

The Learning Centre:  
Planning

The dollars and sense of an inheritance.

When you inherit, the 'urge to splurge' is strong. But resist that urge, and you'll reap the benefits of that extra money for years longer.

Have you come into an inheritance yet? Chances are, you will. There are about 2.5 million Canadians over the age of 75 today, with a total net worth of \$900-billion or more. As a result, members of the Boomer generation could inherit a whopping \$750-billion in the next decade.

One of the first reactions to inheriting money is the temptation to treat it as 'found money'. You haven't worked for it. You might not have expected it, or known how much you would receive. Whoopee! Why not buy your teenager a car for his 18th birthday? Why not take the family on that luxury cruise you saw advertised? The answer: because if you resist – even partially – the temptation to blow it all in one fell swoop, your inheritance could have a much larger impact to your goals in the long term.

Did you know? Have you heard of the "Vanderbilt curse"? Cornelius Vanderbilt was the second wealthiest American ever. He was worth the equivalent of \$143 billion when he died. And yet, when the Vanderbilt family held a reunion of 120 members in the 1970s, there wasn't a millionaire among them.\*

The four-step process that will make the most of your inheritance.

To resist that all-too-human impulse to spend before thinking, many financial specialists advise their clients who are dealing with an inheritance to pause...take a deep breath... and adopt a four-step process: Stop. Look. Listen. Act.

#### Step 1: Stop

If you're tempted to spend your inheritance the moment you inherit it, take a moment beforehand and think about the person who left it to you. That person probably worked hard for the money, saved it, and gave it to you in hopes that it would benefit your life. Treat the bequest with respect, and set it aside to earn interest for a short time before deciding what to do.

An Educators financial specialist will be able to advise you where to park the money in the short-term. You could consider depositing it into a Tax-Free Savings Account (TFSA), if you have contribution room. When you're ready to withdraw the funds you can do so without penalty, and you won't pay taxes on any interest it accumulates while in the account. (Just remember to wait until the next year to replace the funds, so you don't go over your limit.)

#### Step 2: Look

Take a good, hard look at what's important in your life. Is it studying in France during a 4 over 5? Establishing an emergency fund for the family? Sending your children to university? A retirement that includes a boat? Write the list out on paper.

#### Step 3: Listen

As an education member, you believe in the benefits of learning from experts in their fields. So take advantage of the professional and experienced financial knowledge available to you to discuss your options. Meet with your Educators financial specialist to review the list of your priorities. You'll review it in light of your financial plan, and discuss where your inheritance could have the most lasting impact for you and your family.

#### Step 4: Act

Once you've analyzed your goals and needs, you'll be in a much better place to decide how to use your inheritance to benefit you the most. Experts suggest a combination of the following:

First: pay down high-interest debt. Most advisors would agree that the single best investment you can make in your financial future is to reduce your debt. However, here's an example of how expert advice helps – if you have a mortgage at a low interest rate, you may be better off investing your funds if you can get a higher rate of return.

Boost your emergency fund. The next time you're threatened with a salary disruption, think of the peace of mind you'd have if you had the equivalent of six months' income in an emergency fund.

Treat yourself...but be realistic Your inheritance may not be enough to buy the 7-figure house of your dreams, but it may be enough for the down payment on a new home. Always talk to a lending specialist about what you can afford.

Look to the future. Top off your children's Registered Education Savings Plan. Catch up with your retirement savings. Again, think peace of mind.

The final word: estate planning.

In this article, we've talked about the decisions to be made when receiving an inheritance. However, the real work was done earlier, when the estate plan was developed. The process of passing wealth on – minimizing taxes and dividing it according to the owner's wishes – is complex, and requires expert legal and tax advice, but it's one of the most thoughtful things you can do for your loved ones. We have valuable information on writing wills, and other subjects to do with estate planning, in The Learning Centre.

Estate planning is mostly about leaving something for your family and taking care of loved ones, which is usually reflected in your financial plan. Your Educators financial specialist can make sure your plan reflects your goals and needs throughout your life. Make your appointment today.

#### Sources:

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