Financial Vulnerability Taskforce

A SAFE PAIR OF HANDS

Sudden wealth- A consumer guide

Foreword by Keith Richards, Chair of The Financial Vulnerability Taskforce

The content for this guide has been written by subject matter experts and members of the Taskforce steering group on a *pro bono* basis to help support fellow professionals in the sharing of knowledge, experience and good practice as well as the creation of an independent consumer guide for members of the public.

The Financial Vulnerability Task Force (FVT) was established to promote greater understanding, encourage appropriate behaviours, and establish good practice in respect of consumer vulnerability and the vulnerable circumstances in life we all face, even when it includes positive situations such as sudden wealth.

It is increasingly recognised that the acquisition of sudden wealth can lead to people finding themselves in unchartered territory and often left feeling overwhelmed or vulnerable for a host of different reasons.

This simple three step guide is not intended to substitute the need for professional advice but instead it provides a first step in understanding key considerations and the options available.

The guide will help you to:

- understand the unique opportunities and challenges they could face from the acquisition of sudden wealth
- take a few simple steps to safeguard their wealth, reduce the risk of scams, fraud and financial abuse, and plan their financial future
- recognise good practice, ethical and professional standards when seeking financial advice and know what to look for and what they should expect when appointing an adviser to help them plan how to manage their wealth

Understanding Sudden Wealth

Sudden wealth comes in many forms:

It could be as the result of a lottery win, or you might have won the £1m Premium Bonds jackpot, you may have received a substantial compensation payment or an inheritance or benefited from the sale of business or another major asset.

Whatever the source, the acquisition of sudden wealth could dramatically change your life and while many people in this situation can only see the benefits, it is important to recognise that it can also bring challenges and dangers, and that those can be avoided and mitigated by employing the services of a suitably qualified professional financial planner or adviser.

The dangers of sudden wealth:

While most people would say that acquisition of sudden wealth is a good thing, it does not always lead to positive outcomes.

In fact, the Sudden Wealth Syndrome, a term coined by practising wealth psychologist, Dr Stephen Goldbart[1], suggests that it can lead to a psychological condition or identity crisis characterised by symptoms of isolation, paranoia, guilt, uncertainty, and shock.

We will all have read about the lottery winner blowing millions of pounds in a few years and ending up back where they started or, in some instances, ending up in a worse position than they were in prior to receiving a significant amount of money.

We may also be aware of how pension freedoms have resulted in unscrupulous people masquerading as regulated advisers, exploited recipients of pension transfers by providing bad advice and charging extortionate fees, resulting in them losing significant sums from their pension pots.

Sadly, many people who find themselves suddenly wealthy, particularly the elderly, may also fall prey to greedy relatives and friends who connive to deprive them of their money.

Finally, people who suddenly become wealthy often lack the knowledge and experience to make the right decisions and may do things on the spur of the movement which turn out not to be in their best interests.

Fortunately, these pitfalls can be avoided by taking a few simple steps.

A few simple steps for you to take

Put your money in a safe place until you have taken advice

Securing the funds in a safe place is an immediate priority, not all banks offer the same levels of protection.

For example, under the Financial Services Compensation Scheme (FSCS) only the first £85,000 you have deposited is fully protected for each person in each bank. However, there are deposit accounts and other financial products available, backed by HM Treasury,

[1] http://www.affluenceintelligence.com

ensuring 100% of your cash deposit held in an account is fully protected and guaranteed by the UK Government.

Recognise the risks of sudden wealth:

While you will be aware of the joy sudden wealth can bring, it can also cause anxiety, leave people feeling vulnerable, and increase the risk of financial abuse.

You need to be aware of how the acquisition of sudden wealth can leave you in vulnerable circumstances or, depending upon your existing circumstances, make an already difficult situation worse. Therefore, make sure that any advisers you appoint also understand this and are able and willing to handle these issues sympathetically.

Resist the temptation to share your good news:

The first thing most people want to do when they suddenly become wealthy is to share the good news with family and friends.

Please resist this temptation.

Early disclosure only increases the pressure in what is already a stressful situation and can lead to tensions and quarrels within the family; and can lead you to becoming a victim of scams, fraud, and financial abuse, particularly if the news is shared on social media. It may be hard, but if you feel compelled to share the news, refrain from doing it at least until you have a plan. The benefits of sharing the news of your good fortune after you have developed a clear plan for what you will do, have decided what gifts you want to make, and can afford, are considerable. It reduces risks, the possibility of misunderstandings and unnecessary conflicts and means you can tell those close to you about you good fortune, and how you intend to use it to help them, at the same time.

Take your time, there is no rush.

Taking time for reflection before acting is critical.

Decisions made quickly can often prove to be costly and unwise. For example, the laws regarding gifting mean that if you fail to take professional advice, you may end up losing money and paying unnecessary tax. If you allow yourself to be guided by experts in this field, you should be able to resolve all the issues you face and develop a financial plan which meets all your aspirations.

Enlist the support of a financial planner or adviser.

The support of a suitably qualified financial planner, with experience in dealing with sudden wealth and the challenges and vulnerabilities that can come with it, is essential in securing an outcome which fully meets your aspirations while at the same time manages the inherent risks.

In the next section of this guide, we will explain what you should look for in appointing a financial planner or adviser.

Appointing a financial planner or adviser

Do I really need one?

While you may have always managed your finances well and may feel that employing a financial planner will be an unnecessary expense or are unconvinced that advisers will act in your best interests, experience has shown that very few people have the knowledge or experience to deal effectively with sudden wealth. Also, while the costs of employing a suitably qualified financial planner may seem substantial if you have no experience of working with them, the benefits and savings that can result from taking advantage of their professional advice are significant.

Here is an anonymised case study that illustrate the value of professional advice:

Graham and Jeanette

Graham and Jeanette are married and living a comfortable yet modest lifestyle that is being supported by a combination of State Pension income and pensions from their previous employer's retirement schemes. They own their home, which is mortgage free, and they have a small nest egg, which they hold in a deposit account.

Jeanette has an adult son from her first marriage and a granddaughter. Graham does not have any children. Unfortunately, there was a major upset within the family which has resulted in Graham and Jeanette being (possibly permanently) estranged from Jeanette's son, although they maintain a good relationship with Jeanette's granddaughter.

Graham suddenly receives news that he is about to receive a significant amount of money, which was unexpected and has come as quite a shock.

Having passed the initial shock and euphoria associated with the news, they then started to think about all the possible ramifications and how it might change their lives, in a good way, but also some of the possible negative consequences, given their complex family circumstances.

The initial advice that their financial planner provided was to put the cash, which was a 7-figure amount, into a safe place that was not subject to the Financial Services Compensation Scheme (FSCS) compensation limit of £85,000 but would be fully protected. The next step was to talk to them about the potential difficulties associated with telling other people about their changed circumstances, that was despite their almost overwhelming urge to share the news of their good fortune and encourage them to not share the news with others and to maintain their anonymity.

These two steps took the pressure off and allowed time for them to pause and to take professional advice, understand their options, and to work with their financial planner to co-produce a logical and robust plan that serves all their needs and addressed their concerns. It also included the financial planner recommending a suitable qualified solicitor to provide advice on adjusting their wills to take account of their changed circumstances and to establish lasting powers of attorney.

This resulted in Graham and Jeanette feeling very relaxed and reassured that their affairs were professionally planned, and they could focus on enjoying the additional income being generated from their investments and savings to enhance their retirement and to support their granddaughter in a meaningful way. Alongside this, their estate had been thoughtfully planned to take full account of their family circumstances and helping to mitigate the level of inheritance tax that was a worry for them initially.

It has also been very gratifying for them to be able to make a substantial gift to a family member in a planned and considered manner that provided the right level of support without jeopardising their own financial position or creating an unnecessary tax liability.

How do I choose the right adviser for me?

Given that the relationship between you and your financial planner or adviser is likely to last many years, it is important that you choose the right adviser, and it is, therefore, worth considering the types of questions that you should ask of yourself and of your financial planner or adviser:

Firstly, it will be helpful for you to start to think about what you want to achieve with your newfound wealth and to consider some of the risks or difficulties that you envisage.

One way of thinking about this is to consider what some call the '5 big questions' of financial planning, which are:

1. How can I live a better life now, whilst still providing for the future?
2. How can I help and support those closest to me?
3. How can I prepare for the unexpected?
4. How can I look after those who cannot care for themselves?
5. How can I leave a legacy?

Secondly, we would suggest that you prepare for an exploratory meeting with your prospective financial planner or adviser by listing out some questions, such as:

1. What qualifications do they have and are they relevant to your circumstances and specific needs?
2. What is the adviser's advice process they will take you through?
3. What ongoing support and service will they provide you with?
4. How often and where will you meet in the future?
5. What specific questions and concerns would you like the adviser to address at the exploratory meeting?
6. What are the typical fees and charges, and do they represent value for you?

The initial exploratory meeting should be confidential and should not create any obligation to proceed. It is about getting to know each other and hopefully creating a firm foundation upon which to build an ongoing relationship.

Any financial planner or adviser providing regulated guidance, must be properly authorised, and regulated by the Financial Conduct Authority (FCA) and you will be able to find their details on the FCA's register at https://register.fca.org.uk/s/. However, there are a range of professional qualifications that financial planners and advisers will have typically hold. It is a bit like the legal profession where you will find general practice solicitors, which may be able to advise on a range of issues and there are individual lawyers that special in certain types of circumstances, such as divorce, trusts and litigation.

Consequently, it is worthwhile thinking about your own situation and choosing an adviser that has the qualifications and experience that closely match your needs and circumstances.

Therefore, as a guide to help you in narrowing down your search you may want to ask further, more probing questions.

There are many professional qualifications and letters that advisers use after their names. However, to be authorised by the FCA, as a minimum, the adviser must have a QCF Level 4 qualification (e.g., DipPFS or DipFA). As with the other professions, there are advisers who have attained a higher Chartered status or who are Certified, which means they have at least attained a QCF Level 6 qualification (e.g., APFS, FPFS or CFP™).

Depending upon your circumstances, you may need to consider advisers who hold specialist qualifications. For example:

- Membership of The Society of Trust and Estate Practitioners (STEP) adds specialist qualifications in inheritance and estate planning, the administration of trusts and how best to structure their clients' finances to ensure compliance and preserve their assets for future generations. Look for TEP after their name.

- The STEP Diploma in Advising Vulnerable Clients is an additional qualification which is particularly useful in dealing with the sensitive issues that may arise if the acquisition of sudden wealth involves children, the elderly, and people with any form of impairment or otherwise in vulnerable circumstances.

- Membership of other organisations such as the Society of Later Life Advisers (SOLLA) and having the Later Life Adviser Accreditation is particularly relevant to people facing decisions about later life financial planning.

- Financial planners and advisers who support such organisations as Headway and the Alzheimer's Society will indicate that the adviser has an active interest in supporting clients suffering from physical and mental impairment.

- You can be confident that any financial adviser who has publicly committed to the Financial Vulnerability Task Force's Charter https://www.fvtaskforce.com/the-charter will use their best endeavours to provide you with a service that recognises your unique circumstances. The Charter also provides a checklist that you can use to challenge them if you do not feel they are living up to their commitment.

Finally, take the opportunity to research any advisers you are considering by checking out their website and googling them. Testimonials from satisfied clients, transparency in the way they charge for their service, evidence of awards for professional excellence presented by the peers and communications which are consumer friendly and free from jargon and having a clear and meaningful policy on vulnerability should all give you confidence that you have found a "good" adviser who will provide a safe pair of hands in helping you to manage your newfound wealth.