several years of planned giving into a DAF can clear the 0.5% floor and capture the deduction while your tax rate is highest.

KEY TAKEAWAYS

- Every adult with a windfall needs a will, powers of attorney and a health-care directive.
- Few families owe federal estate tax, but state estate and inheritance taxes are common.
- Give appreciated shares, use a DAF in high-income years, and consider QCDs after 70½.

PART 3 · CHAPTER 12

Special situations by windfall type

The rules that apply only to your kind of money.

Inheritance

- **Step-up in basis.** Inherited stocks, funds and real estate generally take a cost basis equal to their value at the date of death, so selling soon afterward often produces little taxable gain. Retirement accounts and annuities do not get a step-up.
- **Inherited traditional IRA or 401(k).** Most non-spouse beneficiaries must empty the account by the end of the 10th year after the year of death. If the original owner had already started required minimum distributions, annual withdrawals are also generally required in years 1 through 9. Missing a required distribution can bring an excise tax.
- **Eligible designated beneficiaries** have more flexibility: a surviving spouse, a minor child of the owner (until 21), a disabled or chronically ill beneficiary, or one not more than 10 years younger than the owner.
- **Surviving spouses** can usually roll the account into their own IRA or keep it as an inherited IRA. The better choice depends on age and income needs.

- **Inherited Roth IRA.** Withdrawals are generally tax-free if the account met the five-year rule, but most non-spouse heirs must still empty it within 10 years.
- **Disclaiming.** If you don't need the money, a qualified disclaimer (generally within nine months of the death, before you accept any benefit) lets it pass to the next beneficiary as if you had never received it.

Lottery and prizes

- **Claim deadlines** range from about 90 days to a year depending on the state and game. Secure the ticket and read your state lottery's rules before you sign anything or claim.
- **Cash or annuity.** Powerball and Mega Millions annuities pay 30 graduated payments over 29 years, each 5% larger than the last; the cash option is the smaller present value, often less than half of the advertised jackpot. The annuity adds discipline and spreads income across tax years; the cash option gives control and flexibility. Your team should model both after tax.
- **Taxes.** Expect federal tax at up to 37% plus state tax. Withholding of 24% will not cover it.
- **Gambling losses.** Starting in 2026, deductible gambling losses for itemizers are limited to 90% of gambling winnings.

Stock compensation and IPOs

- **RSUs** are taxed as wages when they vest. The 22% supplemental withholding is often too low for high earners; plan an extra reserve or adjust withholding.
- **Non-qualified options (NSOs)** create ordinary income on the spread when exercised. **Incentive stock options (ISOs)** can qualify for long-term capital gains rates if you hold the shares at least two years from grant and one year from exercise, but the spread at exercise can trigger the alternative minimum tax.
- **Insiders** may only sell during open trading windows or through a pre-arranged Rule 10b5-1 plan. Ask your company's legal team before you trade.
- **Diversify on a schedule.** Selling a set percentage each quarter removes emotion from the decision.

Legal settlements

- **Physical injury or sickness:** compensatory damages are generally excluded from income. Punitive damages and interest are taxable.
- **Employment, emotional distress and other claims** are generally taxable; back pay is treated as wages. The way the settlement agreement allocates the payment matters, so involve a tax advisor **before** it is signed.
- **Structured settlements** pay over time and can provide steady, tax-free income for physical injury awards. Selling future payments for a lump sum usually comes at a steep discount.
- **Means-tested benefits.** If you or a family member relies on Medicaid or SSI, a lump sum can affect eligibility. Ask an attorney about a special needs trust before the money is received.

Selling your home

- Exclude up to **$250,000** of gain ($500,000 married filing jointly) if you owned and lived in the home as your main residence for at least two of the last five years and haven't used the exclusion in the past two years.
- Gain above the exclusion is taxed at long-term capital gains rates and can be subject to the 3.8% NIIT. Keep records of improvements; they raise your basis.
- If you will buy again soon, keep the proceeds in insured savings or Treasury bills, not stocks.

Selling a business

- Plan two to three years ahead if you can. An **asset sale** and a **stock sale** are taxed very differently, and depreciation recapture can be taxed at higher rates.
- **Installment sales** can spread the gain over several years. **Qualified small business stock** (Section 1202) may exclude much of the gain for eligible C-corporation stock; the rules changed in 2025, so confirm with your CPA.
- Earn-outs, escrows and non-competes mean not all the money is certain. Plan around the guaranteed portion.

Divorce settlement

- Property transferred between spouses as part of a divorce is generally not taxed, but you receive the original cost basis, so compare assets after tax, not by balance.
- A 401(k) divided under a qualified domestic relations order (QDRO) can pay the receiving spouse without the 10% early-withdrawal penalty; that exception does not apply to IRAs.
- Alimony under agreements made after 2018 is neither deductible by the payer nor taxable to the recipient.

Bonus or severance

- Both are wages. Confirm withholding, and raise 401(k) contributions if the plan allows deferrals from them.
- With severance, line up health insurance (COBRA or a marketplace plan) and stretch the money to cover the job search.

KEY TAKEAWAYS

- Inherited retirement accounts have a 10-year clock and sometimes annual minimums.
- Settlement taxes depend on what the payment is for; plan before signing.
- Equity compensation needs a tax reserve and a diversification schedule.

PART 3 · CHAPTER 13

The psychology of sudden money

A windfall changes your balance sheet faster than it changes your habits.

The popular claim that "70% of lottery winners go broke" is repeated often, but it is not supported by published research. The real evidence is more useful. A study of Florida lottery winners published in *The Review of Economics and Statistics* (2011) found that people who won $50,000 to $150,000 were about half as likely as small winners to file for bankruptcy in the first two years, but more likely to file in years three to five. After five years their bankruptcy rates were about the same. About 5.5% of the 35,000 winners studied filed within five years. The researchers concluded that the money **postponed** financial distress rather than prevented it.

In other words, a windfall alone did not change these winners' financial trajectory. Behavior did. The same forces affect every kind of sudden money.

Forces to plan for

What happens	What it looks like	Counter-move
"Found money" thinking	Treating a windfall as play money instead of part of your net worth.	Give every dollar a job in your written plan.

What happens	What it looks like	Counter-move
Lifestyle creep	Each upgrade feels small; together they raise fixed costs permanently.	Set an annual spending budget and a waiting rule for big purchases.
Adaptation	The excitement of new things fades faster than their costs do.	Spend the "enjoy" bucket on experiences and time, not just possessions.
Decision fatigue	Too many choices at once lead to snap decisions or none at all.	Follow the order in this guide; one decision at a time.
Guilt and grief	An inheritance can feel untouchable, or easy to spend to numb a loss.	Wait before deciding; consider a gift or goal that honors the person.
Shifting relationships	Friends and family may treat you differently or expect more.	Use a giving budget (Chapter 9) and talk openly with your partner.

Align with your partner

If you share finances, make the plan together. Agree on the goals, the giving budget and the spending budget before you discuss any purchase. Disagreements about sudden money tend to be disagreements about values; name them early.

Measure success by security, not spending

The best outcome of a windfall is often invisible: no high-interest debt, a full emergency fund, retirement on track, children's education funded, and the freedom to make choices about work and time. That is what the waterfall in Chapter 5 is designed to buy.

KEY TAKEAWAYS

- A windfall does not change financial habits; a plan does.
- Expect lifestyle creep, decision fatigue and pressure from others, and plan for them.
- Agree on goals and budgets with your partner before discussing purchases.

APPENDIX A

Your 90-day action plan

Check each item off as you go.

DAYS 1–7 · SECURE

- [ ] Move the money to insured accounts, Treasury bills or a government money market fund; respect the $250,000 FDIC limits.
- [ ] Tell only your partner and the professionals you will work with.
- [ ] Start a folder with every document related to the windfall.
- [ ] Freeze your credit at all three bureaus; turn on two-factor authentication.
- [ ] Write down: "No permanent decisions until (date)."

DAYS 8–30 · UNDERSTAND

- [ ] Identify the windfall type and its tax treatment (Chapter 2).
- [ ] Meet a CPA or enrolled agent; estimate the full tax and set aside the reserve.
- [ ] Schedule estimated tax payments or adjust withholding.
- [ ] List every debt with its balance and interest rate.
- [ ] Note any deadlines: inherited IRA distributions, option expirations, lottery claim windows, disclaimer deadlines.

DAYS 31–60 · PLAN

- [ ] Interview at least two fee-only fiduciary planners (Appendix C); hire one if needed.
- [ ] Complete the worksheet in Appendix B and write a one-page plan.
- [ ] Agree on the "enjoy" and giving budgets with your partner.
- [ ] Fill the emergency fund; pay off high-interest debt.
- [ ] Review insurance: umbrella, home, auto, life and disability.

DAYS 61–90 · EXECUTE

- [ ] Fund IRAs and HSAs; raise 401(k) contributions; open 529s if relevant.
- [ ] Invest the long-term portfolio as a lump sum or on a written schedule.
- [ ] Meet an estate attorney; sign a will, powers of attorney and health-care directive.
- [ ] Update every beneficiary designation and account title.
- [ ] Set up an automatic monthly transfer if the windfall will supplement income.

EVERY YEAR AFTER

- [ ] Review the plan, spending and asset allocation; rebalance.
- [ ] Coordinate with your CPA before year-end on giving, gains and distributions.
- [ ] Recheck beneficiaries, insurance and estate documents after any life change.

APPENDIX B

Windfall planning worksheet

Your plan on one page. Fill it in when you are calm.

1. The windfall

Type, gross amount, date received, how it is taxed.

2. The tax

Estimated total tax, minus withholding, equals the reserve to set aside.

Estimated federal tax	Estimated state tax	Already withheld	Reserve to set aside

3. Net amount to plan with

4. My waterfall

Amount for each bucket (Chapter 5). The total should equal line 3.

Emergency fund	High-interest debt	Near-term needs (0–2 yrs)	Retirement and HSA

Medium-term goals	Long-term portfolio	Enjoy	Give

5. How I will invest the long-term portfolio

Target mix, funds or advisor, and lump sum or schedule (dates and amounts).

6. Sustainable income

Long-term portfolio × withdrawal rate (3%–4%) = annual amount it can support.

7. My giving policy

Total family and friends budget, charitable budget, and my rule for loans.

8. My team

CPA / EA	Financial planner	Estate attorney	Insurance

9. Deadlines

Tax payments, distributions, claim windows, lock-up and option dates.

10. What would make me change this plan?

Only events you list here, decided in advance.

Signed _____ Date _____ Next review _____

APPENDIX C

Questions to ask before you hire an advisor

Ask every candidate the same questions, and get the important answers in writing.

Duty and conflicts

1. Are you a fiduciary at all times, on all of my accounts? Will you put that in writing?
2. Are you or your firm paid by anyone other than me, through commissions, revenue sharing or referral fees?
3. Do you sell insurance or annuities? How are you paid when you do?

Cost

4. What will I pay in total each year, in dollars, including fund expenses and any platform fees?
5. Does your fee go down as assets go up? Is there a minimum?
6. What does it cost to leave?

Experience and approach

7. How many clients have you helped with a windfall like mine? What did the first year look like?
8. What are your credentials (CFP®, CPA, CFA) and how can I verify them?
9. How do you build portfolios? What would you never recommend?
10. How do you work with my CPA and estate attorney?

Custody and record

11. Where will my money be held? (Look for an independent, well-known custodian, with accounts in your name.)
12. Have you or your firm ever had a disciplinary action or customer complaint? (Check adviserinfo.sec.gov and brokercheck.finra.org yourself.)
13. May I see your Form ADV Part 2 and a sample financial plan?

> **GOOD ANSWERS SOUND LIKE**
>
> Clear, specific and in writing: a fee in dollars, fiduciary status on everything, an independent custodian, a plan before any product, and no pressure to decide quickly.

APPENDIX D

Glossary

Key terms used in this guide.

Annual gift exclusion
The amount you can give any one person in a year without filing a gift tax return: $19,000 in 2026, $20,000 in 2027.

Cost basis
What you paid for an asset, adjusted for certain events. Your taxable gain is the sale price minus the basis.

Dollar-cost averaging (DCA)
Investing equal amounts on a fixed schedule instead of all at once.

Donor-advised fund (DAF)
A charitable account that gives you a deduction when you contribute and lets you recommend grants to charities over time.

Eligible designated beneficiary
An heir who may stretch inherited retirement account withdrawals beyond 10 years, such as a surviving spouse or a minor child of the owner.

Estimated tax
Quarterly payments toward the current year's tax on income without enough withholding.

FDIC / NCUA insurance
Federal deposit insurance for banks and credit unions, generally $250,000 per depositor, per institution, per ownership category.

Fiduciary
An advisor legally obligated to act in your best interest.

Lifetime exemption
The total you can give during life or leave at death before federal gift or estate tax applies: $15 million in 2026, $15.48 million in 2027.

Net investment income tax (NIIT)
A 3.8% tax on investment income above $200,000 of modified AGI for single filers and $250,000 for joint filers.

Qualified charitable distribution (QCD)
A tax-free transfer from an IRA directly to charity, available at 70½ or older.

Qualified disclaimer
A formal refusal of an inheritance, generally within nine months, so it passes as if you had never received it.

Required minimum distribution (RMD)
The minimum amount that must be withdrawn from certain retirement accounts each year.

Safe harbor
Payment levels (90% of this year's tax, or 100%/110% of last year's) that generally avoid an underpayment penalty.

SIPC
Protection of up to $500,000 (including $250,000 cash) for brokerage customers if a member firm fails. It does not cover investment losses.

Step-up in basis
The reset of an inherited asset's cost basis to its value at the date of death.

Supplemental wages
Pay such as bonuses, commissions and RSU vests, usually withheld at a flat 22% federal rate (37% above $1 million).

Treasury bill
A short-term U.S. government debt security maturing in one year or less. Interest is exempt from state and local income tax.

Umbrella insurance
Extra liability coverage that sits above home and auto policies.

Withholding
Tax taken out of a payment before you receive it. It is a prepayment toward your tax, not the final amount.

APPENDIX E

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- FDIC (fdic.gov), NCUA (ncua.gov) and SIPC (sipc.org): deposit insurance and brokerage protection limits.
- SEC Investment Adviser Public Disclosure (adviserinfo.sec.gov), FINRA BrokerCheck (brokercheck.finra.org), CFP Board (cfp.net).
- Market Unclouded calculations for the lottery tax example, the $400,000 plan and the withdrawal table (hypothetical illustrations).

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MarketUnclouded

SEE THE MARKET CLEARLY

Long-Term Investing
The long-term investor's playbook, with five model portfolios. Free at marketunclouded.com/investment-guides.

Stock Trading Masterclass
The complete 2026 handbook for building a disciplined trading process.

thinkorswim Setup Guide
Chart settings, VWAP, MACD and custom watchlist columns, step by step.

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