How to manage your $107m Powerball win

An investment lesson based on what to do if you come into a big windfall.

***Summary**: How to avoid destroying your lifestyle and friendships when you come into a large sum of money.*

***Key take-out**: Recruit a solid and specific team, downplay the dollars, and contribute to super are just some of the tips for those who suddenly find themselves in the money.*

Most of us have, no doubt, speculated for an idle moment on what we would do had we been the lucky "health worker from Sydney" who won an enormous prize back in January. This speculation probably included fast cars, first-class holidays and setting up the kids.

I like all those ideas (the fast cars in particular – that's my mid-life crisis) but what *should* we really do to maximise the outcome of such a win?

Now, my starting point is that I don't advocate gambling in any form

In fact, I would advise taking the $21.60 for an 18-game Powerball ticket that could be played each week and investing it in your child's or your partner's superannuation instead – that $1123.20 per year will grow considerably over the medium- to long-term with the possibility of being enhanced by federal government co-contributions (depending on other contributions).

As most of us know, the odds of winning Powerball in Australia are in the order of 1 in 76,600,000… the old cliché is that if you have a ticket you are only very marginally more likely to win a major prize than someone who hasn't bought a ticket!

Keep the news within your inner circle (and downplay it)

As my dad used to say, "once a secret is known by two people, it is no longer a secret".

Bear in mind that the ugly emotion, greed, can spoil the glow of such a huge win. You don't need to invite trouble. An extreme example, I know, but many of us would recall the winners of the 1960s Sydney Opera House lottery became the victims of a kidnapping for ransom and murder of their child.

Sound advice, therefore, is tell no one outside the immediate family or closest friends, and then conveniently leave out a lazy $100m on the basis that $7m is more than enough to put out there! They will notice some lifestyle changes, but that curiosity will be satisfied if they understand why.

Have a very small circle of trust (to quote Jack Byrnes AKA Robert DeNiro's character in the *Meet the Parents* movies). The circle of trust is the people with whom you will be likely, in some way, to share this windfall – not the people at school or the golf club.

Get a financial/accounting/legal team in place

Now, to the question of “what to do with $107 million”. Sit down with your financial adviser, your accountant and your lawyer, for starters. These advisers are going to be the most important team in your life going forward.

They will help you maximise the benefit of this win by advising on the correct ownership (and taxation) structures and the approach you need to take to ensure that it remains a benefit and not a burden. Pay them on a fixed fee or hourly basis, not as a percentage of ‘funds under management’.

Create a trust and invest $100m – donate to charity and the arts

Clearly, the conversation that would flow with your professional advisers would be about your aims and ambitions. The usual priorities of ‘help the kids and donate to my favourite charity’ will come up, but just giving away cash is a very short-term option. Once it’s gone, it’s gone.

A far better approach is to establish a philanthropic trust, and then to invest the funds earmarked for ‘charitable giving’ into a fully diversified portfolio of ‘index’ funds (that is, what remains after you take the nearest and dearest out for a fantastic meal – and put aside around $7m for yourselves and your loved ones).

Invest the rest with good tax/financial planning advice

Those funds not allocated to the philanthropic trust would be invested in various structures for asset protection and tax planning purposes. These can include corporate, trust and ‘tax paid’ investment bond structures.

Unless you particularly want to be involved in direct investments (e.g. shares, property etc.) I would again opt for a fully diversified portfolio of index funds. Investing $100 million at a conservative return rate of 5.0 per cent pa will deliver a return of $5 million every year. Tax, if managed at a maximum of 30 per cent will take $1.5m, leaving $3.5m to ‘play’ with… every year, until eternity.

Managing tax at a maximum rate of 30 per cent will require good advice. It could save approximately $850,000 pa in tax, payable at the top personal Marginal Tax Rate of 47 per cent if invested personally, versus being invested via alternative legal entities. Decisions regarding these matters would depend on individual objectives and needs.

Don’t gift cash – make the maximum Non-Concessional Super Contribution on behalf of loved ones

From the $7m held aside, I would aim to contribute $300,000 as Non-Concessional Contributions to the superannuation savings of each loved one and/or close friend. This is a way to make a long-term gift which will look after them when they most need it, in retirement.

Consider your own housing. Pay down any debt on your own home – perhaps improve or upgrade to a ‘better’ neighbourhood. After all, your home is CGT exempt! Only sell and move to a Potts Point or Toorak if you absolutely must. The cost of housing and the loss of ‘your’ community will most likely make it a dud decision. Stick to your roots – and the people you feel most comfortable with.

In due course, you can buy the homes for your kids, maybe close to yours, but there will be no rush – and don’t tell them you are doing it until they start saving for a deposit of their own.

Transport is next. Just because you can afford a Lamborghini doesn’t mean you should buy one – it will attract untold attention. If you want to drive one, hire it for a week, don’t shell out $750,000 on an overpriced toy that costs a fortune in insurance and servicing – and is, in fact, a terrible commute. Far better to buy a toy like an $80,000 Ford Mustang for fun. You will still get plenty of admirers.

As I've argued in these pages before, don't ruin your children's lives by giving them too much. But do include them in your largesse by also contributing $300,000 into their super. Other than that, don't give them anything they haven't worked for.

I would also advocate getting your children involved in the investigation and selection a range of charities for your philanthropic trust to support. As well as financial help, make sure there is a physical component, such as washing dishes at a soup kitchen or planting trees in a creek bed, so that it becomes a real learning opportunity for the whole family.

Don't accidentally destroy your lifestyle and friendships

If you choose to share your sudden newfound wealth with your wider family, it will become tricky very quickly. You don't need to place yourself in a position of feeling financially obligated because of extended family connections.

While not usually a fan of beach houses, in this situation it might be worth buying a very nice, but not over the top, holiday home. This would allow your extended family to share in your good fortune by getting a few rent-free weeks at the beach in a place they may never have otherwise afforded.

There is also the temptation, as the result of such a win, to think that you and your children or grandchildren need never have to work again – but that is a very corrosive situation for human beings to put themselves in. It is far better to spoil yourself and your loved ones a little, and then use the vast bulk of this win to help others, foster creativity and encourage learning.

This way, you will still be able financially to do just about anything you want, as well as keep the lifestyle, friends and family who were so dear to you before the win.

Theo Marinis is director and financial strategist at Marinis Financial Services

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