

When a Windfall Comes Your Way

What do you do with big money?

Provided by JOSEPH A. GARAFANO, CFP®

A first-world problem, and nothing more? Not quite. Getting rich quick can be liberating, but it can also be frustrating. Sudden wealth can help you resolve anxieties about funding your retirement or your children's college educations, and newfound financial freedom can lead to time freedom – greater opportunity to live and work on your terms.

On the other hand, you'll pay more taxes, attract more attention and maybe even contend with jealousy or envy from certain friends and relatives. You may deal with grief or stress, as a lump sum may be linked to a death, a divorce or a pension payout decision.

Windfalls don't always lead to happy endings. Take the example of one Bud Post, who won more than \$16 million in the Pennsylvania lottery in 1988. Eighteen years later, he passed away owing more than \$1 million after business failures and bad investments. Along the way, his girlfriend successfully sued him for some of the money and his brother hired a hit man to try and take him out, hoping to inherit some of those assets. That weird and tragic example aside, windfalls don't necessarily breed "old money" either – without long-range vision, one generation's wealth may not transfer to the next. As the *Wall Street Journal* mentions, on average 70% of the wealth built by one generation is lost by the next. Two generations later, an average of 90% of it disappears.^{1,2}

So what are some wise steps to take when you receive a windfall? What might you do to keep that money in your life and in your family for years to come?

Keep quiet, if you can. If you aren't in the spotlight, don't step into it. Who really needs to know about your newfound wealth besides you and your immediate family? The IRS, the financial professionals who you consult or hire, and your attorney. The list needn't be much longer, and you may want to limit it at that.

What if you can't? Winning a lottery prize, selling your company, signing a multiyear deal – when your wealth is publicized, expect friends and strangers to come knocking at your door. Be fair, firm and friendly – and avoid handling the requests yourself. (That first, generous handout may risk opening the floodgate to subsequent handouts). Let your financial team review appeals for loans, business proposals, and pipe dreams.

Yes, your team. If big money comes your way, you need skilled professionals in your corner – a CPA, an attorney and a wealth manager. Ideally your CPA is a tax advisor, your lawyer is an estate planning attorney and your wealth manager pays attention to tax efficiency.

Think in stages. When a big lump sum enhances your financial standing, you need to think about the immediate future, the near future and the decades ahead. Many people celebrate their good fortune when they receive sudden wealth and live in the moment, only to wonder years later where that moment went.

In the immediate future, an infusion of wealth may give you some tax dilemmas; it may also require you to reconsider existing beneficiary designations on IRAs, retirement plans and investment accounts and insurance policies. A will, a trust, an existing estate plan – they may need to be revisited. Resist the temptation to try and grow the newly acquired wealth quickly through aggressive investing.

Now, how about the next few years? What does financial independence (or greater financial freedom) mean for you? How do you want to spend your time? Should you continue in your present career? Should you stick with your business or sell or transfer ownership? What kinds of near-term possibilities could this open up for you? What are the concrete financial steps that could help you defer or reduce taxes in the next few years? How can risk be sensibly managed as some or all of the assets are invested?

Looking further ahead, tax efficiency can potentially make an enormous difference for that lump sum. You may end up with considerably more money (or considerably less) decades from now due to asset location and other tax factors.

Think about doing nothing for a while. Nothing financially momentous, that is. There's nothing wrong with that. Sudden, impulsive moves with sudden wealth can backfire.

Welcome the positive financial changes, but don't change yourself. Remaining true to your morals, ethics and beliefs will help you stay grounded. Turning to professionals who know how to capably guide that wealth is just as vital.

JOSEPH A. GARAFANO, CFP® is a Representative with CAMBRIDGE INVESTMENT RESEARCH and may be reached at WWW.GARAFANOWEALTH.COM, 856-267-5829 or INFO@GARAFANO.BIZ

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Citations.

- 1 - money.usnews.com/money/personal-finance/articles/2014/01/24/5-things-to-do-if-you-receive-a-windfall [1/24/14]
- 2 - tinyurl.com/qblyk6v [3/8/13]