

The Top Three Mistakes People Make When They Receive an Inheritance

A client called me the other day because her Father passed away and she inherited his retirement account. After expressing my condolences, I helped her to prevent a tax liability that may have cost her \$40,000*. Another client called me after inheriting from a trust and he wanted to invest it in a way that would have cost him \$500,000 in lost interest by the time he turned 65*.

I wanted to share some of the most common mistakes I see clients make when they are in this difficult and emotional time.

David J. Miller, CFP®, CLU®
Wealth Management Advisor

davidjmiller-nm.com
david.j.miller@nm.com
4225 Executive Sq, Ste 1250
La Jolla, CA 92037
P 858.350.3516
F 858.792.6622

- 1) **Write down your goals for the money.** There are strong emotions involved when money transfers through generations. This can create a kneejerk type of reaction in people. Unfortunately, it sometimes makes them want to take actions that are against their best interests. My client “Jenny” inherited a retirement account from her Father. She felt a strong desire to help her children and other members of her family. She told me she wanted to withdraw almost all of the funds immediately. However, this may have created two problems for her: the first is that she would have jumped into a higher tax bracket, and wasted money unnecessarily on taxes; the second is that by prioritizing her children she may have sold her own future short. After reviewing her financial plan, she realized that by setting up her children she may be putting her own future at risk. After taking time to get clarity on her goals, she realized she didn’t want to pay unnecessary tax, and she didn’t want to be dependent on her children in the future. She had a different view after the conversation. If you receive an inheritance, make sure you take time to grieve first and foremost. Next, sit down with your financial planner to help revisit all of your financial goals to make sure your actions line up with your short and long-term goals.
- 2) **Develop a personalized investment strategy.** There is no one-size-fits-all investment strategy. It should be specific to your situation, just like how people with different illnesses will receive different treatments from a doctor. My client “Doug” received a Trust account when his parents passed. He could have made a mistake that would have cost him over \$500,000 in interest by the time he was 65. He initially didn’t want to change the portfolio that his 70 plus year old parents had left to him. Because of their age, it was very conservative. However, when we completed his financial plan, we verified that he needed a higher return on his money than the conservative portfolio would likely produce. He thought he needed a conservative strategy, but found it would potentially have increased the risk of him running out of money in retirement. Once he understood what he was giving up by being too conservative, he felt more comfortable updating his strategy. Make sure you update your financial plan to make sure you match your investment strategy with your situation and goals.
- 3) **Update your own Estate Plan.** My client “Josephine’s” parents did a great job accumulating assets. She thought they had set her up for a seamless transition when they passed away. Unfortunately, they hadn’t titled their accounts properly, and Josephine had to go through Probate to access the funds. This process took nine months, and it cost her time and money before she could inherit anything. Make sure your parents’ and your own Estate documents are updated in advance of any financial transitions. Ask your financial planner and estate attorney if it makes sense to update your paperwork.

Feel free to reach to me with any questions about inheritances or other financial matters.

Financial Representatives do not render tax advice. Please consult with a qualified tax professional for tax advice.

All investments carry risk, including potential loss of money invested.

*Examples are based on past experiences and there is no guarantee of future performance.