

When good fortune comes your way

Whether expected or not, an inheritance, divorce settlement, severance package or pension payout, proceeds from the sale of a business, life insurance, legal judgments, or even lottery winnings—all can put in your hands the equivalent of several years of earnings. Now you're at a crossroads—suddenly called upon to switch from wealth-building mode to wealth management. You will, of course, face circumstances special to your situation. Yet, there are some general guidelines that apply to almost all such transitions.

Proceed cautiously

Financial windfalls often come with an emotional price tag: the loss of a loved one, a serious injury. Or it can mean a major change in your life—ending a career or selling a business. Even for a lottery winner, euphoria may make long-term planning a challenge. Fortunately, in most situations, major decisions are not required immediately. Cash can be set aside in the money market, in short-term CDs or in an interest-bearing bank account. Although rates are not very impressive these days, at least you won't lose money while you regroup.

Similarly, retirement plan assets can be left in place for a reasonable period of time. An inherited IRA, for example, gives the beneficiary until December 31 of the year following the death of the owner to decide between cashing in immediately, or within a five-year period, or over his or her life expectancy.

Whatever the case, give yourself some time to regain your emotional bearings and to think about what uses of your new wealth will give you the most satisfaction.

Where are you headed?

Is your sudden wealth large enough that you can retire? If that course is attractive to you, you should think of your assets—new and old—not as a lump sum but in terms of the after-tax annual income that they can produce over the course of your life. Is that figure enough to support the lifestyle that you envision for yourself and your family? Or, if you will continue in your present position, do you simply want to clear debts, ensure your children's education, invest for your eventual retirement and provide for those whom you leave behind?

Among your goals should be a review and update of your estate plan, so as to include your increased assets. You also will want to consider a revocable living trust and/or a durable power of attorney to provide for the management of your assets in the event of incapacity.

The issue of taxation

If your new wealth is taxable, it will be taxable as ordinary income when it comes from lottery winnings, royalties, severance payments, mineral rights and the like. Legal judgments are taxable, except to the extent that they are compensation for physical injury.

If the money comes from the sale of a business, it may be subject to tax on any capital gains realized. Proceeds from the sale of your home also are subject to capital gains tax, but the first \$500,000 in gains may be exempt for a married couple (\$250,000 for a single individual). Retirement plan payouts are taxable and may be subject to a penalty tax as well if you aren't age 59 1/2. However, tax may be deferred when rolled over into an IRA. Most inherited assets are received with a stepped-up basis and, thus, are subject to little or no tax if sold.

Taxes can be a major complicating factor to new wealth. The services of an experienced tax advisor may help you uncover ways to minimize their impact and are well worth investigating.

Looking for assistance

The planning and decision-making necessary as a result of the receipt of a large lump sum can be overwhelming. And very few people have the investment management expertise that they will need.

Professional guidance can help, but do your homework. For instance, do the professionals charge a fee based on the amount of assets under management or rely on commissions from the products that they sell? Be sure to ask for and check references before entering into any agreement.

We would be pleased to tell you about the services that we provide. Our investment management team has many years of experience dealing with the challenges and opportunities that wealth presents, and our sole focus is the needs of our clients. And we offer a wide range of fee-based services:

Full management services. We map out strategies to help you achieve the balance of growth and income, risk and reward that best fits your needs. We handle all day-to-day tasks and tax accounting, reporting results to you on a regular basis.

Advisory services. We develop an investment strategy based on your individual situation, and make specific buy and sell recommendations for your approval. You make the decisions, and we execute them.

Custodial services. We handle only the “housekeeping” chores—record keeping, execution of trades, collecting dividends and providing you with tax data—ensuring timely attention to your financial affairs, even when you are not available.

Trust services. A revocable living trust complements any of the services above, enabling the trustee to step in and handle your financial affairs when you are incapacitated. It also offers considerable estate planning advantages.

Our goal is to work together with our clients and their tax and legal professionals to craft plans suited to their individual needs. Contact us at any time to find out more.

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Any developments occurring after January 1, 2008, are not reflected in this article.