

Six steps to help you manage sudden wealth

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By Josh Richardson, Managing Director and Chartered Financial Planner at Informed Financial Planning, a member of *Legal Futures* Associate, **SIFA Professional**

For many, the notion of suddenly becoming wealthy is a cherished dream, embodying the freedom to spend without constraint. Such windfalls can take various forms, from lottery jackpots to unexpected inheritances or compensation payouts arising from unfortunate circumstances.

However, the actual management of sudden wealth entails more complexity than the dream of spending freely suggests. Financial windfalls come laden with intricate decisions, tax implications, and the need for long-term planning. Seeking professional, independent financial advice becomes not just advisable but paramount. Below, we delve into key reasons why recipients of sudden wealth should consider enlisting the services of Independent Financial Advisers (IFAs).

1. Complex financial landscape

Sudden wealth introduces individuals to a spider's-web of financial issues they may never have encountered before. From handling substantial sums of money to grappling with tax implications, investment strategies, and estate planning, the financial landscape can swiftly overwhelm the unprepared.

IFAs specialise in simplifying the options for their clients. Just as one consults a doctor when unwell or seeks legal advice when dealing with property or wills, turning to an IFA is the sensible choice for financial questions.

2. Strategic planning for long-term stability

While a large bank balance may initially seem endless, without careful planning, it can quickly disappear. The pull of extravagant spending often clashes with the reality of finite resources.

IFAs work with clients to create strategies aimed at preserving and increasing wealth over time. This involves diversifying investments, establishing emergency funds, and setting realistic spending limits.

Using tools like cash flow planning can provide clarity on the longevity of newfound wealth, ensuring financial stability for the future.

3. Mitigating risks and pitfalls

Sudden wealth can attract unwanted attention and unforeseen risks. Opportunistic individuals seeking handouts or financial scams pose genuine threats. IFAs play a pivotal role in identifying and mitigating these risks, safeguarding clients' financial interests.

Particularly for those who have received compensation for past injustices, such as victims of medical negligence or most recently, victims of the Post Office Horizon scandal, protecting hard-earned payouts from exploitation is paramount.

4. Tax efficiency and legal compliance

Navigating the tax implications of sudden wealth is essential to avoid hefty tax bills and legal issues. IFAs possess the expertise to navigate complex tax rules, ensuring clients maximise their tax efficiency while remaining compliant with the law.

5. Behavioural guidance and emotional support

Managing substantial wealth extends beyond financial knowledge; it also involves navigating the emotional and psychological sides of newfound wealth. IFAs offer invaluable behavioural guidance and emotional support, aiding clients in making rational decisions amidst the attraction of extravagant spending or the fear of running out of money.

6. Legacy and estate planning

Sudden wealth offers an opportunity to leave a lasting legacy. Effective estate planning ensures assets are distributed according to one's wishes while minimising tax implications. IFAs assist clients to create comprehensive plans that reflect their values, providing reassurance that their legacy will provide for the next generation.

Conclusion

Sudden wealth undoubtedly presents life-changing opportunities but also multiple challenges. Seeking advice from a Chartered, Independent Financial Adviser is essential for effectively managing newfound prosperity and ensuring long-term financial security. From navigating intricate financial decisions to mitigating risks, IFAs play a pivotal role in guiding individuals through the complexities of sudden wealth. By partnering with a trusted adviser, individuals can maximise their wealth potential and achieve their financial goals with confidence.

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