



## Suddenly wealthy

With the fragile economy, this might seem like an unlikely time to explore the issues that attend “sudden wealth.” But even in difficult economic times, people can come into money suddenly. The most routine sources of sudden wealth are inheritances and lump sum distributions from employer retirement plans. Other events that can affect one’s financial landscape include:

- divorce settlement;
- insurance settlement;
- sale of a business;
- contract signing bonus;
- initial public offering;
- exercise of employer stock options.

As much as we all might wish for a windfall, there is a well-documented record showing evaporation of sudden wealth. For example, many lottery winners are broke within a few years.

Inexperience with tax and investment issues is one part of the problem, of course. But there’s also an emotional component, experts have found, that needs to be addressed. That’s one reason for the common counsel to avoid rushing into any major decisions. Especially if the wealth is an inheritance, there may be issues of grief and loss intermingled with the possibility of financial security.

### **Signs of trouble**

When the wealth transfer trigger is one of life’s major turning points, such as retirement or the death of a family member, the recipient of the windfall may be put into a vulnerable posture. The sudden change of financial circumstances can itself be bewildering and can lead to unfortunate decisions. Behavioral worries to watch for include:

- recurrent money-related ruminations;
- “ticker shock,” a cycling of hope and anxiety that parallels the stock market’s volatility;
- sleep disorders;
- guilt over the good fortune, inhibiting decision-making and undermining pleasure;
- fears of loss of control, paranoid thinking, concern about being exploited or hurt by

others.

These are signs that professional financial management guidance is likely to prove helpful.

### **Deferrable decisions**

The first steps one needs to take upon receiving a windfall involve setting goals and developing strategies. A realistic assessment of long-term needs may not be easy, but provides an important foundation. Matching resources to those needs comes next, followed by a strategy for investing

and managing one's new assets. Until these steps have been taken, major temptations such as the following should be avoided:

*Early retirement.* As alluring as jumping off the treadmill of daily work life may be, one needs to plan for longevity as well. You need enough financial resources to cover the unexpected as well as what you can foresee.

*Relocation.* Changing domicile is a major life decision. Before permanently moving to a new city or state, it may be wise to live there temporarily, to become confident that it will be all that is hoped for.

*Major gifts.* Family members, friends, even charities may approach the recipient of sudden wealth with requests for help. Keep in mind that a gift is forever, and the income that gift might earn goes along with it. Be certain that you really can afford to part with the capital. Don't overlook the fact that major gifts to friends and family may trigger gift tax obligations as well.

### **If you will be giving a fortune**

If your estate plan includes a substantial legacy for a younger family member who lacks full financial maturity, consider using a trust for the bequest. Your trust will be a gift of more than financial resources. You will be including our investment and financial management expertise as well. A gift or bequest in trust can provide for a lifetime of financial security.

(October 2011)  
© 2011 M.A. Co. All rights reserved.