

HAPPY NATIONAL LOTTERY DAY

For those who hit the jackpot,
we offer some important
financial planning tips



LESS THAN A FORTNIGHT PAST YOUR JULY 4TH CELEBRATION, IT'S TIME TO REGROUP YOUR FESTIVE ENERGIES AND DIRECT THEM TO NATIONAL LOTTERY DAY, WHICH IS OBSERVED JULY 17 ANNUALLY.

OK, we exaggerate, of course. Few consumers are familiar with the day, which traditionally is leveraged by local and state lotteries to offer special promotions and promote their lotteries.

However, the day is an important one for offering insights into what can be a profound financial watershed moment: hitting the jackpot. If you discover one day that your lottery ticket has become the golden ticket, we offer some tips on how to minimize the headaches that can result from such a huge financial windfall.

Seek help

Before you even claim your prize, consider consulting with an attorney, who may recommend that you place your ticket in a trust or some other estate-planning vehicle, especially if you intend to share the prize among a group of people.

After claiming your prize, consider visiting a financial professional. Winning millions will instantly boost the size of your estate, and you'll want this to be reflected in your estate plan. For instance, if you intend to share your winnings with your children (and their children), there are important tax-planning steps that you can take to minimize your tax burden.

All at once? Or spread the love?

When you win the lottery, you have a decision to make: collect a large, one-time payment or spread out your winnings over a number of years (typically 20). If you select the one-time payment, the amount is lower than the aggregate of the annuity payments and reflects the "present value" of those payments.

While the lump-sum option is therefore a lower amount on paper, it provides you with some financial flexibility, like investing in high-yield financial options such as real estate.

On the other hand, spreading out your payments can lower your risk of squandering your winnings all at once. The unwitting investor, for instance, might be overzealous and purchase a large (but risky) investment, only to lose it when the market turns. But if you receive annual payments for 20 or 30 years, even if your investments over one year are unsuccessful, you'll still receive another payout the following year.

I-R-Yes

Once you claim your prize, it's time to pay the government. Actually, you may not have to do so yourself. For instance, Mega Millions withholds federal taxes from your winnings. The government taxes lottery winnings at the ordinary federal tax rate, which means that more than one-third will be subtracted from your take-home amount. State taxes are a different matter; to determine your liabilities in all cases, we recommend consulting a tax professional.

Scam alert

Unfortunately, many people who win the lottery are bombarded by financial scams — from both strangers and even family members. If that investment prospectus promising you 50% annual returns sounds too good to be true, you can check out this online tool to get an objective, third-party opinion from the Financial Industry Regulatory Authority (FINRA): https://tools.finra.org/scam_meter/.

Reduce your debt

If you receive a large financial boost, it can be prudent to get your financial life in order, and a good place to start is by paying off debt. If you have a high-interest credit card and a balance that accrues interest each month, paying that off can have a powerful impact on sweetening your bottom-line.

Of course, you don't have to do anything right away if you win the lottery. Take your time and evaluate your options, consulting with tax and financial professionals who can help guide your decision-making.

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