CHAPTER 1

What Is Sudden Money™?

I define Sudden Money as the unexpected receipt of an amount of money that is much larger than you are accustomed to dealing with. Unfortunately, all too often, when you are the recipient of a much larger sum of money than you are used to, you probably won't know how best to handle it. We have all read stories of lottery winners and entertainers who became multimillionaires overnight and then spent the next couple of years in legal battles. Their fortunes dwindle quickly, and soon they are left with nothing—or even worse, bankruptcy.

While these stories may be true, the reality is that lottery winners and entertainers are not the only people who struggle with windfalls; their stories just sell the most newspapers and magazines. As it turns out, however, the $20 billion that will be paid out annually in U.S. lotteries alone over the next couple of years is only a fraction of the trillions of dollars of Sudden Money that will land in the hands of unsuspecting recipients.

Inheritance

The largest transfer of wealth in the history of America is now taking place. Its total is in the trillions of dollars, and it will change hands via intergenerational inheritance. Many of the heirs will have been raised in families with considerable wealth, and many will be introduced to personal wealth for the first time. There is no guarantee that either group will be successful with their new money. After all, some wealthy individuals do not teach their children about money management. The simple fact is, unless someone tells you how to prepare yourself to receive a large sum of money, you won't be prepared.

Young people with large inheritances have always found ways, through their money, to communicate how they feel to their elders. Preparation for a large inheritance should include learning how to communicate directly, rather than acting out. This is easier said than done, but I am hopeful that *Sudden Money* will provide some of the guidance necessary to make the inheritance process, regardless of its size or the age of the heir, more meaningful than just money changing hands. (However, just because you grow up with money does not mean that you are prepared to assume responsibility for the management of your inheritance.)

Stock Option Wealth

There is a new wave of wealth in America, and it is coming from the increasing use and value of stock options. No longer reserved for the highest-level management, stock options are becoming a standard part of compensation packages throughout the entire corporate ladder. They are found everywhere from blue-chip companies to brand new start-up companies that have yet to go public. It is estimated that the current value of stock options in America's major corporations is $11 billion. Over 6 million people hold many of those stock options right now.

Stock option wealth makes sensational headlines as technology companies go public or merge. It has become the norm in that industry for employees to accept low compensation and long hours in exchange for the opportunity to participate in the growth potential through stock options. The most dramatic example I've seen is *Fortune* magazine's coverage of the 40 wealthiest Americans under the age of 40. It notes that the average cash compensation of the Internet executives on the list is $151,200, while their average net worth is $1.5 billion dollars.

Most of the Silicon Valley megamillionaires claim that money is not what makes them happy (otherwise, they would have quit after their first 10 or 20 million). Instead, they desire to make their mark on the world, to change the world during this window of time and technology that might not last. They work at a frenetic pace, and some don't even know how much money they have. Someday, however, they will all have to deal with their money and their feelings about it. Whether they plan to use the money to purchase things, to finance new start-ups, or to fund medical or technological research, they need to have a plan that factors in their desires, their insurance considerations, and their tax consequences.

Most financial planners are not accustomed to creating plans for clients who are 40 years old and worth several billion dollars. There are so many nuances with options, and the status of new technology companies fluctuates wildly, so learning about and keeping current with stock options can be difficult and are definitely time-consuming. My hope is that a new generation of planners will grow out of necessity.

Divorce

You may be wondering why I consider divorce a Sudden Money event. After all, the average divorce takes over a year from start to finish, so the resulting settlement can hardly be called sudden, right? Not really. The reality is that the entire process is so full of distractions and details that the settlement recipient is often, ironically, caught off guard when the money finally arrives.

Divorce is an event especially fraught with emotions, and if they are not properly dealt with, they can wreak havoc on your finances. You might be surprised by some of my recommendations. However, I assure you that though they may seem counterintuitive, they are based on years of watching people (mostly women) make the same mistakes over and over again.

When Two Become One

Much of what is true for divorcees is true for widows as well. The loss of a spouse is a life-changing event with profound impact on the surviving spouse. Whether the grieving process begins with a diagnosis of a terminal illness or with word of a sudden death, it usually takes at least a year after the death of a spouse before the survivor feels the clarity and peace necessary to make major financial and lifestyle decisions.

Unfortunately, many widows either take the wrong action at the peak of their grief and soon live in regret, or they are so paralyzed by their grief that they don't act on the few things that do warrant their attention. When I heard that an estimated 80% of widows living in poverty were not poor before their husbands died, I knew I had to figure out why this was occurring and to try to rectify the situation. This book is my beginning.

Insurance Settlement

Another group that has difficulty holding on to their Sudden Money is the population of insurance settlement recipients. I recently had lunch with the managing partner of a law firm handling a class action lawsuit for women with silicone breast implants. The settlement these women were being offered ranged from a minimum of $125,000 to over $1 million. I asked him how many of the women would have any of this money a year after they received it. He flatly responded, "Not many." He added that many had already spent the money. He knew of women who had bought cars and/or houses with the *anticipation* of the money. Others were mentally spending it over and over again, waiting for the chance to actualize their financial fantasies as soon as they received their checks.

Some of the women felt they could afford to spend the money because they had not had the negative medical side effects that were the basis of the lawsuit. They were told that medical complications could arise at any time and, if they did, the women would no longer have any legal recourse.

The women on the lower end of the settlement spectrum had not had medical problems, and they had the opportunity to have their silicone implants removed or replaced with safer saline implants. This was a wise way to spend a portion of the money, but the balance of the money would probably be spent in short order. This was a real shame because, for many of these women, this would probably be their one shot at having a significant amount of money to invest for their future. Without guidance and advice, this opportunity could be lost—maybe forever.

Retirement

Again, without guidance and good advice, particularly good tax advice, the money from your lump sum payout could be lost in a flash. In my experience, there is so much confusion about retirement benefits and their implications that I found myself second-guessing what I was taught and reresearching the entire subject.

The confusion I speak of comes not just from employees, but from employers, financial services professionals, and even tax specialists. This was the most complex chapter to compose, and it might also be the one most likely to change due to changes in tax law. Finding a financial advisor who is well versed in tax consequences of retirement plans is vital for this group of Sudden Money recipients.

Winning the Lottery

There is no other Sudden Money event like winning the lottery. The money doesn't represent an end to years of legal battles or years of employment. Nor is it an attempt to compensate for a painful catastrophic event. In fact, what makes winning the lottery so exciting is also what makes it especially difficult: the element of surprise. Even people who buy lottery tickets every week are astounded when they win.

The problem is that there is no way to prepare to win millions of dollars. That lack of readiness makes you vulnerable to all of the classic blunders of people who receive windfalls, and a couple of new ones. *If you have won a lottery and you haven't spent most of your money by the time you get around to reading this, you are an exception.* If you haven't even decided how you will take the money, you are in the optimal position. However, regardless of where you're at, if you have any lottery money left, you can still learn about how to maximize it.

Athletes and Entertainers

Of all the Sudden Money events, this is the most volatile because it can be thought of as a series of windfalls. Why? Because the reality is that very few athletes or entertainers are certain about what their income will be in five years. Some people become overnight sensations, only to disappear from the public eye and to resurface, often reinvented, years later. Others aren't as lucky. Due to this possibility, I recommend treating earnings as capital to secure your future: as the only money you will have for your retirement.

Athletes and entertainers are in a complex position with regard to the types of income they get (and how many people get a piece of it), their tax consequences, estate planning, and several other aspects of financial planning. An advisor who understands your pressures, as well as your technical considerations, is as important as a good manager in whom you can trust and confide.

The Sudden Money Process

Regardless of the origin and the amount of your windfall, *Sudden Money* can help you maximize it. For the first time, you are in a position to benefit from the collective experiences of scores of people who were once in your position. If possible, do not do anything with your money until you have read about the three phases and the chapter devoted to your windfall event. There is nothing more important than preparing yourself for the life-altering journey that begins with Sudden Money.