

Handout #1: Winning the Lottery

Article #1

“10 Things NOT to Do If You Win a Billion Dollars”

By Brett Arends, from *Marketwatch* (abridged)

The winning \$1.537-billion Mega Millions lottery ticket was sold in South Carolina. How would you handle that incredible amount of money? What would you do? After the initial elation, it's pretty obvious that sort of windfall would bring enormous complications into your life, and even some risks. Here's what you shouldn't do:

1. **Don't tell people:** Lottery winners get nothing but scrutiny, scam artists, and appeals for money. If it's allowed by the lottery in your state, keep it anonymous, say advisers. Talk to an attorney, says one financial planner: “They can assist you in setting up a trust, and connecting you with an appropriate trustee to privately claim your winnings.”
2. **Don't rush to claim the money:** Don't step forward immediately, financial advisers say. “I have worked with lottery winners before,” says John Loyd, a financial planner in Fort Worth, Texas. “The biggest thing is to do nothing. Let the emotions and overwhelming feelings subside before making really any decision.” Mega Millions says the winner has between 90 days and one year from the drawing to claim the prize, depending on the state.
3. **Don't think this will fix your life:** “Just because you win the lottery, it does not change you as a person,” warns Sandra Hayes, a former social worker who won a jackpot in 2006. You'll be the same person with similar problems, just a lot more money. Many lottery winners let the money go to their heads, and it ends up causing them more

problems than it was worth. “I wish I’d torn that ticket up,” Jack Whittaker, who won a Powerball jackpot in 2002, said later.

4. **Don’t become an amateur banker:** “It may seem impossible to burn through nearly \$1.6 billion, but you will be approached by all sorts of people looking for investments, handouts (and) charitable gifts,” as well as “less-reputable people looking to swindle you,” says Byrke Sestok, a financial planner in White Plains, N.Y. “Everyone is going to want a piece of you.”

Timothy Neuville, a financial planner in Irvine, Calif., adds: “Change your cell phone number.” While you’re at it, change your address too. Family and friends will start hitting you up. This will include relatives you barely know.

5. **Don’t rush to take the upfront cash payment:** The one-time payout from this Mega Millions is more than \$900 million. A better option is to spread the payments over 30 years. Yes, financial theory you should take the cash and invest it for growth. But getting that money at once poses all sorts of dangers and problems. “If you take the annuity option, you will always have a huge income for three decades, and dramatically reduce the risk of ever blowing all the money,” Joyce Sestok adds.
6. **Don’t try to handle it on your own:** Everything from taxes to estate planning just got really, really complicated — and risky. “You will want an attorney, accountant, and financial planner,” says Mark Beaver, a planner in Dublin, Ohio. Don’t hire buddies, or friends, or friends of friends. Hire reputable independent professionals with the right qualifications and experience. Hire a financial adviser who is paid only by you through fees, not by commissions on products sold to you.
7. **Don’t become rich without a comprehensive financial plan:** “A plan will help you avoid becoming one of the statistics of lottery winners that find themselves (almost unbelievably) out of money down the road,” Beaver says. Among your new

considerations: spending, investing, protecting your assets, and how to make philanthropic donations.

8. **Don't try to become an investment genius:** History is littered with people who blew fortunes on scam artists, bad ideas, or both. Billionaire investor Warren Buffett himself recommends stock index funds.
9. **Don't go crazy spending money:** Don't rush out to buy a massive new house, and a boat, and a Ferrari. "Allow yourself a small token amount of money at first to spend," says Richard Gotterer, a financial planner in Miami, "then don't touch the funds or change your lifestyle for the first six months. Let the reality set in."
10. **Don't underestimate taxes:** You'll pay taxes on your winnings. But you will also have to pay them each year on that expensive mansion and vineyard you bought, and on other luxury assets. You'll pay taxes on investment gains. And you'll pay them on gifts. If you don't plan things right," cautions Ulin, the Florida adviser, "the U.S. government may end up being your largest beneficiary."

Article #2

“Lottery Financial Advisor: What To Do If You Win the Powerball Lottery”

From *Pacifica Wealth*

Dear Florida Powerball lottery winner, congratulations on your win! You beat the odds (1 in 175.2 million) and have the distinct honor of being the largest single lottery winner in U.S. history. Here are six things to do before you claim the prize:

1. **Sign the ticket:** You want to make sure you immediately sign the winning lottery ticket. I would also suggest you take a photo and video of yourself with the ticket. If something unforeseen happens, these steps go a long way to prove you are the owner of the ticket.
2. **Take care of yourself:** This step has nothing to do with your lottery prize and everything to do with you and your health. While everybody handles these things differently, it’s not uncommon to experience anxiety, paranoia, or even strange out-of-body feeling where things move in slow motion as if you were watching your life on a movie screen. Seek professional help if necessary.
3. **Decide if you want a lump-sum or an annuity:** The next step – and one that is usually glossed over — is to figure out just exactly how much you’ve won and whether you want a lump-sum or an annuity. Although the stated prize is \$590 million, it’s a bit misleading. With big lottery wins like yours, you have the option of taking a lump sum payout or to receive the payout over time. If you choose the lump sum option, the amount is \$370,896,780.50. If you are a U.S. citizen, the IRS will automatically withhold 25% for taxes – providing you \$278,172,585.40. Of course, you’ll be on the hook for more than 25% to the IRS. The real after tax amount will be closer to \$224,000,000. But instead of the lump sum amount, you have the choice of receiving 30 payments of

\$19,683,000 per year for 29 years. Although a great majority of lottery winners opt to receive a lump sum amount, there are definitely some advantages (and disadvantages) to taking the payout over time. We've all heard the stories of lottery winners who have lost it all in a few short years. By getting the money over time, even if you are careless the first year, you get 29 more chances to get it right.

4. **Assemble your team:** With a lottery win as big as yours, you'll want to make sure you have a stellar team who can help you make the best decisions. Find a good attorney to guide you through the initial steps and who can introduce you to others as needed. You will also want a CPA and a financial advisor skilled in managing sudden wealth.
5. **Make a publicity plan:** Unfortunately in Florida, you don't have the option of remaining anonymous. As soon as you claim the prize, your little town of Zephyrhills, Florida and the rest of the world will know your name. Journalist and TV reporters will come from far and wide. They will dissect everything you've ever done and will want a piece of you. The best approach is to develop a public relations strategy to control the message as much as possible.
6. **Don't lose yourself:** Lottery winners will often complain that after winning their lives are turned upside down and that they are thrust into a new life. It's hard to keep things exactly as they were when you get a check for over \$200 million, but at the same time, you don't want to lose the aspects of your life you now cherish. Step outside the craziness of the situation for a moment, and make a list of Who and What you love about your life that you don't want to change. Money is best when you use it to improve your life, not necessarily change it.

Have your group select a scribe to write down the group's answers to the following questions:

1. One financial advisor says to winners, "Don't lose yourself."
What do you think the advisor means and why might this be his recommendation to lottery winners?
2. What form might "crazy spending" take in the life of a lottery winner?
Be specific in your answers.
3. One financial advisor suggests lottery winners form a "team"?
What kind of experts should be on that team and why?
4. In the context of winning the lottery, why should a winner "take care of themselves?"
5. What seems better, taking a lump sum or receiving an annuity? What would your group do and why?
6. What are the three most important pieces of advice your group would give a lottery winner?