

Tips to Help Preserve Your Inheritance



According to the Federal Reserve's Survey of Consumer Finances, taken every three years, slightly more than one in five U.S. households had received an inheritance as of 2022.¹ If you expect to receive an inheritance one day, these tips may help you better manage your financial windfall.

Wait a while before you act. Emotions run high after the death of a loved one. You might regret quitting your job, buying a sports car, or making other costly decisions before you have thought them through. Consider how the funds might be used to strengthen your financial position now and over the long term. You may also want to be discreet. Telling people that you have inherited a substantial amount of money may lead to unwanted advice, business or investment solicitations, and requests for financial support.

Boost (don't blow up) your lifestyle. If you have a large balance on a high-interest credit card or vehicle loan, consider paying it off and using the increased cash flow to save more toward your retirement or other long-term goals. Whether it would be wise to pay off your mortgage depends on your individual circumstances and goals. Investing represents an opportunity to grow an inheritance and potentially make it last longer. You could use any income generated by your portfolio to supplement your paycheck, which might allow you to live better now while preserving the bulk of the money for future needs, such as a child's education or your retirement.

Take advantage of tax deferral. If you inherit tax-deferred assets, such as those in a traditional 401(k) or IRA, keep in mind that withdrawals are taxed as ordinary income. You could choose to cash out and pay the taxes all at once, or you might consider transferring the inherited funds to a properly titled beneficiary IRA. Inherited retirement funds can be withdrawn over a period of up to 10 years, although some beneficiaries may have to take yearly required minimum distributions (if the original owner had started taking them). Spouses and other eligible designated beneficiaries receive preferential treatment. The rules and deadlines for handling inherited retirement account assets and taking distributions are complex. Because each choice could have far-reaching implications, be sure to seek tax guidance.

Consider meeting with a financial professional. Discussing your situation with someone outside of your family may help you gain perspective, clarify your goals, and make sound decisions. Although there is no assurance that working with a financial professional will improve investment results, he or she can consider your objectives and available resources and help you evaluate appropriate financial strategies.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

1) *The Washington Post*, November 10, 2023

IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

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