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Advice for lottery winners: Chill out

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What are your odds of winning the lottery?

Unimaginably small, says University of Toronto statistics professor Jeffrey Rosenthal.

You have one chance in 14 million to score big playing Lotto 6/49. (That's where you have to match all six numbers chosen from 1 to 49.)

"To put it in context, you are over 1,000 times more likely to die in a car crash within the year," Rosenthal says in his book, *Struck by Lightning: The Curious World of Probabilities* (HarperCollins, \$34.95).

"In fact, you are more likely to die in a car crash on your way to the store to buy your lottery ticket than you are to win the lottery jackpot.

"Indeed, if you bought one ticket a week, on average you would win the jackpot less than once every 250,000 years."

Despite the extreme improbability your numbers will be called, you can still fantasize about winning a million-dollar jackpot. What to do with the dough? Where would it go?

The Ontario Lottery and Gaming Corp. regularly asks winners where they stash the cash.

In a survey of 298 people who won \$1 million or more (37 per cent of all such winners since 1991), the results showed a strong streak of conservatism:

90 per cent put money in the bank.

65 per cent bought a new car.

60 per cent paid off debts.

56 per cent took a vacation.

48 per cent donated to charity.

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38 per cent paid off the mortgage.

36 per cent bought a house.

31 per cent paid for education for themselves or their family.

14 per cent changed their overall lifestyle.

7 per cent bought a boat.

What was the experience like? Of the \$1 million-plus winners surveyed, 43 per cent said they either retired, gave up their job, changed jobs, went to school or opened their own business.

Meanwhile, 95 per cent sought professional financial advice.

This belies the belief that most lottery winners chew through their savings in just a few years and end up broke.

Some winners, of course, do blow it all.

Evelyn Adams won the New Jersey lottery not just once, but twice in 1985 and 1986, for a total of \$5.4 million (U.S.) She gambled and gave away all her money and was living in a trailer by 2001.

William "Bud" Post won \$16.2 million in the Pennsylvania lottery in 1988, but was living on a social security pension when he died earlier this year. A former girlfriend successfully sued him for a share of the winnings and his brother was arrested for hiring a hit man to kill him.

And let's not forget Raymond Sobeski, who won a \$30 million Lotto Super 7 prize in 2003. He sat on his ticket for almost a year, giving up at least \$700,000 in interest, because he didn't want to share his winnings with his estranged wife.

If you're lucky enough to become an instant millionaire, how should you handle your lottery loot?

Financial planners advise waiting a while before making any major expenditures. Take time to absorb the shock of your newfound wealth and changing status in life.

"People think they're rich. Euphoria sets in and they say to themselves, 'I can do it all now.' The sober second thought takes a while to set in," says Graeme McPhaden, a certified financial planner in Toronto.

He remembers a client who blew almost all of his \$120,000 lottery bonanza in one day, throwing a big wedding for himself and his bride.

"I didn't have time to counsel him, but I did get him to use what was left over for the down payment on a house."

McPhaden can see himself being very foolish if he had a lot of money drop in his lap at once. That's why he advises getting away.

"If you have the chance, lock up the money for a few months and go on a trip. You need time to think and to get the excitement out of your system.

"While you're away, think about your vision for the next 5, 10 or 20 years. Set goals for yourself and your family. And get professional help."

You pay no taxes on Canadian lottery winnings. That's unlike the United States, where you forfeit 20 per cent up front to federal taxes — and more to state or municipal taxes.

But you can't overlook the importance of tax planning, says Cynthia Kett, a certified financial planner in Toronto.

Your lottery prize, once invested, will throw off taxable income each year. A financial adviser can help you set up a tax-efficient investment plan and split income with family members to pay less tax.

"It's very easy to spend money and regret it later," Kett says. "Winners have the perfect opportunity to `get their house in order.' They should look at all aspects of their personal finances."

Lottery winners often become a target for family and friends, who come around asking for help.

Kett's advice: Set aside some "fun money" and amounts you wish to give to family, friends and charities. This ensures you give according to a plan, rather than haphazardly.

If you insist on giving your money away, it's better to do it through a formal trust, says Marc Lamontagne, a certified financial planner in Ottawa.

This structure allows you to keep control of the capital and allocate the income to family, friends or worthy causes.

"If you win \$1 million, the money can go quite quickly," he says. "But if you invest the \$1 million and spend the income, you can let the money grow and get benefits for your whole life."

Ontario's Cash for Life lottery lets winners take a lump sum or weekly payments for a lifetime.

Last month, 23-year-old winner Jason Lalonde turned down a \$1.35 million lump sum in favour of weekly \$2,000 cheques.

The apprentice plumber made the right choice, Lamontagne told the Ottawa Citizen.

If he worked and invested the payments at a conservative 6 per cent rate of return, he could receive \$1.35 million within 12 years — and his earnings would keep growing afterward.

Meanwhile, he could buy an inexpensive \$1 million term life policy. That would ensure his estate got a lump sum payment if he died young.

Next week, we'll look at sudden wealth from selling a business and the plight of dot-com millionaires.

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