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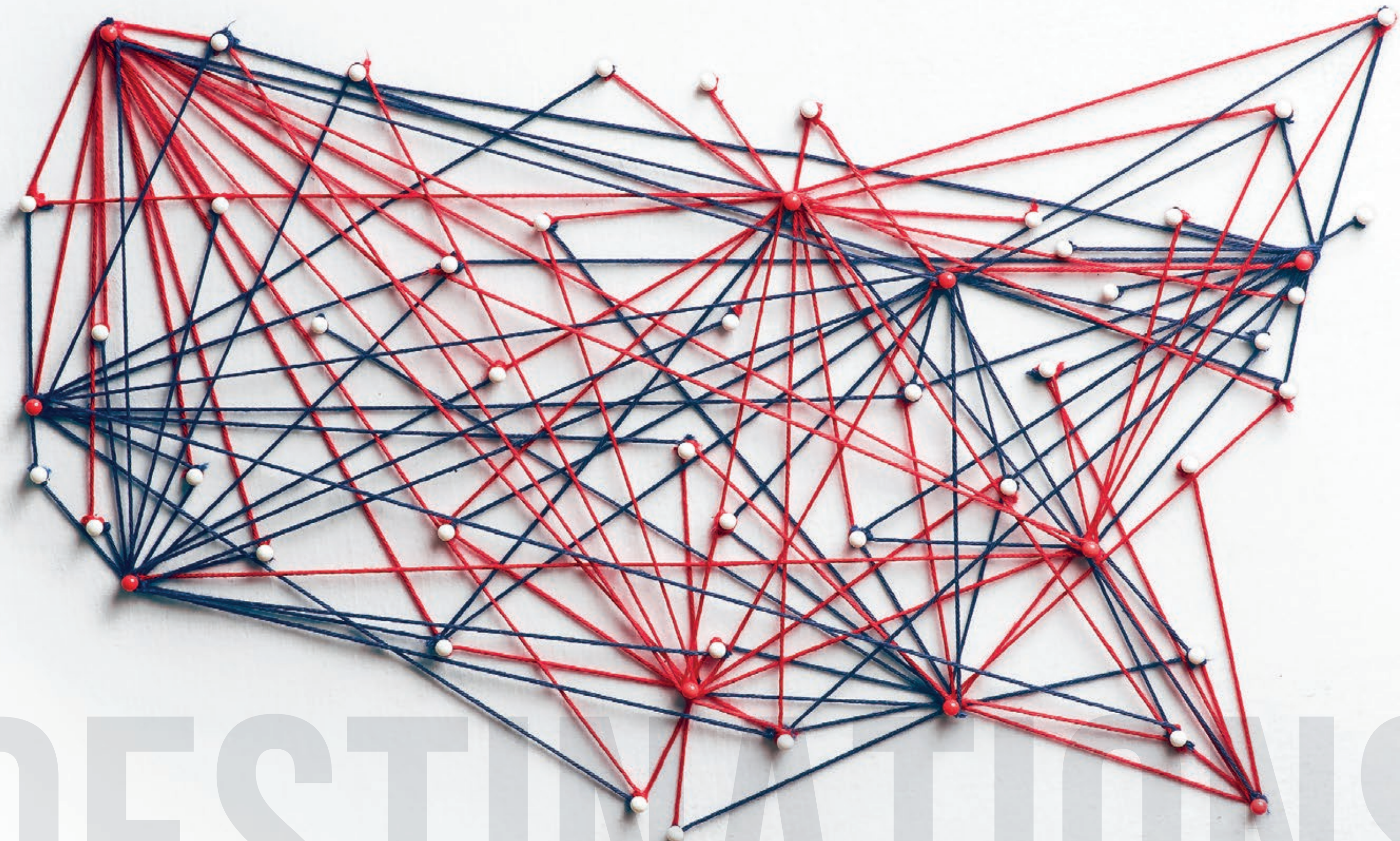

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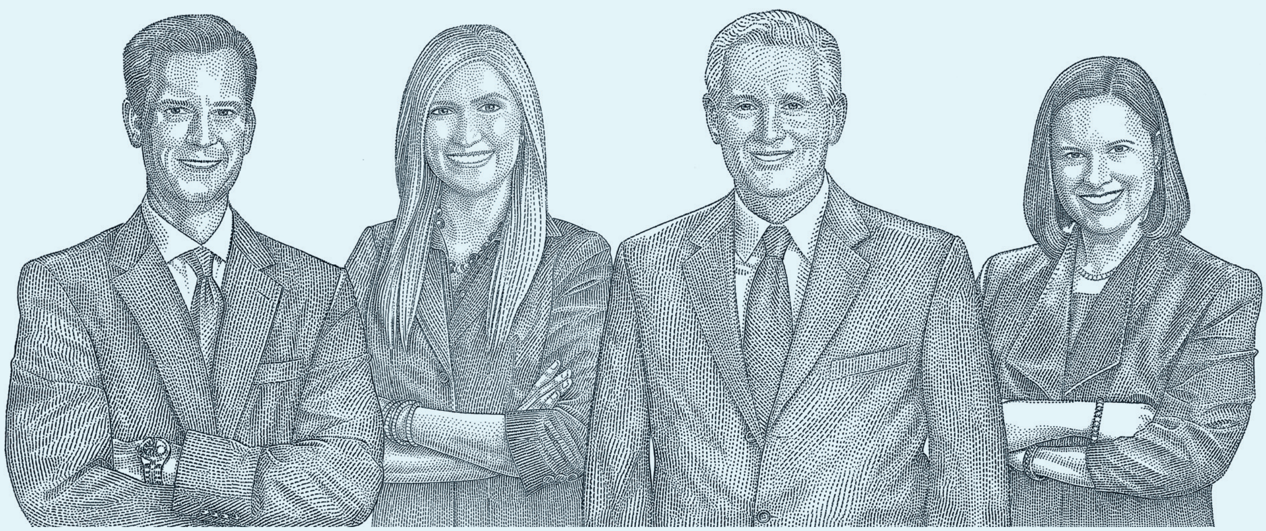
What's the best thing to do when you receive a large inheritance?

BY AMY KOTHMANN



Left to right:
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Amy Kothmann,
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ILLUSTRATION BY KEVIN SPROULS

Trillions of dollars are now changing hands as older parents transfer their significant wealth to baby boomer children. Ideally, that older generation's estate planning has protected assets and ensured a smooth handover.

Now, however, as a beneficiary, it is your responsibility to ensure this familial wealth is maintained. The decisions you make following an inheritance will directly impact how that wealth is preserved for you and future generations. Here are five issues to consider to ensure the desired outcome:

1. DON'T MAKE IMMEDIATE CHANGES.
Fight the urge to make immediate large purchases with the funds. Rash decisions can be costly and difficult to remedy.

Also realize that receiving an inheritance can be an emotional time, likely linked to the loss of a close loved one. Give yourself time to process the change and create a strategy before making any big spending decisions.

2. SEEK PROFESSIONAL ADVICE.
A large inheritance changes your overall wealth picture, affecting your household budget, investment tactics, tax implications and risk-management needs. Find an advisor who has the credentials and expertise in serving these needs, to help map the appropriate strategies for your new wealth level. This should include coordination across your team of professionals: your CPA, attorney, insurance specialist and, of course, your wealth-management advisor.

> "The decisions you make following an inheritance will directly impact how that wealth is preserved for you and future generations."

3. PROPERLY TITLE ASSETS.
Be wary of consolidating inherited assets into existing accounts merely for the sake of simplicity. Draining a trust or commingling inherited funds into jointly titled accounts can cause the funds to lose their separate property character. This would give a spouse (and his or her beneficiaries) potential claim to a portion of those assets in the event of death or divorce, negating the protection mechanisms your predecessors worked hard to create.

4. CONSIDER TAXES.
Taxation concerns don't cease once the estate has been settled. Revisiting your personal tax outlook after an inheritance is essential to ensure you are maximizing both your current and long-term trajectory. This is particularly true when the bulk of an inheritance is in retirement accounts from a nonspouse. In this case, you will be required to take minimum withdrawals from the accounts that are taxable as ordinary income. This could cause unintended tax consequences, especially if you are still working and earning wages; those consequences, however, can be mitigated by using other income-deferral strategies.

Conversely, beneficiaries already in retirement may benefit from realizing more than the minimum of the inherited monies now, either through withdrawals or Roth conversions. This could smooth out their tax bills down the road when their own minimum distributions begin. All in all, carefully planned timing of how and when your income is realized can lead to significant tax savings; so any plan you already have needs to be revised to include your inherited funds.

5. PLAN YOUR OWN LEGACY.
Reevaluation of your own legacy is crucial. This includes such actions as updating estate-planning documents to incorporate the newly inherited assets. You also should reassess your wealth-transfer goals and strategies to ensure the most appropriate tools are utilized for your new wealth level. Mechanisms that were appropriate prior to the inheritance might no longer be your best option, depending on your goals and outlook. This is particularly important when an inheritance puts you near the lifetime estate-tax exclusion, as tax-efficient strategies such as lifetime gifting can be a powerful way to transfer wealth tax-free.

Once your plans are established, communicating them to heirs is critical, to ensure your efforts are not in vain. Your wealth manager can help educate future heirs on the skills necessary to manage their future wealth to ensure the family wealth is preserved across generations.

ABOUT US

RICHARD P. SLAUGHTER ASSOCIATES IS A LEADING WEALTH-MANAGEMENT FIRM, SPECIALIZING IN DELIVERING TAILORED STRATEGIES AS A FIDUCIARY AND ADVOCATE FOR HIGH NET WORTH INDIVIDUALS, FAMILIES AND BUSINESSES. Slaughter Associates constructs wealth-management strategies around a financial plan, providing active, diversified and conservative asset management through internal experts. These experts establish a collaborative relationship with clients and all their financial service professionals, helping clients navigate the financial complexities that high net worth individuals and families face. Founded in 1991 in Austin, Texas, by Richard P. Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. Through its subsidiary, RPS Retirement Plan Advisors, Slaughter Associates works with corporate clients by providing 3(38) fiduciary services, which help mitigate risk for plan sponsors and secure retirement readiness for employees. With offices in both Austin and the Dallas-Fort Worth Metroplex, Slaughter Associates has been recognized by the National Association of Board Certified Advisory Practices as a Premier Advisor and has been awarded Exemplary status for expertise in personal risk management.

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