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 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 have experienced a financial windfall. 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 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.

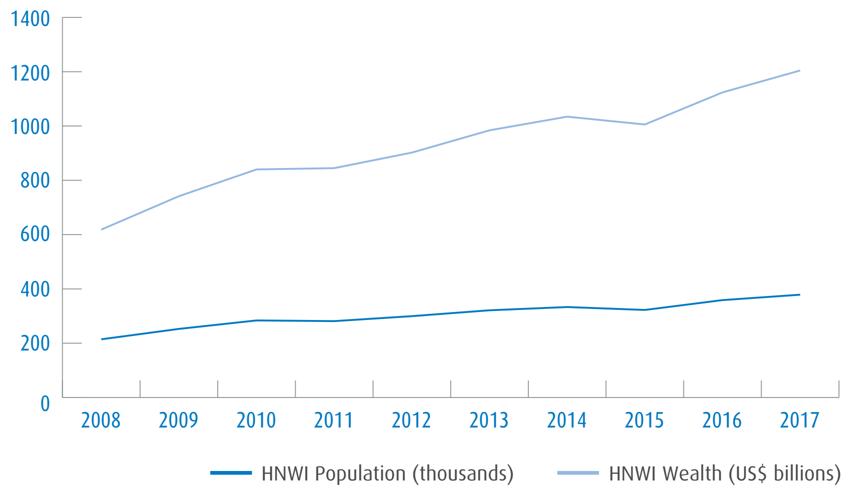
Regardless of the source of the funds, there are responsibilities and sociological and psychological implications that arise from receiving a large sum of money out of the blue.

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 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.[4]

High net worth individuals (HNWIs) in Canada, 2008 to 2017



Source: World Wealth Report 2018, Capgemini

In the last decade, the numbers of HNWIs 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.[5]

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.[6] 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.

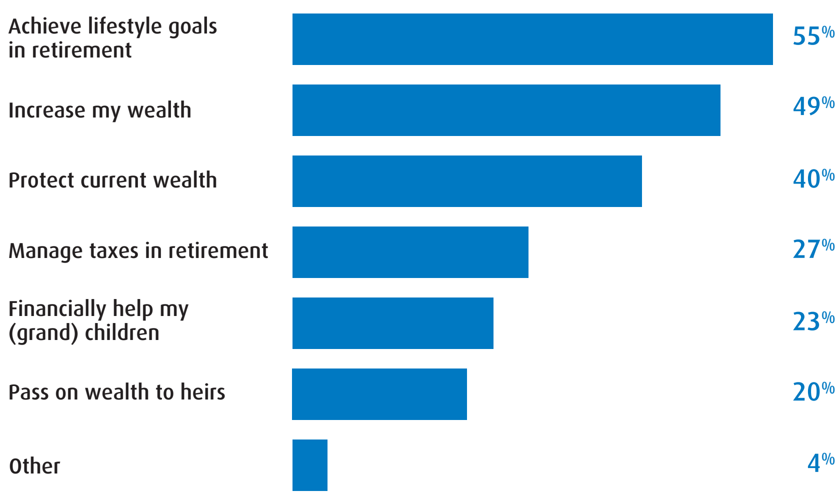
Stay calm and think about your future

Take the time to think about your future when surprised with a sudden windfall.

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.

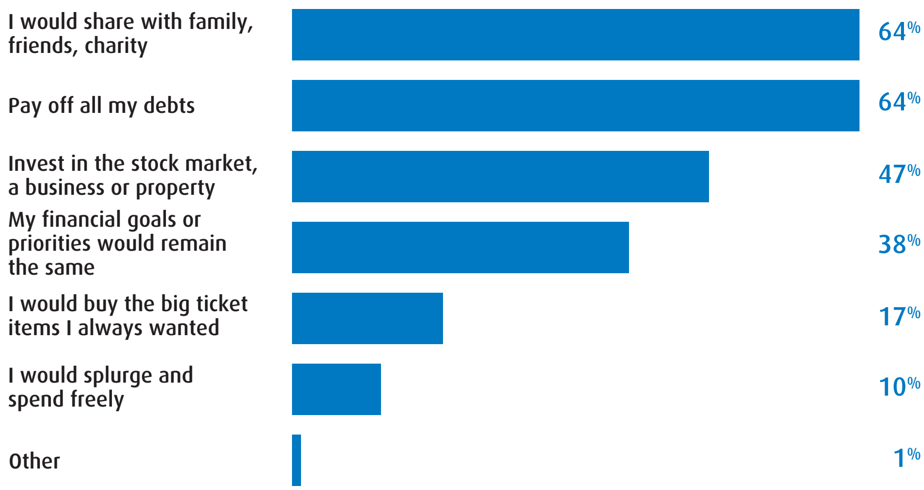
Top current financial goals or priorities[7]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018[6]

However, 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 (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.

Top financial goals or priorities after a sudden windfall[7]



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018[6]

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

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.

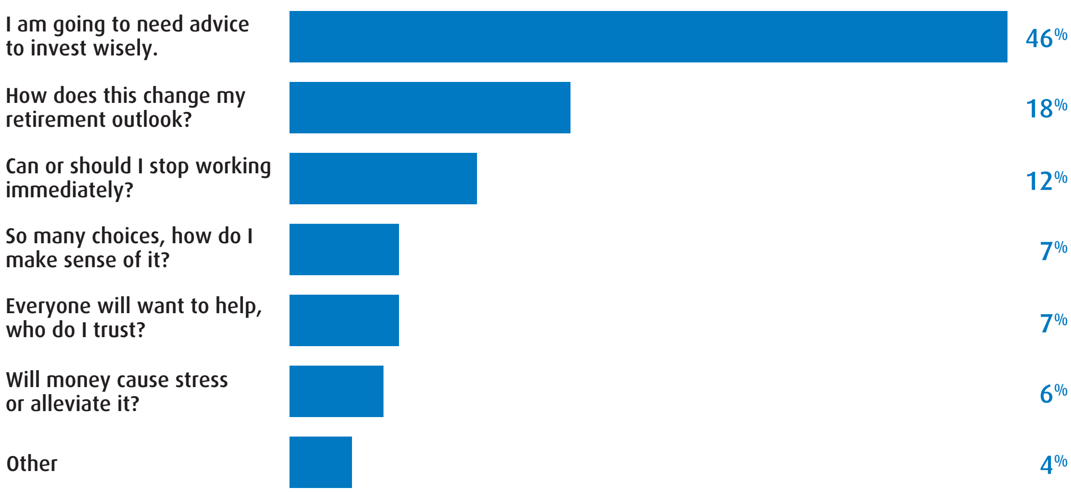
Achieving your financial goals and priorities doesn't happen overnight; it takes careful planning and execution. Goals-based financial planning is important because the process enables you to clearly identify your priorities, and focus your new resources on achieving all of your goals. This type of planning entails putting your specific objectives into "buckets" and assessing them as they relate to the goals for these buckets. For example, RRSP assets are allocated to the retirement bucket and assets in an RESP 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, to grow 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 to achieve them, and measuring progress toward meeting them.[8]

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 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.

According to the BMO survey, the importance of seeking advice was highlighted by nearly half of the respondents (46%) when asked to identify the single most important concern they would have about the impact of a windfall on their investment and retirement plans.

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

Investment and retirement concerns over a windfall



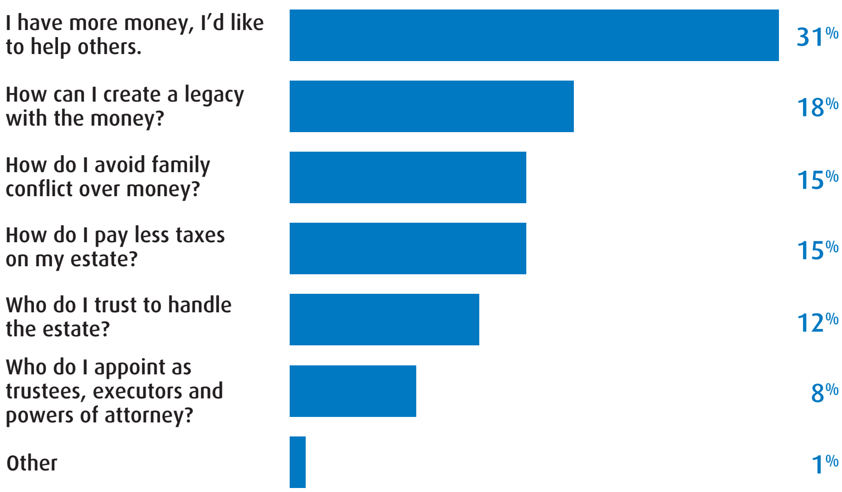
Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018[6]

Respondents also acknowledged other matters worth noting, with one in five (18%) questioning whether a windfall would change their retirement outlook, and one in ten (12%) would consider whether to stop working immediately. Some had concerns about the number of choices and how to understand them (7% of those surveyed), and a similar number worried about who they could trust with everyone potentially wanting to help. 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 Canadians 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 (31%) respondents, and one in five (18%) would worry about how to create a legacy with the money. Avoiding family conflict over the money was mentioned by 15% and a similar number were concerned about reducing estate taxes. Other concerns less frequently cited, but worth noting, included worries about who to trust to handle their estate (12%), and about appointing trustees, executors and powers of attorney (8%).

Estate and legacy concerns over a windfall



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., July 2018[6]

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 favourite charities or create a long-term vehicle for charitable giving, such as a donor-advised fund or charitable 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 their community.

Benefits of wealth planning for managing a sudden windfall

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.

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

Your BMO financial professional can draw upon the full depth and breadth of BMO Wealth Management to provide you with an integrated and multi-disciplinary wealth management solution. Companies within the group cover all aspects of managing, protecting and transferring wealth, including investments, insurance, tax efficiency, estate planning, retirement planning, cash management, planned giving, 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 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.

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] Wealth transfer a concern among well-to-do Canadians. Almazora, L. Wealth Professional Canada, January 2018.

[5] World Wealth Report 2018. Capgemini, 2018.

[6] BMO Wealth Management survey conducted by ValidateIt Technologies Inc. for the BMO Wealth Institute between June 28 and July 5, 2018, with an online sample size of 1011 Canadians aged 35 and over. The overall probability results for a sample of this size would be accurate to within +/- 3.00% at the 95% confidence level.

[7] Respondents in the survey may have selected more than one response, so the percentages in the table do not total 100%.

[8] Goals-based planning: A personalized service for strengthening client relationships. Ernst & Young LLP, 2014.

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