

A sudden windfall.

A blessing, not a burden.

A sudden windfall can be a welcome surprise, but the pressure of managing and dealing with it can be an unforeseen burden.

A windfall can be defined as the unexpected or unplanned acquisition of financial assets that alters the recipient's financial position. This can be a welcome surprise, but the pressure of managing and dealing with a significant amount of money can also be an unforeseen burden.

A California-based psychologist coined the term *sudden wealth syndrome* to describe the psychological issues that are associated with the unexpected acquisition of wealth.¹ While coming into money should be a good thing, providing an opportunity to achieve happiness, many people who have suddenly become wealthy are overwhelmed; they start to overspend, grow suspicious of those around them and make poor decisions that lead to personal conflict and financial ruin.²

Who can expect a windfall?

There are many ways to get a windfall. Winning the lottery is the most obvious event that comes to mind, but this accounts for a very small percentage of individuals who suddenly become wealthy. Other ways range from sports stars or entertainers signing a big contract to stock market windfalls for shareholders of a company that has successfully gone public. For most Americans, however, the most likely sources of significant and abrupt gains of money are an inheritance, a settlement due to divorce or injury, the sale of a business, or an insurance payout.

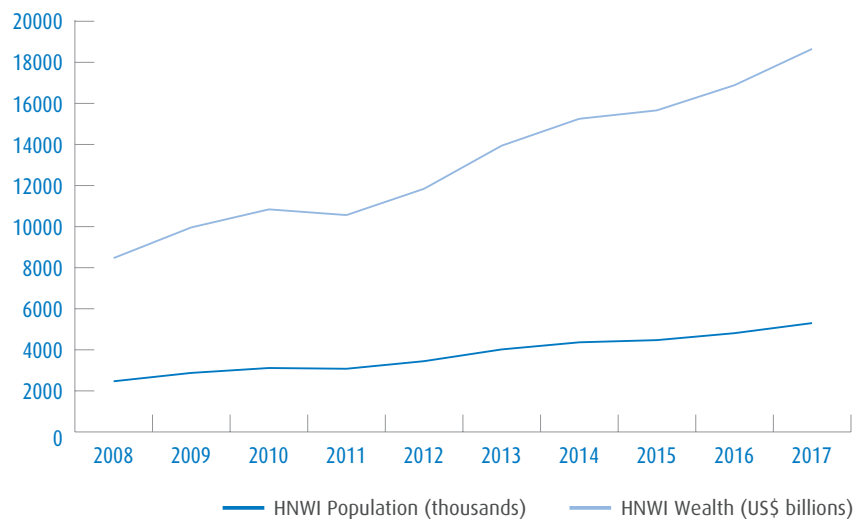
Regardless of the source of the funds, there are responsibilities and sociological and psychological implications that arise from receiving a large sum of money out of the blue.

Sudden wealth syndrome is a wake-up call that offers a great opportunity to take stock of your new resources and re-balance yourself in the major domains of living: self, relationships, work and community. This means making choices that align with your priorities and core values.³

More Americans are going to get a windfall

Right now, more than \$12 trillion in financial and non-financial assets are in the process of moving from the “greatest generation”⁴ - those born in the 1920s and 1930s - to the baby boomers born between 1946 and 1964. Over the next 30 to 40 years, assets worth an additional \$30 trillion will pass from boomers to their heirs in North America alone. At the peak, between 2031 and 2045, 10% of the total wealth in the United States will be changing hands every five years.⁵

High net worth individuals (HNWIs) in the United States, 2008 to 2017



Source: World Wealth Report 2018, Capgemini

In the last decade, the numbers of HNWIs and the value of their wealth have been trending upward in the United States. In 2017, the number of high net worth Americans - those with at least \$1 million in assets, not including their primary home - increased by 10.2% to 5.3 million and their total wealth increased by 10.5% to \$18.6 trillion.⁶

Many of these newly wealthy Americans would have been unaccustomed to managing wealth or dealing with it on a daily basis. Their only previous experience with money may have been managing their daily or monthly expenses; suddenly, they no longer have this concern and are often unaware of the challenges that come with a sudden windfall.

BMO Wealth Management commissioned a survey to gain insight into how Americans aged 35 and over would act and feel if they suddenly became wealthy.⁷ The survey's findings were analyzed, and accompanying advice provided, with the aim of making Americans more aware of the challenges new wealth can pose to one's financial goals and priorities, and more prepared to accept it as a blessing - not a burden - should a sudden windfall come their way.

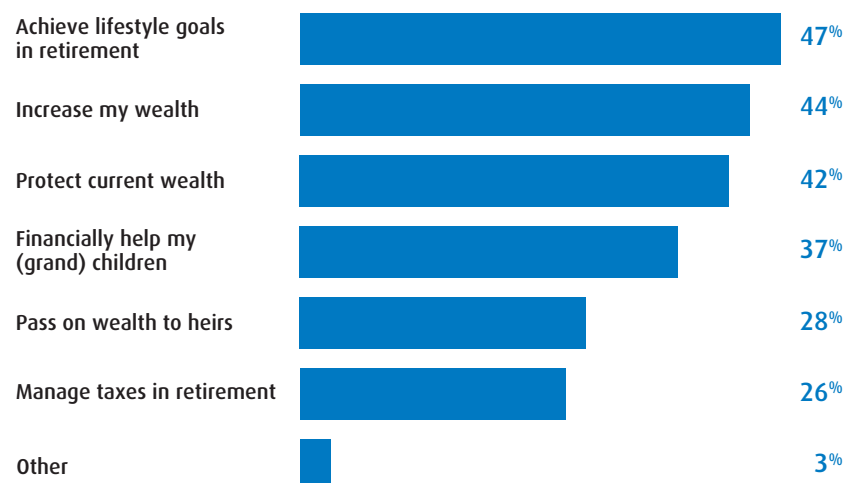
Take the time
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Stay calm and think about your future

A windfall may invoke feelings of excitement or duress, depending on the circumstances. Winning a lottery could be exhilarating, whereas a legal settlement from a divorce or accident, or an inheritance, could be accompanied by strong emotions. Initially, you may be tempted to make impulsive financial decisions based on the sudden acquisition of wealth that prove to be unwise or ineffective in hindsight. Wanting to immediately spend is perfectly normal, but it's critical to take the time to think about your future from a prudent mindset, and determine how this windfall will affect or change your financial goals and priorities.

The survey asked respondents to list their top three current financial goals or priorities. Nearly half (47% of respondents) felt that achieving lifestyle goals in retirement was most important, followed by increasing wealth (44%) and protecting current wealth (42%). Wealth should be viewed as a resource to accomplish goals and dreams, and it has to be nurtured and managed in order to be protected or increased.

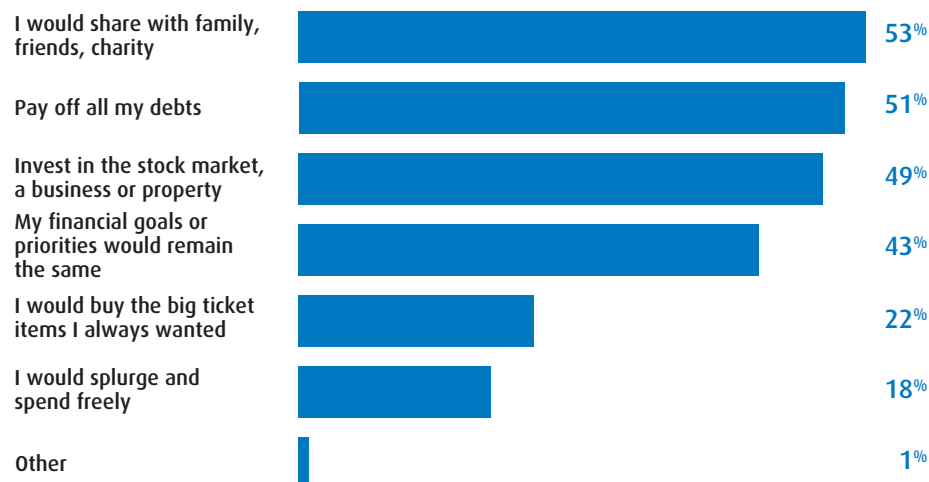
Top current financial goals or priorities⁸



Source: BMO Wealth Management survey by Validatell Technologies Inc., July 2018⁷

When respondents were then asked to imagine they had received a sudden windfall and to think again about their top financial goals and priorities, the results were quite different. Only two in five respondents (43%) felt their goals or priorities would remain the same. The three most frequently cited goals, each highlighted by about half of respondents, were sharing their wealth with family, friends and charity (53%), paying off debts (51%), and investing their new-found wealth in the stock market, a business or property (49%).

Top financial goals or priorities after a sudden windfall⁸



Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018⁷

As the survey shows, a sudden windfall may call for a change in needs, priorities and goals. While some people may do nothing because they are overwhelmed by their sudden wealth, others may make impulsive decisions they may later regret. In this situation, it is important to slow down and think about your financial goals and priorities, and to try and picture how this newly acquired wealth could affect you, your friends and family, and the causes you believe to be important.

Assemble a team and take the time to plan

Achieving your financial goals and priorities doesn't happen overnight; it takes careful planning and execution. Goals-based financial planning is important because the process enables you to clearly identify your priorities and focus your new resources on achieving all of your goals. This type of planning entails putting your specific objectives into "buckets" and assessing them as they relate to the goals for these buckets. For example, 401(k) assets are allocated to the retirement bucket and assets in a 529 plan to the education bucket. Specific investment strategies are then developed for each bucket based on your current asset base, your risk capacity and the specific goal for that bucket (for example, growing a retirement fund to \$5 million by age 60). This approach helps to avoid investment decisions based on emotion by providing a clear, straightforward process for identifying goals, choosing investment strategies that will achieve them, and measuring progress.⁹

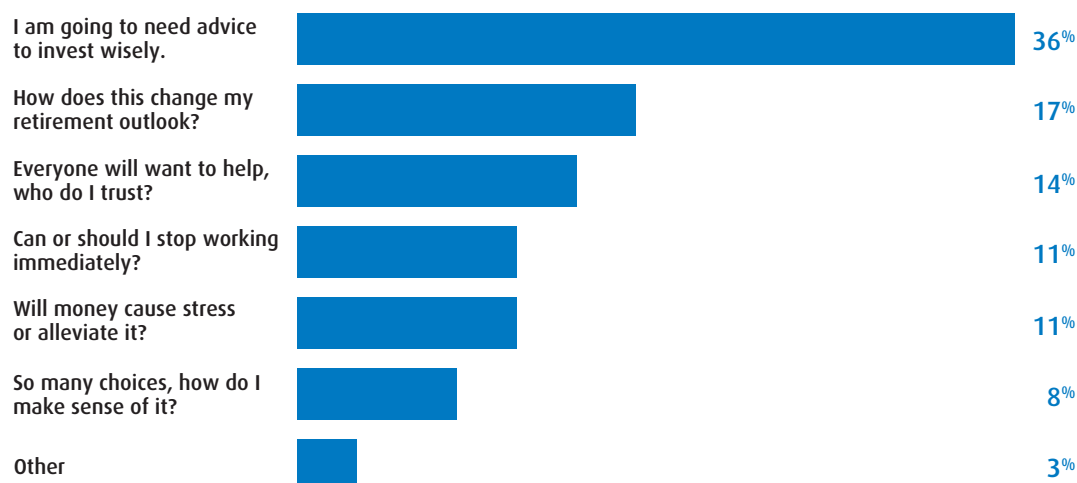
With so much money at stake, and your financial goals and priorities in the balance, it's important to seek advice from an experienced financial professional to develop a comprehensive plan. A goals-based financial planner will take the time to understand your current situation, your goals and values, and your future aspirations for you and your loved ones. This comprehensive assessment will result in a wealth plan that consists of a number of strategies devised and executed by a team of wealth management professionals, specializing in these key areas: financial and retirement planning, estate planning, family education, tax planning, post-transition planning, philanthropy and business transition.

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Seeking advice is highly valued among Americans, upon receiving a windfall.

According to the BMO survey, the importance of seeking advice was highlighted by one in three respondents (36%) when asked to identify the single most important concern they would have about the impact of a windfall on their investment and retirement plans.

Investment and retirement concerns over a windfall



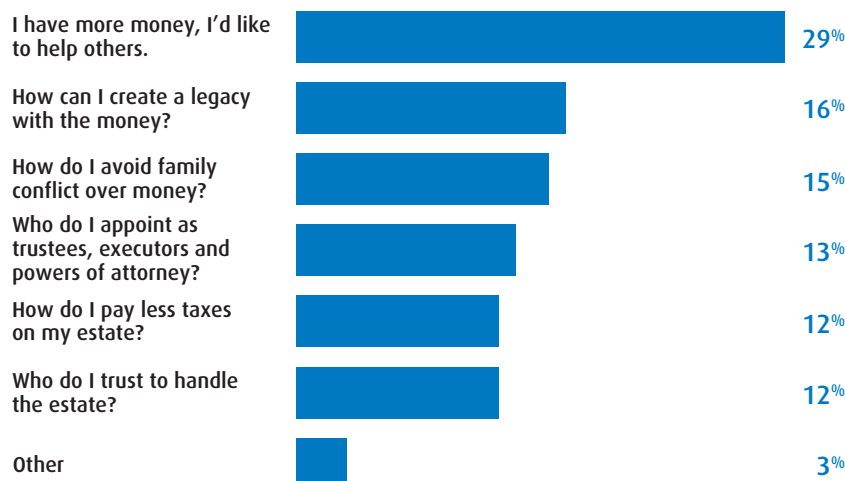
Source: BMO Wealth Management survey by Validatell Technologies Inc., July 2018⁷

Respondents also acknowledged other matters worth noting, with one in five (17%) questioning if it would change their retirement outlook, and a similar number (14%) being unsure who they could trust to help them. One in 10 (11%) would consider whether to stop working immediately, and the same number worried that the money would cause rather than alleviate stress. In this situation, it's important to take the time to think about your goals, and recognize what this sudden windfall may or may not allow you to do. Working with a financial professional who understands your unique needs and circumstances will help you address concerns and develop a customized strategy tailored to your needs and goals.

Help others wisely and effectively

The survey also asked Americans aged 35 and over to identify their top windfall-related concern or question from an estate and legacy perspective. The most frequent response - "I have more money, I'd like to help others" - was selected by one in three respondents (29%), and one in six (16%) thought they would worry how to create a legacy with the money. Avoiding family conflict over the money was mentioned by 15%, and similar numbers were concerned about who to trust to handle their estate, or how to reduce estate taxes (both cited by 12% of respondents).

Estate and legacy concerns over a windfall



Source: BMO Wealth Management survey by Validatelt Technologies Inc., July 2018⁷

If a windfall represents more money than the recipient will need for their lifestyle and goals, most people will consider this as an opportunity to give back to the community. They may make large donations to their favorite charities or create a long-term vehicle for charitable giving, such as a donor-advised fund or charitable private foundation. The windfall allows them to appreciate their good fortune and be thoughtful and methodical in their giving. It also enables the recipient to address their legacy within their family and community.

Benefits of wealth planning for managing a sudden windfall

The most consequential wealth decision that you make may be the selection of the wealth management team you engage.

Taking all of these highlighted concerns into consideration, the most consequential wealth decision that you make may be the selection of the wealth management team you engage. Quite often in the media we hear that when people who have never before experienced significant wealth get a windfall, they spend all the money frivolously or without planning. However, those who have experience with wealth are more likely to plan and to seek advice from a financial professional and their wealth team.

Your BMO financial professional can draw upon all the expert resources within BMO Wealth Management to provide you with an integrated and multi-disciplinary wealth management solution. This covers all aspects of managing, protecting and transferring wealth, including investments, insurance, tax efficiency, estate planning, retirement planning, cash management, planned giving, and trusts and Wills.

Tips for managing a sudden windfall

If you receive a sudden windfall, the best thing to do first is...nothing! This is easier said than done. Initially, it will be exciting to have this new-found wealth, and you will want to celebrate and splurge, perhaps treating yourself or your family to a special vacation. Depending on the size of the windfall, you may be able to give in to that urge to do something spontaneous and still have a considerable fortune left over. Afterwards, you may want to consider these tips for managing your windfall:

- **Take your time, and make a plan.** Park the money and think about the future you want for you and your family.
- **Assess your new-found wealth.** For example, an inheritance might have special terms, and property settlements, life insurance payouts, business monetization events, and the receipt of retirement assets each come with their own set of tax and legal considerations.
- **Talk to your family.** This will help prevent an over-reaction by family members, such as quitting their jobs.
- **Establish a wealth plan.** Consult with a trusted team of wealth advisors to address your financial goals and priorities, and help you implement many of these tips.
- **Take a goals-based planning approach** to your financial and retirement goals and assess your investment strategy for each goal. Implement a strategy that works to achieve specific financial goals.
- **Pay off your debts.** Especially those with high interest, or consider a refinancing strategy that minimizes your after-tax interest cost while maximizing your potential future investment returns.
- **Establish an emergency fund and a budget.** If you don't have either, now is a good time to put them in place.
- **Be aware of the impact of taxes** – is your windfall taxable? For instance, lottery or casino winnings may be taxable, but a life insurance payout is generally not. However, any interest received from life insurance is taxable and should be reported. The receipt of gifts and inheritances is free of federal tax; however, certain inheritances can be considered taxable income. For example, a son who inherits a \$1 million IRA from his mother is not taxed on the value of the IRA, but must report any distributions taken as income.¹⁰
- **Update your estate plans** and/or succession plans for a family business. A windfall could make your personal estate exceed the federal exemption amount (\$11.2 million per person in 2018) and become subject to federal taxation. Seek advice from a legal and tax professional to minimize taxes with an estate plan.
- **Consider insurance to preserve your wealth and provide assurances for the future.** For example, insurance can be used to provide liquidity for paying your own estate taxes.
- **Share the wealth.** It feels good to help others, and there may be taxable benefits in making charitable donations or establishing a long-term giving vehicle such as donor-advised fund or private foundation that connects with causes that are important to you.

- **Be aware of scams** and those looking for handouts, and prepare yourself to handle them effectively and gracefully.
- **Define your legacy**, and provide guidance if you want your family to continue it.

Conclusion

A sudden windfall may provide opportunities, demand new priorities, and bring changes to the lives of you and your family. With patience and planning, you can approach and manage this new wealth with the confidence of achieving all that is important to you.

BMO provides a comprehensive range of financial services to help you achieve the lifestyle you desire and the goals that matter most to you. This customizable approach provides you with a highly personalized experience designed to help meet your unique needs and priorities.

With the knowledge and experience provided by your financial professional, combined with the reputation and resources of BMO Wealth Management, you can be confident that you will always be well informed and prepared to make wise decisions about your future.

Footnotes

- ¹ [Sudden Wealth Syndrome](#). MMC Institute.
- ² [Too Much, Too Soon: How to Avoid Sudden Wealth Syndrome](#). Schorsch, I.W., III. HuffPost, September 2012.
- ³ [Sudden Wealth Syndrome](#). MMC Institute.
- ⁴ *The Greatest Generation*. Brokaw, T. Random House, 1998.
- ⁵ [The “Greater” Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth](#). Accenture, June 2012.
- ⁶ [World Wealth Report 2018](#). Capgemini, 2018.
- ⁷ BMO Wealth Management survey conducted by Validatelt Technologies Inc. for the BMO Wealth Institute between June 28 and July 5, 2018, with an online sample size of 1004 Americans aged 35 and over. The overall probability results for a sample of this size would be accurate to within +/- 3.01% at the 95% confidence level.
- ⁸ Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.
- ⁹ [Goals-based planning: a personalized service for strengthening client relationships](#). Ernst & Young LLP, 2014.
- ¹⁰ [Tax and Financial Strategies for Windfalls](#). Grimaldi, J.R., Revels, J.A.J., and Kess, S. CPA Journal, October 2017.

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