Balance: Wealth Planning

Chartered Financial Planners

A Balance: Wealth Planning Guide
Winning the lottery

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Introduction

First things first, we should offer our congratulations!

You've just joined a very small group of lucky people whose lives have changed forever.

You're probably starting to get over the initial shock of your win and your thoughts are no doubt turning to the future.

Winning the lottery is a once in a lifetime opportunity.

This guide is intended to help you avoid the pitfalls, both mentally and financially, of your new-found wealth, while taking advantage of the possibilities it offers.

> "Balance: Wealth Planning helped me in the first instance to appreciate that I needed to be smart and invest the money sensibly. How that would happen, wasn't initially even really explored. Firstly, Balance: Wealth Planning just offered to talk to me about my situation in life, and what I would hope for to see out my days."

Peter
Nottingham

Creating a plan

It’s probably tempting to claim your win (more of that shortly) and head out on a spending spree.

However, we'd encourage you to pause for breath. You will have some big decisions to make over the coming days, weeks and months, which will affect the rest of your life. You've lived without that Ferrari, world cruise or a new home for this long, a little longer won't do you any harm!

Developing a plan will help you make the most of your winnings for years to come. That starts by defining your aspirations. You might want to:

> Give up work and travel the world

> Repay debt to secure your financial future

> Make gifts to friends and family

> Indulge in some luxuries you have never been able to afford

How you choose to change your life after your win is up to you. However, defining your aspirations is the first step to achieving them. Once you have done that you can put a financial plan in place to ensure your winnings are put to good use and not wasted. Remember, this is probably a once in a lifetime opportunity.

Evidence shows that many lottery winners make unwise decisions and soon run out of money. A search for past winners that have chosen to go public will bring up examples of those that have blown millions in just a few short years.

Often, frivolous spending plays a part in this. Callie Roger, for example, famously become Britain’s youngest lottery winner at the tender age of 16. Pocketing £1.9 million, Callie had gone through the sum in just ten years, despite the opportunity having the potential to provide financial security for life.

However, there are also plenty of examples of where other poor financial decisions have resulted in losing winnings. After a £10 million win, John McGuinness invested £4 million in Livingston Football Club, only to discover he was liable for its debts when the club later went into administration.

As you'd expect, the thrill of a lottery win is euphoric. But it's a feeling that can wear off once the initial excitement passes. There are numerous pieces of research that suggest once winners settle back into the routine of life, their level of happiness returns to normal.

Research suggests lottery winners don't see a change in their day-to-day happiness, but it can lead to a more fulfilling life. The experience of past winners, coupled with the research demonstrates why taking the time to understand what you want to achieve from your winnings is important.

So, as the dust settles, and thoughts turn to the future, start by thinking about yourself and your family, not the money. Take time to understand what's important to you over the short, medium and long term, then take professional advice to build a plan. However, before we explain more about the importance of careful planning, there are some immediate decisions you will need to make.

Immediate decisions

We've already said that you should avoid knee-jerk spending decisions. However, there are some things you will need to decide upon reasonably quickly.

Claiming your winnings

Every lottery will have a different procedure for winners to claim their prize. You should always, therefore, check their individual rules.

Of course, you should keep your ticket in a safe place; you don't want to lose it, and nor do you want anyone else to find it.

Finding a short-term home for your money

You will want to find a safe home for your money while you decide what to do next.

We suggest that home should be a deposit-based account. This means you will get some interest, but crucially, the value of your capital will not fluctuate while you make your decisions.

You should take care to ensure that the bank or building society you choose to use is covered by the Financial Services Compensation Scheme (FSCS). The FSCS provides cover should the bank or building society where you hold your capital goes bust.

The FSCS provides cover of up to £85,000 per person, per authorised bank or building society, £170,000 for joint accounts. For large wins you may, therefore, choose to split your winnings between several banks or building societies, taking care to ensure they are not covered by the same banking licence.

If you are planning to hold the money on deposit for less than six months you may be covered for up to £1 million under the temporary high balance rules. More details can be found by clicking here.

Naturally, when you open these accounts you will be asked for detailed personal information. You will also have to provide identification and may be asked to prove where the money came from.

Finally, when you open these accounts, you will probably be presented with the opportunity to take advice from the institution you have chosen. We suggest you politely decline these invitations. Firstly, it may be too early to start making decisions. Secondly, most advisers working from a bank or building society aren't independent financial planners. It's advisable that you take the time to choose expert advisers yourself.

How can we help?

We can recommend a short-term home for it where it will be secure until you make more concrete decisions.

Do you go public?

The first thing you'll need to consider is whether to stay anonymous or go public.

It's a myth that your decision changes the amount you win. It will remain the same irrespective of whether you decide to make your win public or remain anonymous.

Around 85% of winners choose to remain anonymous, however, it's a very personal choice.

Before making your decision, we recommend taking time to think about the advantages and disadvantage of each option.

Remaining anonymous: If you value your privacy remaining anonymous might be your preferred option.

Going public could lead to unwelcome press intrusion or requests for money. However, remaining anonymous might be harder than you think. For example, if you decide to spend some of your winnings on luxuries or give up work, it's likely to lead to questions around how you can afford to make these sudden lifestyle changes.

As a compromise, you might decide to tell family or close friends about your good fortune. However, can you rely on them to respect your privacy and not reveal your win to others?

Going public: Depending on the size of your win, going public could lead to press and social media coverage. You will probably need to get used to the attention for a period of time and might want to consider removing yourself from social media for a while.

Going public with your win might initially seem daunting. However, in the long-run, it could remove the stress of keeping it a secret and allowing you to manage the announcements.

Camelot has trained advisers who can help you make your decision. If required, they can manage the announcements on your behalf. Before you make your decision, we recommend thinking about:

> The amount you have won; is it a large enough amount to attract attention?

> How many people have you already told? Can you trust them to respect your wishes?

> If you have children, will they be able to keep it a secret?

> What will you do with the money and how will you explain any significant changes you make to your life?

Find a financial planner

After a lottery win, it can seem like everyone has some financial advice to offer. Even when it's well-meaning, conflicting advice can make decisions confusing.

A financial planner will help you understand your aspirations and then put a plan in place to ensure you achieve them. They will also protect you from making poor or reckless decisions which will fritter your winnings away.

It's important to find a financial planner you can trust. Furthermore, it's crucial they have experience of dealing with lottery winners. Despite it being good news, there will be times in the weeks and months following your win which will feel stressful. Having a financial planner on your side, who knows what you are going through, will be invaluable.

The institution behind your lottery winnings will offer you access to a financial planner. Indeed, you may already work with a financial planner who has the necessary experience to help.

However, taking financial advice might be something you have never done before. Indeed, research by the Financial Conduct Authority (FCA) found around 18.2 million, or 36% of the population, could have benefited from seeking professional financial advice in the last year. The FCA suggested that people who have £10,000 or more in savings and investments should take advantage of advice.

Winning the lottery is the perfect time to start working with a financial planner, even if you have never considered doing so before.

The following is a list of some things you might like to ask prospective financial planners:

1. "Are you used to working with lottery winners?"

It's important to know that the financial planner is experienced in working with people who have won the lottery or received large and unexpected lump sums, perhaps from an inheritance.

2. "Are you authorised and regulated by the Financial Conduct Authority?"

Financial advisers are authorised and regulated in the UK by the FCA. You should check that all the firms you are considering working with are suitably authorised, something which can be done by looking them up on the FCA Register, which you can find by clicking here.

You should never take financial advice from anyone who doesn't appear on the FCA Register; we recommend removing anyone who isn't authorised by the FCA from your shortlist.

3. "Are you independent or restricted?"

Independent financial advisers can choose products from the whole of the market. On the other hand, restricted advisers have opted to limit the types of product they can advise on or the product providers they can recommend.

4. "Does the adviser work for a Chartered firm?"

Financial advice firms, as well as individual advisers, can attain Chartered status, which in many respects represents the gold standard of financial advice. It demonstrates that advisers within the firm have achieved the highest levels of technical knowledge through qualifications, they keep their knowledge and skills up to date through ongoing development and they adhere to an ethical conduct.

5. “What will I pay and what services will I receive?”

Comparing the charges made by advisers can be difficult, however, it's far from impossible. We recommend asking advisers to provide written answers, explaining what they are likely to charge you and the services they provide.

Often, this can only be done following an initial meeting, once the adviser has had a chance to understand the complexity of your situation. However, other advisers display their fees online.

6. “Do you have a support team in place?”

Financial advice can generate a significant amount of paperwork. Ideally, your adviser should have a support team in place to assist them. In fact, the support team are often as important as the advisers themselves.

We recommend understanding the administrative support the adviser has in place and asking to be introduced; you need to get on with them as well as the adviser.

7. “What should I expect from our first meeting, and is there anything I should bring with me?”

The aim of your initial meeting with an adviser should be to understand if they are the right adviser for you and whether you are the right client for them.

Consequently, the first meeting should be without cost or obligation. We recommend it should take place in the adviser's office. This will give you an opportunity to meet their support team and understand a little more about the environment in which they work.

Furthermore, we recommend avoiding any adviser who attempts to pressurise you in any way into becoming a client at that initial meeting. You should be left to make such important decisions in your own time and at your own pace.

We suggest you speak to several financial planners before making your decision. The relationship between a planner and their client is a close one. In the early days, you will speak with them frequently, perhaps more than your family!

It’s essential that you like and trust your professional team, which may also include lawyers and accountants. If you doubt their judgement in any way, or they’re simply not the right fit, then move on.

You are in a situation where you are at risk of people taking advantage of you. You must be savvy with the people you appoint and make them fully accountable.

It’s also crucial that your team communicates seamlessly and transparently with one other and works collaboratively on your behalf.

Avoiding financial scams

Winning the lottery will mark you out as a target for financial scammers. Especially if you have decided to go public.

Even with a trusted financial planner by your side, it's a time to be on your guard. Financial scams are becoming far more common and with a large win swelling your bank account you will be seen as a prime target.

Following our tips will help you choose a reputable financial adviser or planner. Among the steps to take to protect yourself from potential financial scams are:

> Don't respond to any unsolicited contact. If you've received a call, text, social media message or email claiming to be from a bank, adviser or another provider, don't assume that it is. Use the details provided on verified communication, such as the phone number on your bank statement or card, to contact them.

> Never give out your personal details, including banking details, over the phone or email. A bank, for example, will not ask you to provide these.

> Do your own research. Don't base your decisions on what unsolicited communication has told you. Take the time to learn more about the company and what they're offering.

> Take a step back. Financial decisions are important and can affect your long-term security, so don't be rushed into making a choice. If a salesperson is putting you under pressure to decide on the spot, just stop.

> Ask questions. A fraudster will downplay risks and often try to avoid your questions. Someone offering a genuine investment opportunity will understand your need for more information.

Remember: If it sounds too good to be true, the chances are it is. Be cautious of all unsolicited contact.

Think about the future

So, you've found a safe and secure temporary home for your winnings and found a financial planner you trust.

It's now time to start planning your future.

You might be tempted to start spending or giving money away. That might be the right thing to do with some of the money. However, we'd suggest taking a step back and avoiding knee-jerk decisions.

You may already have a good understanding of what you want from life. However, even if that is the case you've probably never given winning the lottery much serious thought.

For large wins, of life-changing amounts of money, that's why we recommend initially focusing on yourself and your life rather than the money.

If you had a blank sheet of paper:

> What financial challenges do you have?
> How would you change your life?
> What would you like to achieve?

Remember, this might be the opportunity to do things you never thought were possible.

Naturally, you might want to help other members of your family. Your financial planner can help you strike a balance between helping your family and using the money to achieve your own ambitions.

How can we help?

We start by listening to your current concerns and future aspirations.

We will help you understand what's possible and how the money could change your life for the better.

During this time, you will start to feel an increasing sense of clarity about what's important and the options you have.

We know this will be a pivotal moment in your life. One of mixed emotions and many different options. As time goes on, and you work with us more closely, you should feel confident you are making the right decisions.

Naturally, we are sensitive to the conflicting emotions and desires you feel. We will, therefore, work at your pace and be on hand whenever you need us.

Giving up work

Depending on how much you have won, it's also only natural to consider giving up work.

You may have dreamt about walking into the office to announce your exciting news. However, this is another area where we recommend avoiding knee-jerk reactions. Don't rush into making a decision about leaving your job or selling your business. Take time to think about whether retirement is what you really want.

Don't underestimate the importance of your work-role in terms of stability, social interaction and routine. A job keeps you firmly rooted in reality and reminds you of the true value of money.

There are financial implications too. Many people underestimate how long they will live for and consequently the amount of money they will need. Before making any rash decisions, you should work with your financial planner to understand whether early retirement is a realistic possibility.

If you decide that it is, make preparations to leave your work or sell your business in a considered way. Don't burn your bridges with your employer or employees by acting unprofessionally; you never know what the future holds!

Instead of making your exit from work in a blaze of glory it might be worth taking a break to consider your options. Consider taking a holiday, you can afford it! And use this time to start planning your future.

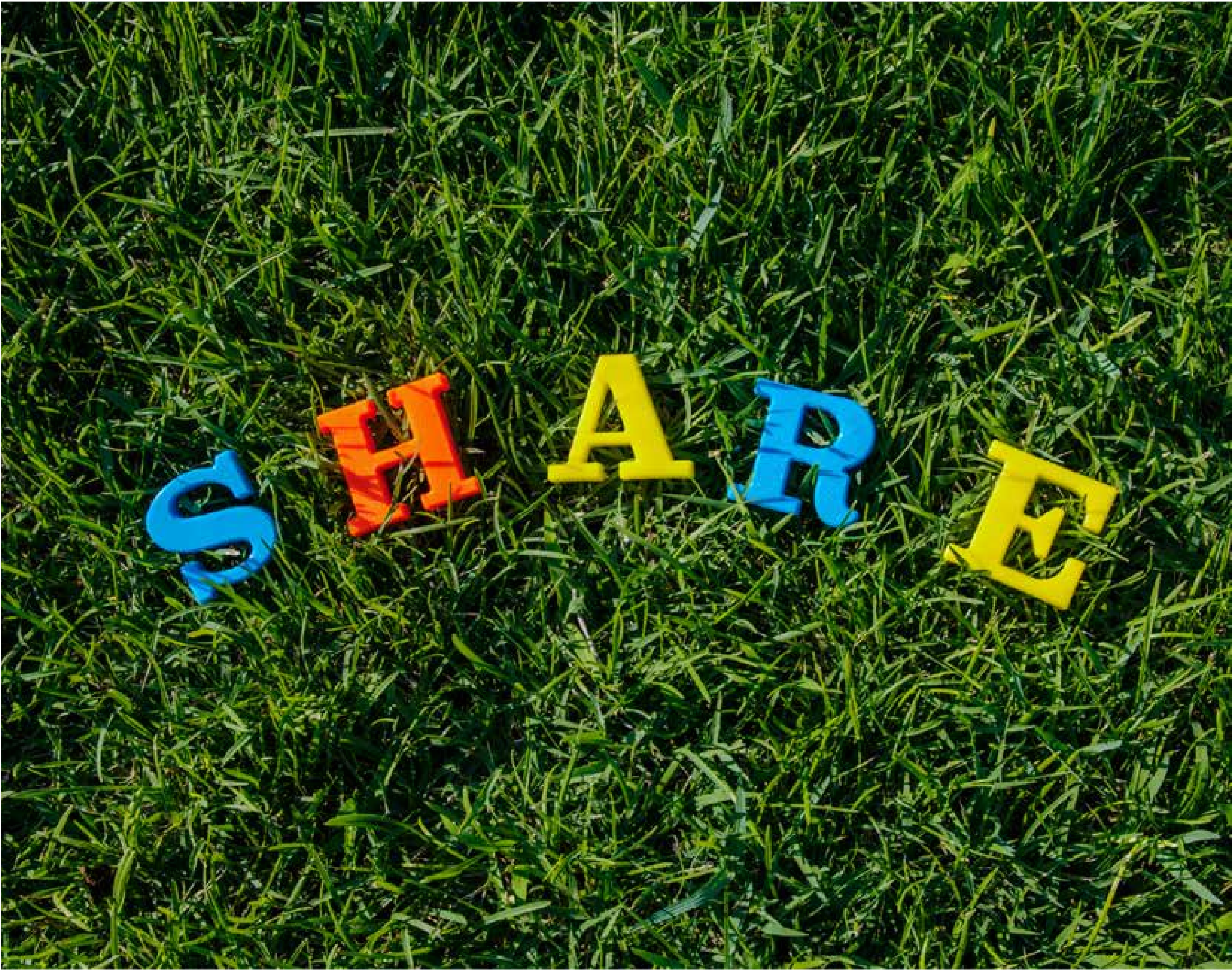
Whether you fly to Vegas, a tropical island, or take the family to Disneyland, once you are away from your familiar trappings, you will be able to think more clearly. This time allows you to celebrate and enjoy your win. It will also act as a break between your old life and your new life, enabling you to make more informed decisions when you return home.

An emotional perspective

Once you return from holiday you may experience a range of strange feelings. Everything about your life will feel different, even your home may feel small and empty.

As your mind processes the transition between your old and new life, you may feel melancholy, perhaps even depressed. Such feelings are only natural and usually temporary; you will need to go through a period of adjustment as you prepare for your new life ahead.

Some people feel confused after a big win, losing their sense of purpose or direction, especially if they decide to give up work or sell their business. Facing the fact that your old life is over can be a scary feeling.



Consider your family and friends

Your family and friends play a big role in your life, and that is likely to remain the same after winning the lottery. Considering how they will react to the news can, therefore, help you plan.

Discovering your good fortune will have different effects on different people and their personal scenarios. If you're already living a privileged life, a large win may be easier to manage. But if you and your family have always struggled, then your life will dramatically change forever. It can mean relationships change once you've announced your winnings.

Despite initial congratulations from loved ones, winning a huge sum of money could cause jealousy and resentment in some cases. You may even feel guilty about such a big win and obligated to share your wealth. Such pressure can have a negative effect on personal relationships, especially if family and friends start asking you for financial support.

Whether you choose to share your wealth and how you do so is a personal choice. You may decide to make one-off gifts for loved ones to prevent any future fallouts. However, it's important you take steps to avoid feeling pressured; this is where a trusted financial planner can help.

If you go public, you may also find yourself receiving begging letters. One way of dealing with this emotional burden is by giving some of your money away to a charity. This will not only help a great cause but will enable you to enjoy the feeling of being able to help others less fortunate than you.

Options to consider

You essentially have three main options for your winnings:

1. Spend it
2. Invest it
3. Repay debt

Careful consideration should be given to how these options dovetail with your current circumstances and future aspirations.

Spend it

The desire to immediately spend some of your winnings might be strong.

That may well be the right thing to do. However, before you go ahead, we suggest taking the time to assess your priorities. A glance at the fortunes of past lottery winners will bring up numerous examples of those who have regretted their financial decisions. Spending winnings too quickly on material assets can mean missing out on using the opportunity of winning the lottery to enhance your life.

That's why we suggest differentiating between material purchases, which might provide instant gratification that soon wears off, and experiences, such as holidays of a lifetime, which create long-lasting memories.

Repay debt

You might still be at a stage in your life where you have debt. This could be a mortgage on your home, personal loans or credit cards. There are many things to consider when deciding whether to repay debt:

> Will repaying the debt free up income which will then help you to achieve your life's aspirations and ambitions?

> If you were to repay debt would that give you a sense of security? For example, people who repay their mortgage often report a sense of increased financial wellbeing from having done so.

> Is it economically sensible to repay the debt? In these times of low-interest rates, it might be better to save or invest the money.

> If you have previously been poor at managing money will you simply accumulate further debt in the future?

> If you repay debt will you be left with enough capital to achieve your other ambitions?

Invest it

Depending on how much you have won it could provide you and your family with financial security for the rest of your life. To do so, and with an eye on inflation which erodes the value of money, that probably means investing at least a proposition of it.

There are many elements to successfully investing the money, including, but not limited to, ensuring:

> The level of risk you take is proportionate to how long you plan to invest for and your goals.

> That you hold the investment tax-efficiently, maximising your returns and minimising the tax you pay.

> That the type of investments you make are aligned with your goals.

It's also important that any existing savings and investments you have are also reviewed at this time. There is little point in making sensible decisions about your inheritance if your existing assets are invested poorly.

Developing a financial plan

The answer to understanding how much you should spend, save and invest can be found by developing a financial plan.

We also optimise your new-found wealth with careful planning, minimising taxes and making the most out of every penny.

The plan will show you the effect on your life of taking different decisions and whether the lottery win is sufficient to achieve all you want.

This is a one-off opportunity to change your life. Taking carefully considered decisions with the help of an experienced financial planner will help you get them right, maximising the benefit from your good fortune.

How can we help?

The key to good planning is for us to understand what you want from life.

By understanding your vision for the future, which may have changed because of your win, and forecasting your wealth over your lifetime, we can show you what is possible.

Putting your own affairs in order

Winning the lottery and then building a financial plan will be life-changing for you.

It's also the perfect time to put your own affairs in order so that if you become ill in the future or die unexpectedly, your family will clearly understand your wishes. It's also worth considering your own position and whether your win was large enough to mean the beneficiaries of your estate will have to pay Inheritance Tax (IHT) when you die.

How can we help?

If you need to make a will or nominate powers of attorney, we can recommend a solicitor to advise you.

Furthermore, we can help you to understand any potential IHT liability on your asset. If tax may be due when you die, we can make recommendations to help reduce the amount payable.

Making a will

Despite a will being a crucial document, writing one is a task that many people put off. It's understandable, nobody wants to think about passing away. But the 31 million adults in the UK without a will risk having their estate distributed in a way that doesn't match their wishes.

A will gives you a chance to set out what you want to happen when you're gone. Without one, your estate will be distributed according to Intestate Law. In many cases, this will not align with your wishes and can mean that many of your loved ones are excluded.

It's not just asset distribution that your will dictates either. It can also be used to name a guardian for your children and name who will manage any money left to them until they're old enough. As a result, if you have dependents, a will is even more important.

It is possible to write a will yourself, however, we advise seeking legal advice. This is especially true if you're wishes aren't straightforward, for example, if you have children from a previous marriage, you share property with someone who is not your husband, wife or civil partner or own a business. For your will to be legal, it must be signed by two witnesses.

Winning the lottery is the perfect time to either write your will or update an existing will.

A will ensures those you care about the most receive an inheritance according to your wishes. Even if you already have a will in place, you may find that your new-found wealth means it's outdated and no longer reflects what you want. You can either choose to make a new will, which should explain it revokes all previous wills, or make an official alteration known as a codicil.

Another reason to make a will is Inheritance Tax (IHT).

IHT is calculated based on the entire value of your estate, including property, investments and other assets. Financial planning combined with writing a will can help you reduce the IHT liability that may be due on your estate, passing on more of your wealth on to your loved ones or causes that you support.

Among the steps you can take to reduce IHT liability your loved ones will face are:

> Understand the nil-rate band and residence nil-rate band for IHT. No IHT is due on estates that do not cross this threshold and if unused it can be transferred to a spouse or civil partner.

> Give your assets away while you're still alive, taking advantage of IHT exempt gifts

> Place assets in trust

> Use a life insurance policy to cover the potential IHT bill

> Leave a portion of your estate to charities

Financial planning can help ensure that your estate is in order, improving your financial security now and that of your loved ones in the future.

Lasting Powers of Attorney

When you're reviewing your will arrangements, there's another step you should take; naming Lasting Powers of Attorneys (LPA).

Nobody wants to think about becoming too ill or involved in an accident that means you're no longer able to make your own decisions. But the reality is that it can happen. An LPA provides you with peace of mind; it names someone or several people, you trust to make decisions on your behalf. There are two types of LPA and you should consider putting both in place.

A health and welfare LPA will be able to make decisions around issues such as medical treatment and moving into a care home. A property and financial affairs LPA will be able to make decisions about money, including managing your bank account, paying bills or selling your home.

Without an LPA your loved ones will often face a lengthy and costly application to the Court of Protection to make decisions on your behalf. It can be stressful for them and potentially leave you in a vulnerable position.

With this in mind, making an LPA is essential. You can only make an LPA if you're considered to have the mental capability to make your own decisions. As a result, it's an important step to make long before you think you need it.

You can make an LPA online or using paper forms. The forms will need to be signed by the attorneys, witnesses, and a 'certificate provider', who confirms you're making the LPA by choice and you understand what you're doing. You may also choose to use a solicitor during the process.

Your LPA must be registered with the Office of Public Guardian, which costs £82.

A life-changing opportunity

Winning the lottery is likely to be a one-off opportunity to change your life for the better. Helping you to solve financial concerns and achieve long-held aspirations and ambitions.

Taking a step back and then developing a plan working alongside an experienced financial planner will help you make the right decisions for both your short term and long term plans.

We are here to help

We are experienced financial planners with the skills and knowledge to help lottery winners make the most of their new-found wealth.

The confidence that working with a financial planner brings and knowing that your financial future is in safe hands is immeasurable.

If you have won the lottery contact us on the details below to find out more about how our planning can help make the best of your life changing opportunity.

Call us on
0800 77 23456

Email
team@balancewealth.uk

or to book a meeting
online click here