

A sudden windfall. A blessing, not a 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 associated with the unexpected acquisition of wealth. 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.

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 have experienced a financial windfall. For most Canadians, 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.

More Canadians are going to get a windfall

Canada is forecast to see roughly \$1 trillion in personal wealth transferring to the next generation between 2016 and 2026, with roughly 70% of this sum in the form of financial assets. In the last decade, the numbers of high net worth individuals and the value of their wealth in Canada have been trending upward. In 2017, the percentage of high net worth Canadians in the population – those with at least US\$1 million in assets, not including their primary home – increased by 5.5% and their total wealth increased by 7.2% to US\$1.2 trillion.

Many of these newly wealthy Canadians 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 learn the views of Canadians aged 35 and over on becoming suddenly wealthy. The results of the survey can help Canadians be aware of the challenges new wealth can pose to one's financial goals and priorities, and be more prepared to accept it as a blessing – and not a burden – should a sudden windfall come their way.

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. A majority felt that achieving lifestyle goals in retirement was most important (cited by 55% of respondents), followed by increasing wealth (49%) and protecting current wealth (40%). 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.

When respondents of the BMO survey were 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 (38%) felt their goals or priorities would remain the same. Overall, the two most frequently cited goals (both at 64%) were to share their wealth (with family, friends or charitable causes) and paying off their debts. Nearly half (47%) of those surveyed would look to invest their new wealth in the stock market, a business or property.

As the survey shows, a 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. 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 that are important to you.

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.

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. This comprehensive assessment will result in a wealth plan that consists 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.

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 a sudden 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.
- **Pay off your debts.** Especially those with high interest, or consider a debt-swap strategy.
- **Establish an emergency fund and a budget.** If you don't already have one, now is a good time to put one in place.
- **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.
- **Be aware of the impact of taxes** – is the windfall taxable? For instance, lottery winnings in Canada are not taxable. Neither is a life insurance payout to a beneficiary. Inheritances are generally not taxable. However, consider the income tax consequences on the deceased bequeathing property. Property bequeathed to a surviving spouse can be transferred on a tax-deferred basis with no tax impact

to the deceased, commonly known as a 'spousal rollover'. Property bequeathed to a child or a 3rd party may result in income taxes owing to the deceased's estate. For instance, any accrued capital gains on non-registered investment assets will be realized on death and the market value on death of certain registered assets, such as RRSPs or RRIFs, are fully taxable. Any accrued capital gains on a principal residence is exempted from tax to the deceased, whereas accrued capital gains on a bequeathed income property or other properties (such as a cottage or secondary home) is realized and taxable to the deceased. However, the same 'spousal rollover' exception exists when these properties are inherited by a surviving spouse.

- **Consider using insurance to preserve your wealth or minimize taxes.** This could enable the transfer of property that has appreciated in value, such as a family cottage or a business to the next generation, instead of being liquidated to cover the final tax return of the deceased.
- **Update your estate plans** and/or succession plans for a family business.
- **Share the wealth.** It feels good to help others, and there are tax benefits realized in making charitable donations or establishing a long-term giving vehicle such as donor-advised fund or 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.

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 financial future.

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