



# Managing a Financial Windfall

**A financial windfall – a large and unplanned financial gain – is often a source of excitement for the opportunities it brings. Coming into a significant amount of money offers the financial resources to evaluate a greater set of choices, priorities and goals.**

However, it can also create an unanticipated burden. There may be new challenges – perhaps overwhelming for some – where overspending choices or poor decision making can create conflict, especially for those not accustomed to managing wealth on a daily basis. These challenges may also run deeper, with newly found wealth attracting the demands of family, friends or even strangers.

We often associate a windfall with winning the lottery and, if it is any indication, a significant windfall can be detrimental if not properly managed. According to some statistics, around 70 percent of those who win a large lottery prize or receive a similar windfall go bankrupt within three to five years.<sup>1</sup>

While studies have shown that a surprisingly significant number of Canadians believe that a lottery win will fund their retirement, this is unlikely.<sup>2</sup> Yet, coming into a windfall may not be an unlikely scenario. Many Canadians will see a sudden change in financial position due to inheritance, a settlement from divorce or injury, an insurance payout or the sale of a business. In fact, by 2026, it is expected that \$1 trillion of wealth will be transferred from one generation to the next in Canada through inheritance.<sup>3</sup>

In the event of a sudden windfall, are there ways to better manage the situation to help ensure it is a blessing and not a burden? Here are some considerations:

**Try and avoid large impulse purchases** – For many, experiencing a sudden windfall can be an exciting event and the initial impulse may be to spend lavishly. It may be tempting to make an immediate, large purchase at the onset of acquiring new wealth. While the luxury of any windfall may afford the opportunity to enjoy a bit of indulgence, taking the time to think through any large purchases can help to avoid any impulsive decisions that can later lead to buyer's remorse. Some suggest sitting on the funds for a period of time, such as a few months, to help lessen any spending temptations and prevent buying mistakes that you could later regret.

**Tend to your current position and plan for the future** – It may be prudent to use a windfall to benefit your current financial situation. For example, if you hold debt, it may be an opportunity to prioritize paying it off, especially any debt subject to high-interest charges. If you do not already have one, it may be valuable to set aside money to create an

emergency fund. After any current liabilities are addressed, there may be an opportunity to use the windfall to plan for the future. The prospect of investing and growing funds should not be overlooked. This may include reprioritizing financial goals for you and your family as you look ahead to the future, such as for retirement.

Planning exercises can also help to better frame the windfall in a broader context. Lottery winners, for example, often overestimate their new-found wealth. While winning \$1 million may seem significant at first glance, when considering this sum over a lifespan it may appear more modest. By some estimates, having \$1,000,000 as a source of funds at the age of 65 would provide a gross income of around \$35,000 to \$45,000 per year for the rest of your lifetime, based on an average lifespan.<sup>4</sup>

**Support others wisely** – Often, a windfall offers the recipient more than is needed to fund their lifestyle and goals, so some may consider giving back to others. This may include making donations to charities or causes you believe in. It may also provide a chance to create a legacy for your lifetime and beyond. Planning for and creating a thoughtful donation strategy – by exploring options such as a donor-advised fund or charitable foundation, as examples – may not only result in supporting the causes you believe in, but also provide additional benefits through tax savings.

When it comes to sharing with others, consider that a degree of anonymity may work to your benefit. This is because money can often change, disrupt or even end relationships. Maintaining a level of discretion, by limiting news of your windfall where possible, can help to minimize potential conflict with family or acquaintances seeking to share some of the wealth. Many lottery winners who are named publicly report being approached by past friends, distant relatives or even strangers looking for handouts. They can often be subjected to an alarming amount of solicitation and harassment, or even be targeted by investing scams.<sup>4</sup>

**Assemble a team to provide support** – The support of professionals may be beneficial as you assess your new-

found wealth, especially if there are associated tax or legal considerations. In Canada, lottery winnings are not taxed, as they are in the United States. As well, unlike the U.S., Canada doesn't have an inheritance or estate tax. However, an inheritance may involve assets with capital gains that can trigger a significant tax liability within an estate that, if not properly planned for, can have implications. The support of professionals can help to better plan for the potential tax implications and help preserve this wealth.

As wealth advisors, we can help to create and support a thoughtful and comprehensive wealth plan. While tax-advantaged accounts such as Registered Retirement Savings Plans and Tax-Free Savings Accounts continue to be important vehicles to support investors, we can explore other opportunities and suggest strategies to help protect and grow funds. Don't overlook the merits of investing to support your future, through the power of compounding and time.

### We Are Here to Help

At the end of the day, a sudden windfall is likely to change your life. Without a doubt, it will present new and exciting opportunities; yet, it can also create unforeseen challenges. Will it be a blessing or a burden? With patience, forethought and planning, the outcomes can be positive.

If you anticipate a change in your financial position due to a windfall or large gift, or know of someone who may be in this position and could use support, we can help to map out a plan for success. Please don't hesitate to contact us.

1. [https://www.washingtonpost.com/outlook/five-myths/five-myths-about-the-lottery/2019/12/27/742b9662-2664-11ea-ad73-2fd294520e97\\_story.html](https://www.washingtonpost.com/outlook/five-myths/five-myths-about-the-lottery/2019/12/27/742b9662-2664-11ea-ad73-2fd294520e97_story.html)
2. <https://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/life-is-expensive-debt-is-easy-and-saving-is-hard/article24434570/>
3. Over a 10-year period. [https://www.investmentexecutive.com/inside-track\\_/david-reeve/preparing-for-the-intergenerational-wealth-transfer/](https://www.investmentexecutive.com/inside-track_/david-reeve/preparing-for-the-intergenerational-wealth-transfer/)
4. <https://www.morningstar.ca/ca/news/209187/can-you-retire-with-a-million.aspx>
5. <https://www.cNBC.com/2019/03/05/mega-millions-1-point-5-billion-winner-stays-anonymous-why-thats-smart.html>