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Avoid these mistakes when you hit the big jackpot

By Courtney L. Vien

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CPA personal financial planners have some advice for this week's Powerball winners, who reportedly will split more than $1.5 billion (http://www.nbcnews.com/news/us-news/winning-jackpot-ticket-1-5b-powerball-drawing-sold-california-n496236) in lottery winnings: You won because you were lucky, but keeping all that money will require a lot more skill.

Alas, many lottery winners—or people who experience other types of financial windfalls, such as being drafted to a pro sports team or receiving a large inheritance—are changed by the experience, and not always for the better. Some even lose all their money (http://time.com/4176128/powerball-jackpot-lottery-winners/) and go bankrupt.

What is it about windfalls that causes people to make grievous financial errors? We asked CPA personal financial planners who work with high-net-worth clients to share some of the most common mistakes made by people who've suddenly found themselves rich (and ways to prevent those errors):

Mistake No. 1: Not having the right people in their corner

The first thing anyone who receives a windfall should do is find a CPA who can help him or her deal with the financial consequences of all that new money. But that's only the beginning. The suddenly wealthy need a team of "financial bodyguards," said Lisa Featherngill, CPA/PFS, a managing director at Abbot Downing. That team should also include a financial planner (a CPA with the Personal Financial Specialist, or PFS, credential can play this role), an attorney, an investment manager, and possibly an insurance agent.

Mistake No. 2: Making big decisions right away

When you first come into money, take time to decide what to do with it, Featherngill suggested. That way, you'll avoid impulse spending that can ratchet up your style of living to an unsustainable level.

"We tell clients who've had a windfall not to do anything with their money for six months," Featherngill said. "We say, 'Don't make any big decisions; give it time to soak in. Decide what you want the impact of this money to be.'"

Create a plan for your newfound wealth before you act on it, said Lori Pajunen Luck, CPA/PFS, president of CLS Financial Advisors Inc. “Before you get into spending, and before you tell anybody, take a breath and think about your goals and how you picture yourself living.”

Mistake No. 3: Not thinking long term

Lottery winners, and other people who’ve received a windfall, need to consider how long they’ll need their money to last. If they’re younger, they may not have given much thought to how long they’ll live, how costly retirement can be, and how easily they can blow through what seems like a huge pile of money.

For example, say your windfall came out to $2.7 million after taxes. As Featherngill calculates, if you anticipate that you’ll live for 50 more years and have a 5% rate of return on your investments—which, with inflation at 2%, will leave you with a real rate of return of 3%—you’ll be able to spend $100,000 a year. That’s certainly a comfortable sum, but it could evaporate quickly if you buy a vacation home and a Ferrari or two.

Even folks who’ve come by a more substantial sum—like, say, $1.5 billion or so—need parameters, Luck said. “Have a planner perform a cash flow analysis so you’ll know how much money is available to be directed toward bigger goals, like perhaps a favorite charity,” she said.

Mistake No. 4: Loaning money to friends and family

When word gets out that you’ve come into some money, your friends and relatives may ask you for loans. Or you may want to do something generous, like pay off your parents’ mortgage. Tread cautiously, Luck said. “Sometimes money can make people tremendously dependent. It’s not always the solution to their problems.”

You’re better off giving an outright gift rather than making a loan, Featherngill said. “Giving out loans takes a family or friendly relationship and puts a business dress on it,” she said. “You have to get into tracking interest and payments. It can only go sour.”

Mistake No. 5: Making bad investments

Entrepreneurs and con men, too, may come out of the woodwork if they hear you’re flush with cash. “People will want you to invest in things that may or may not be legitimate,” Featherngill said. “Have your advisers vet opportunities.”

Even legitimate investments need to be made with care and concern for your financial plan, Featherngill said. “They need to be in line with your risk tolerance, need for liquidity, and your understanding of investment.”

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