EQ Insight

10 tips for investing a windfall

“Coming into money isn’t something that happens often. Sometimes it’s not just a dream; you win the lottery, a wealthy aunt passes away, your bonus is larger than expected – or you earn some money from the sale of a company. Now what?

Before you commit yourself to spending, investing, giving gifts or even giving up your job, it makes sense to take some time to consider your financial situation and your options.

Remember, long-term financial planning starts with knowing where you stand with your money. So here are some tips on making your windfall work for you in the long run.”

John Spiers
CEO, EQ Investors

1 Make a plan

The shock of a sudden windfall can set off a litany of irrational behaviours, such as giving all the money away, becoming a recluse, spending the money lavishly, or hiding or hoarding the money.

First, stop, take a deep breath and picture how you'd like your life to look in five, ten, and maybe even 20 or 30 years. Where are you living? Are you retired? Travelling the world? Still working, but with less financial stress? Jot down your visions so you can keep that picture clear.

Setting some goals drives your decisions about what to do with your windfall. With a direction in mind, you can plan more effectively.

Consider working with an expert; whether that’s a financial adviser, accountant or tax expert. You want the right type of professional for your situation. Depending on the size or complexity of your windfall, you may even need a team of experts.

EQ Tip: You need to have confidence in the person who's advising you. Do some research about the individual and their organisation.

2 Pay off debts and possibly your mortgage

The interest rate on your credit card is likely to be significantly higher than anything you earn in a savings account or by investing that money instead. You may not want to pay off all your debts with your windfall, but if you can it’s important to deal with any high interest debt.

Making an extra mortgage payment or two will mean you end up paying less interest in the long run. However bear in mind that once you have used your capital, you will no longer have access to this money. If the interest rate on your mortgage is very low, you might be better off investing the money for capital growth instead.

It is very important that you check the terms of your mortgage before you make a large overpayment. Many providers will charge you for early repayments.

EQ Tip: Pay the highest interest debt first. By doing so you’ll pay off the debt more quickly while saving yourself hundreds or even thousands of pounds in interest.

3 Bulk up your emergency fund

Before you start investing, it's important to establish a rainy day fund in an easy access savings account to cover emergencies or unexpected costs. You'll thank yourself if you unexpectedly experience a job loss or health setback.

As a generally accepted rule of thumb, aim to build up your rainy day savings to the equivalent of one of the following:

- 3 months' income, or
- 3 to 6 months' household expenses

The exact amount you need depends on what your needs and financial responsibilities are.

EQ Tip: With rock bottom interest rates, shop around for the best savings accounts, using a website such as **moneyfacts.co.uk**

New challenger banks are offering competitive rates as they look to gain market share.

4 Think about your children

It's not hard to be fearful for youngsters today. Governments will be increasingly stretched, final salary pension schemes are already difficult to find and the property market is getting ever further out of reach.

With a relatively modest windfall it's possible to leave a legacy for a young person. Junior ISAs are a good choice if you would like to fund university costs because they allow access at age 18. If you would like to help with a deposit for a first property then the new Lifetime ISA might be more suitable – but beware, there is not much flexibility with this product.

If you are thinking about giving away bigger sums you can use a discretionary trust to retain some control over the money. Giving 18 year olds access to large sums of money isn't always wise!

EQ Tip: Some gifts can trigger an Inheritance Tax liability in your lifetime. It's worth taking advice before making large gifts.

Get your money working for you – what are your options?

5 Don't leave it all in the bank

Once you have a rainy day fund, start saving for the future by putting your money to work. The stock market offers the best chance of protecting your wealth from inflation, albeit with some level of risk.

In the current market environment bank savings rates (e.g. rates on Cash ISAs) are significantly lower than inflation. You can make the comparison yourself online by visiting the Office of National Statistics' website[1] and comparing the Consumer Price Index with the deals offered by your bank. With rates as they currently stand, money left in the bank will steadily lose value (in real terms) over time.

EQ Tip: Keeping all your money in the bank means its value is being eroded by inflation. Investing puts your money to work but it's key to have a long time horizon. Stay calm in the face of any market volatility.

6 Use your tax-efficient ISA allowance

If you're lucky enough to have a significant windfall, start by putting the maximum £20,000 inside this year's ISA allowance. This can be cash, stocks & shares, the new Lifetime ISA, the Innovative Finance ISA or a mixture of them all.

Invest at the beginning of each tax year (6 April) to get the maximum benefit. You can continue to add to your ISA each year, using your new ISA allowance.

EQ Tip: If you trust your partner with £20,000 you can make use of their allowance as well, instantly protecting £40,000 of your windfall from the tax man.

1 www.ons.gov.uk/economy/inflationandpriceindices

7 Invest in a pension

Pensions also offer valuable tax benefits and has tax relief added in by the Government. If you're in danger of paying tax on your windfall then pensions are a brilliant way to claw back some of that cash.

25% of your pension fund is available as a tax-free lump sum after age 55. Pension funds can also be used to pass on wealth to your chosen beneficiaries, in some cases entirely free from tax.

EQ Tip: For a quick, easy way to invest in your own pension, set up a self-invested personal pension (SIPP). You can set up your SIPP online in minutes and also consolidate old workplace pensions to bring together in one place. However, always check for any exit charges or guaranteed benefits.

8 Invest in property

If your windfall will stretch to it, then buying a buy-to-let can be a good investment. With a sizeable windfall to put down as a deposit, arranging a mortgage should pose no problem. If you can get enough rent to cover your expenses you are effectively getting someone else to buy the property for you.

With the availability of low-cost, interest-only mortgages, buy-to-let will remain a popular choice for many. However, recent measures introduced by the Government mean buy-to-let will no longer deliver the returns it once did. Rental yields may look enticing, but they are often unrealistic once you've factored in stamp duty and maintenance costs.

EQ Tip: Beware the buy-to-let golden goose. Sudden changes like rental vacancies or rising interest rates can put a huge strain on your cash flow. The lack of liquidity can be a problem if you need to access your money quickly for use in other areas of your life.

9 Buy an investment you can forget about

There are a range products on the market that you can wrap in an ISA or pension. Don't start by investing money into a single company even if you're convinced it's got great prospects. You can choose ready-made portfolios that invest in shares, bonds and other assets across a range of countries and regions - helping to dilute risk whilst improving the chances of investing in the right places.

Reduce risk by spreading out your contributions at regular intervals. A common approach might be to split the investment into four chunks which can be invested at regular intervals over 12-18 months.

Whatever you do invest in, though, make sure you do your research first and don't invest in anything you don't understand.

For married couples consider joint investments. Often it is possible to arrange your individual tax allowances to minimise income and capital taxes.

EQ Tip: Using a discretionary investment manager like EQ means that the investment decisions are made on your behalf. Experts carry out the research and monitor the investments so you don't have to.

10 Give to charity

Giving to a cause close to your heart will benefit others and probably make you feel better about yourself. Some people who come into large sums of money feel guilty about their good fortune. Helping others is a good way to avoid this.

Giving to charity is also tax efficient. Donating through Gift Aid means charities can claim an extra £25 for every £100 you give. If you pay tax at 40% you can claim a further £25 tax relief through your Self-Assessment tax return.

If you leave 10% of your net estate as a charitable legacy you may qualify for a reduction in the rate of Inheritance Tax from 40% to 36%.

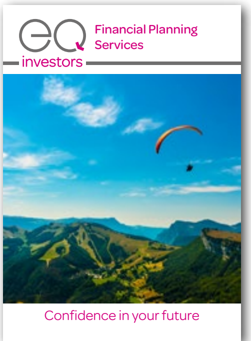
EQ Tip: You can also gift assets such as property or shares to charity. You won't have to pay any Capital Gains Tax if you do.

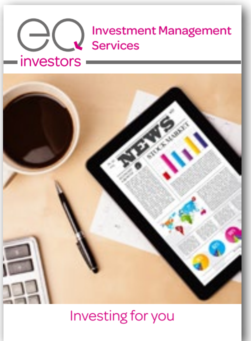
Conclusion: Don't forget to take advice

Plotting an investment strategy isn't always easy or intuitive – particularly if you've never done it before. If you're thinking of investing your windfall, consider hiring a financial adviser to help you achieve your goals.

Advice is usually invaluable as the personal recommendations made are based on your circumstances and financial goals. Initial consultations are often free, and this meeting should enable you to judge whether paying for financial advice will deliver the best value for you overall.

EQ Tip: Websites like **unbiased.co.uk** or the **Money Advice Service** have searchable listings of financial advisers. The listings will show you what areas the adviser is able to advise on and whether it is provided over the phone, face-to-face or increasingly online.





This guide provides general information about financial planning and is not a personal recommendation. **The value of investments and the income derived from them can go down as well as up, so you could get back less than you originally invested.**

EQ Investors, Centennium House, 100 Lower Thames Street, London EC3R 6DL.

eqinvestors.co.uk 020 7488 7110 enquiries@eqinvestors.co.uk @eqinvestors EQ Investors