

Hit it big? Keep it quiet



GARRY MARR | Nov 24, 2012 7:00 AM ET | Last Updated: Nov 25, 2012 1:24 PM ET
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Hit the jackpot? Overall, you need to think about how much the money is going to change your plan for life, taking into consideration whether you will need to continue working or if you really want to retire earlier. *Simon Dawson/Bloomberg*

You just came into a giant pot of cash. The first thing you probably want to do is tell people. Don't.

Scott Hannah, chief executive of the Vancouver-based Credit Counselling Society, said he's had more than a few clients land at his doorstep broke after inheriting or coming into a large sum of money.

"You need to take some time before making quick decisions," said Mr. Hannah. "To the best of your ability you should be quiet about this because the second you open your mouth and say 'I won \$1-million' it invokes the question 'what are you going to do with it?'"

He had his own family incident a few years back where his parents won a prize home worth \$750,000. They were besieged by so-called investment opportunities. "People came out of the woodwork," said Mr. Hannah, noting some lottery winners end up changing their phone numbers to avoid the harassment.

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Once you've calmed down from the excitement of your financial windfall — whether it's a lottery win, a big bonus, inheritance or even a severance — he says one of the first things to take a hard look at is the debt on your plate.

"If you've got outstanding obligations, credit card debt, consumer debt, it makes good fiscal sense to pay them off," said Mr. Hannah, adding a mortgage might be another, based on the rate and penalties.

Overall, you need to think about how much the money is going to change your plan for life, taking into consideration whether you will need to continue working or if you really want to retire earlier.

"You have to figure how much money you really need," said Mr. Hannah.

Keeping quiet is one thing but he thinks when it comes to long-term issues you need a professional planner to give you objective advice as opposed to counsel you might get from a friend or family member who might have some self-interest.

Mark Halpern, a certified financial planner in Toronto, might be one of those people you contact for advice. He's had a few clients come to his office in that situation.

"I say you have to give some to charity, you should consider tithing," said Mr. Halpern who chalks that view up to his religious background which calls on people to give 10% of any windfall away. Keep in mind that the donation will earn you a tax receipt and ultimately lower your taxes.

He says debt is the next thing you have to knock down and he distinguishes between good and bad debt. "Good is when you are borrowing to invest and bad debt is when you have lines of credit or Visa bills at 23%," said Mr. Halpern.

Don't forget that emergency fund. Most of us have no money socked away and he suggests putting aside enough to live off for three to six months. If you have room in your tax-free savings account, you can deposit the cash there and have it earn interest tax-free. He says investing in a registered retirement savings plan — and its tax deferment advantage — or a registered education savings plan, which generates grants from Ottawa, also make sense.

Mr. Halpern says extra money should be used to clean up loose ends like setting up wills or buying life insurance. "You don't always have time for basic estate planning."

You also can't forget to have a little fun.

"The last thing I would say is take a vacation, you have to enjoy money too. Life is too short. It's not all about saving."