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Lump Sum Payouts: Questions You Should Ask Yourself Before You Invest

Receiving a lump sum payout can be very exciting because for many individuals it's rare to have the opportunity to spend or invest a large amount of money at one time. But figuring out what to do with a lump sum payout also can be very stressful, especially if you aren't comfortable making financial decisions.

Once you fully understand all of your options, you'll be in a better position to make a good financial decision. So try to resist the urge to make a quick decision regarding how you'll use your lump sum payout. Many experts recommend that you should take several months or even a year to decide how you'll use the money, especially if the payout is tied to an emotional event, such as a death of a family member or a separation from your job.

While we can't tell you what to do with your lump sum payment, we can help you make an informed decision. Before you decide, consider these questions:

Am I carefully avoiding fraud?

Your lump sum payout may make you a target for scams, particularly if reports of coming payments have been in the news. You should be particularly wary if someone approaches you, instead of the other way around, to discuss what to do with the money.

Often, you can avoid fraud by asking questions and doing research on any financial professionals or

investment opportunities you are considering. You should also beware of the warning signs for fraud, including promises of quick profits or guaranteed returns, and pressure to send money immediately. Walk away from those so-called "opportunities."

What is my current financial situation?

Maybe you've never had a financial plan or lived on a budget. Now's the time – even before you buy that boat you've been eyeing. If you sit down and take an honest look at your entire financial situation, you will be in a better position to use your lump sum payout wisely.

A lump sum payout may give you the opportunity to buy a home, live a comfortable retirement, save for a child's education or reach another investment goal. Make your own list of investment goals – including that boat – and then think about which goals are most important to you.

Many tools exist to help you put a financial plan together. For example, the Ballpark Estimate, a single-page worksheet created by the American Savings Education Council, can help you calculate what you'll need to save each year for retirement. FINRA has a college savings calculator, and the Social Security Administration has a benefits calculator to estimate your potential benefit amounts.

For more information about making a financial plan, read *Get the Facts on Saving and Investing* and *Beginners' Guide to Asset Allocation, Diversification, and Rebalancing*.

Do I need the help of a financial professional?

If you're the type of person who will read as much as possible about your options and ask the right questions about them, you may not need expert advice.

But if you're busy with your job, your children, or other responsibilities, or you don't feel comfortable making important financial decisions on your own, then you may need professional advice. Financial professionals offer a variety of services at a variety of prices. It pays to comparison shop.

While most financial professionals are honest and hardworking, you must watch out for those few unscrupulous individuals. Even if a financial professional has been recommended by friends and others you trust, we encourage you to thoroughly evaluate the background of any financial professional with whom you intend to do business.

Before you hand over any portion of your lump sum payment, make sure your financial professional is licensed, and always check and see if the financial professional or his or her firm has had run-ins with regulators or other investors.

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Check Out a Financial Professional

You can verify a broker's disciplinary history by checking the Central Registration Depository (CRD). Either your state securities regulator or FINRA can provide you with CRD information. Your state securities regulator may give you more information from the CRD than FINRA, especially when it comes to investor complaints, so you may want to check with them first. You'll find contact information for your state securities regulator on the website of the North American Securities Administrators Association (www.nasaa.org). To contact FINRA, visit [FINRA's BrokerCheck](#) website, or call them toll-free at (800)289-9999.

You can find out about investment advisers and whether they are properly registered by reading their registration forms, called the "Form ADV." You can view an adviser's most recent Form ADV online by visiting the [Investment Adviser Public Disclosure](#) (IAPD) website. At present, the IAPD database contains Forms ADV only for investment adviser firms that register electronically using the Investment Adviser Registration Depository. You can also get copies of Form ADV for individual advisers and firms from the investment adviser, your state securities regulator, or the SEC, depending on the size of the adviser.

Have I paid off my high interest credit card debt?

There is no investment strategy anywhere that pays off as well as, or with less risk than, merely paying off all high interest debt you may have. Many people have wallets filled with credit cards, some of which they've "maxed out" (meaning they've spent up to their credit limit).

Most credit cards charge high interest rates—as much as 18 percent or more—if you don't pay off your balance in full each month. If you owe money on high interest credit cards, the wisest thing you can do is pay off the balance in full as quickly as possible.

Have I asked enough questions?

As you can tell, we're really into asking questions. It's the best advice we can give you about how to invest wisely. It doesn't matter if you are a beginner or have been investing for many years, it's never a bad idea to ask questions. Don't feel intimidated. Remember, it's your money at stake.

In our "Ask Questions" brochure, you'll find some questions that you should ask about investment products, the people who sell those products, and the people who provide investment advice to you. It also contains some tips on how to monitor your investments and handle any problems.

For more information about investing wisely and avoiding fraud, please check out the Investor Information section of our website at www.sec.gov/investor.shtml.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

Even if a financial professional has been recommended by friends and others that you trust, we encourage you to thoroughly evaluate the background of any financial professional with whom you intend to do business.

