

Why do 70 percent of lottery winners end up bankrupt?

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By [Teresa Dixon Murray, The Plain Dealer](#)

It seems difficult to believe: The lucky winners, possibly three, of Wednesday's \$1.5 billion Powerball jackpot will probably go bankrupt within five years.

In fact, about 70 percent of people who win a lottery or get a big windfall actually end up broke in a few years, according to the National Endowment for Financial Education.

How is that possible?

"People who were little, ordinary people all of a sudden become extraordinary," said Steve Lewit, CEO of Wealth Financial Group in Chicago. "They're euphoric. They lose all sense of reality. They think they're invincible and powerful. They think they're Superman."

The biggest problem, several finance advisers agreed, is that lottery winners give away too much money to family and friends.

"Once family and friends learn of the windfall, they have expectations of what they should be entitled to, and many of these expectations are not rational," said Charles Conrad, senior financial planner with Szarka Financial in North Olmsted. "It can be very difficult to say no."

The easy solution would be to rely on a third party to act as a gatekeeper, Conrad said, but many lottery winners don't turn to anyone to intercept the flood of requests from all of those "close" friends and relatives. The same thing often applies to professional athletes who get huge contracts, he said.

Once new millionaires start giving money away, "it's difficult to reverse course and turn off the spigot," agreed Westlake financial planner Scott Snow, who had a South Euclid client who won more than \$100 million in the Mega Millions lottery a decade ago.

Kevin Myeroff, a certified financial planner and CEO of NCA Financial in Mayfield Heights, said a shocking number of lottery winners don't get help from professionals such as a financial adviser or attorney. Or they surround themselves with the wrong people. And then they end up giving too much money away and squandering too much on depreciating assets such as cars, vacations and gifts.

It's compounded because, when you're talking about hundreds of millions or more than \$1 billion -- what? -- it's virtually impossible to wrap your mind around what that amount means. You've heard the TV reports that you could stack \$1.5 billion worth of \$1 bills and it would reach 100 miles high. Or you could spend \$30,000 a day and never run out of money.

When someone has hit a jackpot or received a big inheritance, "the recipient has no idea what that amount of money means to them," Myeroff said. "If someone had \$20 million and I asked them, 'Could you safely take out \$10,000 per month or \$200,000 per month to live on?' They wouldn't have a clue."

Snow said newly wealthy people also often invest in businesses without scrutinizing them.

Conrad said lottery winners may not pay enough attention to anything they put money into. "They can invest in things that they don't understand and they do so without understanding the real risks involved," he said.

"If an investment has a lot of moving parts or can't be explained in simple terms, it probably isn't something they should be doing," Conrad said. "Just because they now have a significant amount of money doesn't mean that they automatically become a sophisticated investor."

To avoid financial woes and other problems, Snow said, lottery winners should surround themselves with a team of trusted advisers who can "act as a sounding board."

Lewit said that, six years ago, a good friend of his won \$22 million in a lottery. In addition to hiring a financial planner, an accountant and an attorney, his friend hired a life coach "to make sure he kept his head screwed on straight." Further, his friend doesn't make any major financial decision without consulting his team.

With all of the pressures, it's no wonder that many lottery winners end up with costly addictions such as drugs or gambling, Myeroff said, that can burn through money.

Lewit said lottery winners often think they have a bottomless pit of money and they spend, spend, spend without a care. "These are obscene amounts of money," he said. "But you can plow through money fast once you get in that lane."

"It's natural to want to spend money on nice things once you receive a windfall," Conrad said. But if you don't have a budget, even for millions of dollars, "it is very easy to lose track of how much you have spent. Many don't realize this until it is too late."