

How To Weather a Windfall -- Planning for Unexpected Wealth

Apart from quitting his or her job and taking a vacation, the holder of a winning lottery ticket often doesn't seem to know what to do next. It may be that the remote chance of winning prevents serious reflection on how this life-changing event will affect everyday living. Other "instant wealth" can sometimes have the same effect.

Many people are asset rich but cash poor. The transition to having liquid wealth may occur in a variety of ways. Perhaps you have worked hard all of your life to attain a comfortable lifestyle and then you suddenly inherit a large sum of money. Or you may decide to take advantage of an opportunity to sell your business (or a stake in the family business) that is too good to ignore. What will happen to your and your family's lifestyle if wealth suddenly no longer exists just on paper but is converted to cash?

Protect Yourself

Remember that liquid assets free from constraint are inherently more vulnerable to being spent or consumed than assets that cannot readily be converted into cash. An inheritance may quickly be squandered. Charitable contributions may become easier to make and may be more readily sought by charities.

As with any major change, developing a plan can help to protect against the problems that may arise. You will need to decide what you want to accomplish with this new opportunity and what effect these decisions will have on your family.

Family Matters

You'll need to determine the extent of your family's involvement in your planning. What information regarding your assets should your family receive? If your business is sold and a child involved in the business is privy to financial information, you may want to share this information with your other children as well. If you receive an inheritance, you may wish to limit the amount of information you give to your children to maintain your privacy and to keep your relationship with them separate from the influence of money. On the other hand, if your children already have detailed knowledge of your financial position, then you may decide to continue that pattern.

If the family will share in your wealth, then you will need to decide whether they will be able to take their shares and go their separate ways or whether you want to maintain some type of common bond. This may affect whether you form a family limited partnership or other entity as a vehicle to give an interest in a family business to your children.

Keep It Together

Tying the assets together may promote family cohesiveness. If a family business in which family members were active is sold, then you may want to consider what should replace that common purpose. If you are charitably inclined, consider establishing a family charitable foundation or supporting organization in which family members can be actively involved. Simply managing the family's wealth can itself be a common pursuit. Perhaps you could start a new enterprise or a family office administration in which the family would be involved. You can maintain a sense of unity even if you establish separate shares.

Trusts and partnerships can create a common thread among separate shares and can protect assets from creditors and misuse. If proper estate planning would include gifts to your children, then you may wish to consider making such gifts in trust, rather than outright, to maintain centralized control. You can achieve the same result by establishing a partnership or other entity, such as a limited liability company and gifts of limited interests in that entity.

Be Prepared

Whenever possible, the time to plan for a change in your liquid wealth is before it happens. If you would like professional assistance in developing such a plan, please let us know. Our professionals are glad to help.

After You've Gone

Keep in mind that your family's acquisition of cash-ready wealth may not occur while you are living. Significant liquidity can also be brought into your family after your death. For example, a surviving spouse may receive a large sum of money if your estate sells your closely held business because your family is not able to or does not want to continue the business. Life insurance proceeds may also provide your surviving spouse with a large cash reserve. However liquid wealth comes about, don't forget to put planning in place to ease the transition.