

Making the most of a lump sum windfall

Much will depend significantly on your goals, needs and long-term aspirations

Receiving a substantial lump sum of money – whether from the sale of a property, a business, an inheritance or a bonus – can open the door to exciting opportunities. It can potentially set you and your loved ones on a path to long-term financial wellbeing and security. However, navigating the options for effectively using or investing such a windfall can feel overwhelming, especially in uncertain economic climates.

Understanding what to do with your money depends significantly on your goals, needs and long-term aspirations. This is where professional financial advice can help you chart the path forward, ensuring every decision aligns with your objectives. Below, we discuss some main options to help you start planning.

SHORT-TERM GOALS AND FLEXIBLE SAVINGS OPTIONS

If your lump sum is intended to support short-term goals, such as funding a holiday, buying a car or acting as a buffer while considering your next step, a cash savings account might be a sensible decision. Unlike stock market investments, cash savings guarantee the stability of your capital, allowing easy access to your funds, regardless of market fluctuations.

For instance, fixed-term savings or notice accounts could yield higher interest rates than

easy-access options if you intend to avoid touching your money for several months. Shopping around for the best rates is vital, as even a small percentage difference on significant sums can translate into substantial additional returns. A diligent approach to short-term savings will ensure you maintain financial flexibility without risking capital loss.

CONSIDERING MEDIUM-TERM OPPORTUNITIES

For those seeking medium-term solutions, UK government bonds, commonly referred to as gilts, can represent a robust choice. These are among the safest investment vehicles, issued and guaranteed by the government, and they offer predictable returns with minimal risk. A particularly appealing feature of gilts is their exemption from Capital Gains Tax (CGT), making them an attractive option for higher

and additional rate taxpayers who could otherwise face CGT rates as high as 24%.

Gilts are particularly suited to scenarios where stability and predictable returns outweigh the need for higher-growth opportunities. Investing in gilts can enhance medium-term financial planning, providing a secure foundation for funding goals such as secondary education, home renovations or comfortably bridging life's transitional phases.

INVESTING FOR LONG-TERM GROWTH

If your objectives are focused on longer-term ambitions, such as securing a retirement fund or leaving a lasting legacy for future generations, investing in the stock market could allow your lump sum to achieve significant growth over time. While the stock market carries inherent risks due



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to volatility, historical patterns illustrate its ability to outperform cash and bonds over extended periods.

Long-term investment success requires a commitment to a horizon of at least five years, allowing sufficient time to weather market downturns. Diversification remains a fundamental principle for mitigating risk, as spreading investments across multiple asset classes, sectors and regions reduces exposure to economic fluctuations in one area. Building a diversified portfolio tailored to your risk tolerance and objectives can position your finances for steady growth over time.

MAXIMISING YOUR ISA ALLOWANCE

If you are yet to utilise your annual Individual Savings Account (ISA) allowance, it's worth considering this route to protect your windfall against CGT and Income Tax. Investing up to £20,000 per tax year (2024/25) in a Stocks & Shares ISA allows your money to grow tax-efficiently while avoiding costs tied to profits and income generated outside an ISA wrapper.

For example, investments outside an ISA may lead to tax liabilities if the gains exceed the CGT exemption or if dividends push you into a higher Income Tax bracket. With its use-it-or-lose-it nature, your ISA allowance represents a valuable annual opportunity to shield your investments effectively, contributing to your long-term goals without compromising tax efficiency.

ENHANCING YOUR RETIREMENT FUND

Your lump sum could also make a substantial impact when directed into a personal pension.

The limit is £60,000 in 2024/25 or 100% of your UK relevant earnings (whichever is lower), unlocking Income Tax relief on your contributions. Whether you are preparing for a future retirement or bolstering an existing plan, this relief can amplify the potential of your savings.

Furthermore, under certain conditions, you may carry forward unused allowances from the past three years to maximise contributions. However, the rules governing carry forward and allowances can be complex – particularly for high earners or those who have already accessed their pension pots. Professional advice is crucial in navigating these complexities effectively.

TAILORING YOUR STRATEGY TO FIT YOUR NEEDS

Knowing how best to use a windfall takes a lot of work. Much depends on your personal circumstances, financial objectives and risk appetite. For instance, balancing an approach that seeks to preserve purchasing power against the need for growth requires a holistic strategy. Investing time in evaluating your options and establishing a diversified portfolio aligned with your unique goals is essential.

Seeking tailored financial advice provides the expertise you need to make informed decisions about savings and investments. Ensuring every aspect of your financial strategy complements your life stage and aspirations enables you to approach your future with clarity and confidence. ■

LOOKING TO TAKE THE NEXT STEP TOWARDS FINANCIAL FREEDOM?

A cash windfall offers a unique opening to secure stability while planning for the future. From short-term savings to long-term investments, there are multiple options to create a financial framework tailored to your needs. Get in touch today for professional advice on managing your lump sum effectively and building a strategy that best suits your goals. We'll craft a plan to help you maximise your financial opportunities.

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THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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