



MANAGING SUDDEN WEALTH

Here are some tips for avoiding the challenges of newly acquired wealth.

Dealing with instant wealth can be challenging. It can be stressful to suddenly come into a large inheritance, gain enormous profit from selling a business, receive a large compensation package, pension payout, or legal settlement. Even the romantic notion of getting signed to a lucrative sports or entertainment industry contract or winning the lottery can be daunting if and when it occurs. Managing instant fortunes can be overwhelming, and – as many highly publicized examples have shown – sudden wealth combined with poor planning is a recipe for financial disaster.

EXPECTED OR UNEXPECTED?

Not all types of sudden wealth are the same. Whether the newly acquired wealth is expected or unexpected plays a key role in people's reactions to it. Those who know in advance that they will be receiving a large sum of money from a sale or bonus, for instance, have an important advantage because they have time to envision desired outcomes and to retain advisors. In contrast, those who have no advance notice face unique challenges. The sudden need to plan for an unexpected fortune can limit planning opportunities.

Both scenarios have several common elements. It's likely that the recipient will be flooded with unqualified financial and investment "advice" from well-wishers and salespeople. In addition, relationships with family, friends, and acquaintances may change abruptly. "I have seen many cases where family members believe they're entitled to a share of the recipient's wealth, and the resulting fallout can strain family dynamics and social relationships," says John Hoffman, Certified Investment Management Analyst (CIMA®) and a managing director with Northern Trust.

It's also common for family, friends, and acquaintances to abruptly approach the recipient for a loan. Other stresses can erupt when family members ask the recipient for gifts. "The recipient may not be aware that it costs money to give someone a gift (i.e., gift tax)," says Nancy Lyon, senior vice president of personal financial services with the Wealth Strategies Group at Northern Trust. "This realization may stop a lot of recipients in their tracks – to understand that it actually might cost them money to give money away!" Therefore, it's crucial to keep in mind that no amount of money is unending if it's not properly shepherded.

A PRUDENT APPROACH

For recipients of newly acquired wealth, the most pressing consideration at first is where and how they should hold the funds. This may sound like a pretty mundane decision, but the receipt of a very large check can be disconcerting for almost anyone.

"At this stage, they may want to consider establishing a conservative, no-risk account with a reputable financial institution," says Hoffman. Whether they decide to invest the funds in a money market account, certificates of deposit, or Treasury bills, what's important is that for the time being, the money is safe, and they can avoid making rushed decisions while seeking referrals to expert advisors as needed.

Advisors can start the financial planning process and help determine the appropriate next steps. "Our first recommendation to the newly wealthy should be to take a step back," says Hoffman. "Let the wealth slowly seep in instead of trying to throw it immediately into the market or go on a massive spending spree."

CONTROLLING IMPULSES

Many people fail to realize that impulse purchases can rapidly deplete their newfound wealth. Therefore, it's critical to carefully consider financial objectives and the need to limit frivolous overspending.

The impulse-spending urge continues to pose a risk even while an advisory team is being assembled. Boats, cars, homes: The list of "must-have" luxury goods can expand quickly. "I once had a client who sold his business and then abruptly announced his intention to pay cash for a \$5 million private jet," Hoffman recalls. "As an alternative, I showed him how leasing or borrowing could be better financing options that wouldn't tie up his funds and could ultimately enhance his long-term wealth."

It's important to keep in mind that financial circumstances and objectives are unique, and each situation will determine the relevant intermediate- and longer-term priorities. For example, a person who will owe income taxes on the received funds will need to get tax planning advice and a payment strategy in place.

Recipients of newly acquired wealth should also consider developing an investment policy that integrates an appropriate asset allocation with their desired lifestyle goals. Appropriate estate and risk management planning can help them preserve their wealth for future generations, and philanthropic planning enables them to fulfill their charitable goals.

PROCEED WITH CAUTION

There is a popular perception that receiving sudden wealth can solve all of life's problems. However, the grim history of some mega-lottery winners tells a different story. For example, William "Bud" Post won \$16.2 million in the Pennsylvania lottery in 1988, but now lives on Social Security, thanks to poor financial management.* Similarly, a successful entrepreneur who suddenly acquires a substantial amount of money after selling his business will have many complex decisions to make, both about his finances and his lifestyle.

"Wealth can ease many of the burdens of day-to-day life, but it doesn't cure a lot of the ills that may already exist for a person or within a family," says Hoffman. "People often think money is going to last longer than it does because they lack experience. They don't understand the assumptions that go into the growth of money and the volatility of investments."

These cautionary tales highlight the challenges of acquiring sudden wealth. Making sure that financial goals are clear can help minimize the potential traps of unexpected wealth. It's an integrated process, and advisors can help recipients of sudden wealth maintain a broad perspective, as well as provide ongoing education.

* Ellen Goodstein, "Unlucky Lottery Winners Who Lost Their Millions." *Bankrate.com*. Updated March 29, 2006. www.bankrate.com/brm/news/advice/20041108a1.asp.

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John joined Northern Trust in 2003. He specializes in financial, estate, investment, and tax planning for high-net-worth individuals, senior executives, and wealthy families. His core focus is investment planning – specifically asset allocation, manager search and selection, performance monitoring, alternative investments, and hedging and monetization strategies. Previously, John worked at the U.S. Trust Company for eight years as a senior vice president in its high-net-worth planning group. Prior to that, he worked at Ayco Company LP as a senior financial planner and as a member of the firm’s investment planning committee. John holds an MBA and a BBA from Hofstra University. He received his Certified Investment Management Analyst (CIMA®) designation from the University of Pennsylvania’s Wharton School. He also holds the Series 7 and 63 NASD licenses. John is a member of the New York Society of Security Analysts and the Investment Management Consultants Association.

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Nancy serves in the Personal Financial Planning Division of the Personal Fiduciary Services department at Northern Trust. She joined Northern Trust in 1983, and was named an officer in May 1986, a second vice president in September 1988, a vice president in July 1991, and a senior vice president in July 2002. She was named director of Guardianship Services in July 2006. Nancy received a B.A. from Carthage College in Kenosha, Wisconsin, and a J.D. from Loyola University Law School in Chicago. She holds the Series 7 and Series 66 NASD licenses. Nancy attended the American Bankers Association’s Private Wealth Management School at Emory University in May 2005. She is a member of the Chicago Estate Planning Council and the Chicago Bar Association.

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Susan is a senior attorney at Northern Trust. Her areas of emphasis are estate planning; estate, gift and generation-skipping transfer tax planning; probate settlement and trust administration; fiduciary income tax planning; family business planning; and fiduciary risk management. Prior to working at Northern Trust, Susan was an estate planning and probate attorney at McDermott Will & Emery, and, most recently, a partner at Sachnoff & Weaver Ltd. (now ReedSmith LLP) in Chicago. Susan is a fellow of the American College of Trust and Estate Counsel and is a member of its Fiduciary Litigation committee. She has been named an Illinois “Super Lawyer” by her peers for 2006 and 2007, a distinction given to the top 5% of attorneys in the state. She is one of 99 Illinois “Super Lawyers” named in 2007 in the area of estate planning and probate. Susan received her J.D. from Northwestern University School of Law and her undergraduate degree from Wichita State University, magna cum laude.

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