

More Money, More Problems? Managing a Windfall

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A chance to split a \$380 million jackpot. Where's the problem in that?

Sure the money will change the lives of the Mega Millions lottery winners, but it's imperative that they have a sound financial plan. Failure to map out a strategy for their winnings could lead to misery.

A retired man in Washington plans to claim his prize on Thursday, while the Idaho ticket holder has yet to surface.

The delay in coming forward after Tuesday's drawing means the winners are likely following the first prudent step for anyone suddenly coming into lots of money - keep quiet until you figure out what you're going to do with it.

Although winning the lottery is one of the more glamorous ways to attain sudden riches, there are several ways to come into a cash windfall: Inheriting money, receiving proceeds from a life insurance policy or selling a business, are far more common.

Whatever the circumstances, planning is essential.

Many people think having a fortune means financial worries and planning are over, said Charles Mayfield, a financial planner at Atlanta-based Chappell, Mayfield & Associates. "That couldn't be further from the truth."

Although it's fun to think about winning millions upon millions, Mayfield said the typical windfall he sees is an inheritance between \$500,000 and \$2 million.

The first thing one should do is keep quiet and not get carried away with excitement.

Next it's important to determine the best immediate use for the money, which usually means paying down debt.

Then it's a matter of seeing how the money can best be put to work.

If the person has adequate retirement savings, then it's acceptable to entertain some of the items that may be on a wish list, like a vacation home.

And it's essential to think long term. Any discussions about how to handle a windfall must include proper estate planning.

GET HELP

To help create a plan it's wise to invest the time and money required to assemble a team. That should include an attorney, an accountant and a financial adviser.

"What it will boil down to is finding trusted advisers they can speak candidly with - and that goes for any amount of money," Mayfield said.

Winners without personal relationships with such professionals may find it difficult to place their trust in people they don't know. Relying on recommendations from family members and friends helps.

Organizations such as the National Association of Financial Planners and the National Association of Personal Financial Advisors can also provide referrals.

It's important to get references and choose someone who's easy to talk with. It's also a good idea to make sure they've been in business for at least 10 years, said Myra Salzer, founder of The Wealth Conservancy, a wealth management firm based in Boulder, Colo.

Also find out if the adviser was able to minimize client losses during the economic downturn.

CHOOSE WISELY

One of the first decisions lottery winners must make is whether to receive their prize as a lump sum or take the winnings over a period of years. The decision needs to be based on their plans for the money, tax implications, and other considerations.

The \$380 Mega Millions jackpot will be split among the two winning ticketholders. That's a \$190 million each if paid in 26 annual installments. If taken as a lump sum, it comes to \$81 million after taxes.

Wealth advisers say invested properly, the lump sum option is probably the best choice. However, impulse spenders might be better off taking annual installments to avoid squandering the newfound wealth.

TAKE TIME

If you come into a windfall, you may need to take time off work and really spend the time necessary to lay the groundwork.

Financial decisions such as setting up a separate bank account for the money and, in the case of a lottery, how to handle all the attention must be made quickly. Work, for at least a day or two, may need to wait.

STAY GROUNDED

Millions of dollars can be life changing. For those who come into such large sums of money, it can be a challenge to stay level-headed

Stories abound of lottery winners who squandered their money and ended up in poverty. Others saw marriages deteriorate and other personal relationships suffer.

Managing the emotional aspects of newfound wealth is no small task and should be taken seriously. It may include handling family and friends' expectations of their suddenly wealthy relative or friend.

Consider the case of William "Bud" Post III, who won a \$16.2 million Pennsylvania Lottery jackpot in 1988.

The former carnival worker living on Social Security disability when he won experienced misery, leading him to refer to his good fortune as the "lottery of death."

Businesses he started with siblings failed. His sixth wife left him and his brother was convicted of trying to kill him. A girlfriend sued successfully for a third of the winnings.

In 1996, a bankruptcy judge auctioned off the \$4.9 million remaining of his winnings to pay debts, leaving him with \$1 million. He died at age 66 in January 2006 of respiratory failure.

For those who come into truly life changing wealth, maintaining a routine, friendships and some normal aspects to pre-wealth life is a good idea, Salzer said.

One of the first financial decisions that should be made is to set aside enough money to take care of necessities and basic wants. For some people that might mean \$10 million from which \$250,000 to \$300,000 can be drawn a year to pay expenses.

"Beyond that is building your legacy," she said.

"Once financially secure, the whole world is available to you," she said. "The choices can be so paralyzing."