Retire...Relax®

SPECIAL REPORT

For The Instantly Wealthy

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Receiving a large sum of money, all at once, sounds like a dream come true. But for some, and I'm sure you've heard the stories, it can create a nightmare. According to the National Endowment for Financial Education, up to 70 percent of people who come into sudden money, whether from a lottery or, more often, from an inheritance, insurance settlement, pension payout or the like, will deplete those funds within just a few years. Sports Illustrated noted in a 2009 article that 78 percent of former NFL players had gone bankrupt within two years of their retirement, while roughly 60 percent of former NBA players were broke within five years of their final game. What's going on?

The theory used to be that receiving a large chunk of cash "ruined people," and drove them to make bad decisions. But research shows otherwise. Don McNay is a financial advisor and national expert on the habits of lottery winners. He says, "The problem is wealth. Once people have it, their bad patterns only get worse." So, receiving a windfall doesn't necessarily change a person, it just amplifies their money habits.

The next problem is that once other people find out that this money exists, the Instantly Wealthy will receive a lot of advice. They will be told over and over to pay their house off, or to do this, or to do that. If they come to see me, and they are considering paying off their home, the first question I ask is whether they plan to live there for a long time. It could be that this windfall opens other doors, such as the ability to move closer to family. If that is a possibility, I typically advise against paying the house off. Paying off other debt, however, usually makes a lot of sense. This is where a person needs a trusted advisor they can talk to, who will help them make the right decisions. This person might be a Certified Financial Planner™ (CFP®) professional, an attorney, a Certified Public Accountant, or all three as a team.

The third problem these people will face are salespeople. They will come from every and all directions, and can be really overwhelming. The first response I would suggest is, "My financial advisor and I have agreed that I will wait a year before making any decisions with this money." This puts the Instantly Wealthy back in the control seat. And, if the product is something that looks interesting, they can take the materials to one of their trusted advisors to review. The bottom line is that getting professional help can help protect their financial windfall for the future.

I've seen many people struggle with this situation. Here are a few case examples that should provide some guidance to you.

The widow or widower:
I see a lot of widows who have received large payments from life insurance policies after their husband's death. In most cases the husband handled the finances so they are not used to making financial decisions. So, they are uncomfortable having this much money and are not sure about what to do with it. They have usually heard the advice to not make any big decisions in the first year, but

that advice doesn't seem to help. In almost every case, they ask me if it's ok to give some of this money to her children.

And in almost every case, I tell them not to do this. I say this because I see so many people who are paying bills that belong to their adult children. These children work, and are in their 40's and 50's, but have become used to asking their parents to solve their financial problems. The longer the parents bail them out, and the more money that is given, the worse the problem seems to become. Giving children money, regardless of age, creates an expectation that more will be given, which can lead to dependency.

I don't mean to sound cruel here. I have helped my children from time to time, but they know that I want them to work through their problems on their own. Money should only be given after a plan is made for the widow or widower's financial future, and it is clear that they can afford to give some money away. Part of this plan will include tracking spending for a month to determine if their cash flow will be adequate to cover bills. Also, a long-range plan needs to be created to ensure they can handle unexpected expenses such as long-term care.

The recipient of a settlement:
The receipt of life insurance benefits is between the surviving spouse and the insurance company. Nobody else has to know this money exists, so it is easy to keep private. A settlement, on the other hand, usually involves an injury, and takes months to work through, so in the process family members and friends learn the details. Pressure from family members to "help them" are tough. But you have to remember, you are the person who needs this money to take care of you for the rest of your life. Especially if you are no longer able to work. Think of it this way. If you help out your family members and spend down your assets now, who will be there to help you pay your bills in the future?

The recipient of a lump-sum pension:
This one is interesting because the person knows, years in advance, that they will receive this money. A lump-sum pension can be a wonderful thing if invested so that it continues to grow as you age and take distributions. Most of our clients have these, and we manage the accounts for them, and provide advice on how much they can take out, etc. However, I do see people who have the notion that they are not going to live very long, therefore they can spend down this money. For some reason, age 75 is very popular. They take the amount of their pension, and divide it by the number of years they believe they will live, and the resulting figure is how much money they think they can spend each year. The fact that your parents died at age 75 has no bearing (usually) on how long you will live. I do my best to help people look at the big picture, and in many cases ask them to delay making any decision right away. That is usually a good first step. If you would like to see a personalized estimate of how long you may live, visit the website https://livingto100.com and click on Take the Calculator. It is free.

The recipient of lottery winnings:
Two words, stay anonymous. Meet with a Certified Financial Planner professional, and work out a plan for what to do with this windfall before making any promises to anyone.

Tips for the Instantly Wealthy:
Keep this information to yourself, if possible.
Beware of old habits (shopping?) that can get out of control.
Put off making any big decisions for at least six months.
Find a Certified Financial Planner® professional at www.cfp.net and ask for advice.
Do not let anyone sell you a product.

Do not feel pressured to give this money away.
Visit https://livingto100.com for an estimate of your life expectancy.
Lay out a financial plan that provides for your secure future.

www.RetireRelax.com

Be sure to listen to *"Your Money"* with Steve Rosenberg, Sherri Goss, and Randy Goss live every Saturday morning at 9:00 on WMAC, AM940. Sherri also appears as WMAZ's Financial Expert every Wednesday afternoon on the 5:00 edition of *Eyewitness News.* After her appearance, Sherri remains at the station until 6:00 and takes personal questions by phone off-the-air.

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