

## Brad Brain: What to do with a windfall

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*Brad Brain: "One thing I would be reluctant to do is to YOLO your money. YOLO stands for 'you only live once' and has come to represent people making ill-advised speculations on get-rich-quick schemes." | Getty Images*



Recently a reader asked me for my thoughts on what to do with some extra cash. In his case, he gets paid biweekly, which means that twice a year he receives three paycheques instead of the usual two. And this is one of those months.

His question is, "What should people to do with the extra paycheck, especially if they usually budget and operate on two checks a month? Is it really extra?"

It's a good question. Not everyone is going to get an extra paycheck but getting a cash windfall is not that unusual. Tax refunds are one example. Suddenly there is money in the bank account and figuring

out what to do with it is a nice problem to have. The right option is going to come down to your priorities. The cool thing is, whatever those priorities are, you have a chance to accelerate them.

Obviously one thing you can do is to spend the extra cash. Spending the money will give some instant gratification, and there can be value in that. Especially with the pandemic shutting down many of the regular pastimes that give us pleasure, a little treat might be just what the doctor ordered to feel like life is returning to normal.

But spending a windfall might not be the best choice, so let's have a look at what else you might do. One classic option for found money is to pay down debt. Alternatively, maybe a person invests in an RRSP to plan for the future while also reducing taxes. Both are great ideas, and there will be some variables that will determine which one is preferable for you.

The tangible variables that factor into this include what you expect for a rate of return on your RRSP, and what your mortgage interest rate is. But there are intangibles too. Sometimes people just really want to pay off their mortgage, and they are less concerned with the mathematically optimal option.

Sticking with the math though, there is usually one variable that dominates the others: your marginal tax rate. In these times of low interest rates people usually pay far more in taxes than they do in mortgage interest. If you can save 30% in taxes with the RRSP, versus saving 3% in mortgage interest, the rate of return on your RRSP is a bonus that just makes the decision to use the RRSP that much easier.

Sometimes people plan to put the windfall in an RRSP, and then apply the tax refund the RRSP contribution generates against the mortgage. Clearly that is a great idea.

But maybe we need to keep doing what works. If it made sense to put the windfall into the RRSP, maybe it makes sense to put the tax refund into the RRSP too. As Mae West said, "Sometimes too much of a good thing can be wonderful!"

These are not the only options of course. Don't overlook simply saving the money for a rainy day. Often when people think of a rainy-day fund, they are thinking of having money available in times of emergency. That is totally appropriate, of course. But a rainy-day fund doesn't have to be just for emergencies. Sometimes opportunities arise, and having some money squirreled away to take advantage can be quite handy too.

Here's an idea you might not think of immediately. Top up the cash value of a permanent life insurance policy. There will be limits to how much you can shelter, but usually the limits are generous. You will have tax-free growth of the money. When you pass away your money will flow to your beneficiaries, tax-free and free of probate.

One thing I would be reluctant to do is to YOLO your money. YOLO stands for "you only live once" and has come to represent people making ill-advised speculations on get-rich-quick schemes. But get-rich-

quick-schemes are often get-poor-quick schemes. If you are thinking about YOLO, please don't do it with more money than you are prepared to lose.

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