



# Top Ways to Leverage an Inheritance

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Two-thirds of baby boomers are expected to receive a significant inheritance in their lifetime. Moreover, the Boomers themselves are expected to pass down a staggering \$30 trillion in assets in the next few decades to their children and grandchildren.

Most inheritances are passed down when a loved one dies, so receipt often triggers mixed emotions and feelings. In addition to the emotional piece, an inheritance typically introduces additional financial complexity and new challenges, as well as significant planning opportunities. Should you be one of the fortunate boomers or millennials who receives an inheritance, consider the following to leverage the gift you have been given:

**Hold off on making any big money decisions.** Take time to review your financial situation and goals before making any changes you may later regret. Often six months is the rule of thumb, but you may need more time.

**Be cautious when claiming life insurance proceeds.** If an annuity option or purchase of a new policy is offered, evaluate the option carefully and consult your financial advisor. You will typically want to elect to receive the proceeds in a lump sum.

**Pay off “bad” debt.** Credit cards, college loans, and some mortgage loans often have high interest rates. Paying off this type of debt typically makes sense.

**Maximize your retirement account contributions.** Increase your 401(k) contribution to the maximum limit and fully fund your IRA or Roth. If you are self-employed, contribute the annual maximum to your SEP or solo 401(k). Not only will you boost your retirement fund balances, you will reduce your tax bill.

**Be aware of requirements for inherited IRAs.** Inherited IRAs come with special rules. Inherited traditional and Roth IRAs are subject to the Required Minimum Distribution (RMD) rules. That means beneficiaries are required to withdraw a portion of the funds each year based on their life expectancy. Any withdrawal from a traditional IRA will

be taxable in the year received. In addition, all inherited IRAs must be titled properly and cannot be combined with other retirement accounts.

**Be aware of tax implications.** In addition to inherited traditional IRAs, some annuities and other assets may have imbedded tax consequences if they are sold.

**Consider asset protection.** Now that you have assets, you will want to ensure those assets are protected. You don't want to lose them due to some type of legal issue, now or in the future. Estate planning, including the discussion of trusts, updating of wills and beneficiaries, and appropriate account titling may be appropriate. Your personal liability insurance or “umbrella” policy should be reviewed and the coverage may need to be increased.

**Have some fun.** Do something special when you are ready.

An inheritance is money or assets your loved one worked hard to save. You can honor the giver and their legacy by leveraging the new opportunities it brings—for your benefit or for the benefit of future generations. Comprehensive financial planning will help you identify these opportunities and help you avoid mistakes. We are here to help.

To learn more about ways to leverage an inheritance, contact Molly Cashman Sebold at 952.841.3004 or [msebold@BoulayGroup.com](mailto:msebold@BoulayGroup.com).

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