Investment Insights

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Managing An Inheritance

Every year, I consult a large number of people who are tackling the difficult task of receiving an inheritance. This can often be a life-changing event for someone, as they are suddenly faced with addressing all of the issues that come with managing a large sum of money. If they have not previously possessed a substantial investment portfolio, the stress that they feel on top of the existing grief of losing someone dear to them can often be overwhelming. Here are a couple of tips that I've found helpful in coping with this situation.

I myself went through this situation last June, when I unexpectedly lost my mother at a young age. When the time came to address settling her estate, the first thing I did was call my tax advisor and an estate attorney who I knew was qualified to handle my situation. In addition to finding great value in their recommendations, I found the simple step of "outsourcing" this work to be invaluable at a difficult time. Thus, unfortunately, I've been on both sides of the table during this process, and I hope my experience in this subject will be valuable to you should you find yourself in these circumstances.

Hire a team of professionals
Although you may have always been a "do-it-yourselfer" in managing your financial affairs, you probably will need additional help to advise you on the suddenly complex and critical issues that you will face. Especially at a hard time like this, when you are coping with many new and emotional tasks, the help of knowledgeable professionals can be invaluable. This would include hiring an estate attorney, a tax expert, and a wealth manager. Talk to friends about the experiences they have had with such professionals in your area, and then interview a few to find a match that works for you. A good practitioner will be able to organize the affairs of the estate and provide you with clear, concise direction as to what actions you need to take to best handle your situation. This is a critical step, as mistakes in the decisions you face at this point could cost you thousands of dollars in unnecessary taxes, penalties, and fees. And, unfortunately, decisions you make at this point are often irrevocable, so the errors cannot be corrected.

Evaluate your situation
Once the process of dealing with the legal and financial issues of the estate is in the hands of professional advisors, take some time to review your own situation. Assess your current financial picture, summarizing all assets and debts you have. Then think about

your life goals, things like paying for your kid's education, securing your retirement goals, buying a home. In simple terms, take a look at where you are, and where you want to be. Going through this process will make many of the decisions you face much easier when you are faced with how to best incorporate this new pool of assets into your situation. One of the best ways to honor the memory of your lost one is to make constructive and well thought-out choices with the wealth they worked hard to accumulate and have now put in your hands.

Plot your new course

Once you've identified some of the issues you'd like to address in your own situation, you can sit down with your financial advisor and tax professional and begin to integrate your inheritance into your financial picture. Often this will involve liquidating assets that you've inherited to pay off debts, fund some of your life goals, and restructure the assets to be more appropriate with your financial picture. It's likely that the assets you'll be inheriting were fine for your loved-one's situation, but are not suitable for your situation. Examples might be holdings in illiquid assets like real estate, or investment securities that are not congruent with your financial goals.

Be careful

As a final note, a word of caution is necessary. Often a beneficiary of a large inheritance will make substantial lifestyle changes as they adjust to their new financial situation. Being in a new position of wealth can often lead a person into making destructive long-term decisions that may put them in a worse position than the one they were in prior to the inheritance. Making large purchases, taking on big financial obligations, or adopting a carefree attitude towards handling money are characteristics of such behavior. Remember, an inheritance is a one-time event, and making these types of changes to your situation may overextend you to the point where these luxuries are lost because you are unable to support them over time. Move slowly in this area, and be guided by the belief that you owe it to your loved-one to make them proud of the way you handle what they worked so hard to accumulate for you.

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