James Wealth Management

Inheritance

Inheriting assets can be overwhelming, and many people make mistakes because they are unsure of what to do. Whether you lost a spouse or a loved one, seeking professional advice is essential to help avoid costly mistakes and missed opportunities. In this article, we will discuss some common pitfalls and mistakes we see people make when they inherit assets.

For starters, the most common mistake we see is doing nothing. Dealing with something confusing and making important decisions while also grieving the loss of a loved one is an unpleasant thing to do. But doing nothing is still a decision. For instance, if the inheritance is in cash, such as life insurance or home sale proceeds, it may be tempting to leave the money untouched in a bank account. However, inflation is high, and keeping these dollars in cash will cause a loss of buying power. At James, we help our clients determine the amount to leave in cash, considering their current and future needs. We also walk clients through various investment options, helping them choose options most suitable to their needs and comfort level.

If the inheritance is already invested, it is unlikely the investment is suitable for the beneficiary's goals, timeline, and cash needs. For example, many retirees are invested in income producing stocks and bonds. But for someone still in their working years, this is not likely the most appropriate option. Some investments receive a step-up in basis when they are inherited, which adjusts the cost basis to the date of death value. Because the hope is that investments will increase in value over time, the longer you wait to restructure the investments suitable to your situation, the more tax you might be required to pay. Some account types, such as IRAs, 401ks, pensions, annuities, and irrevocable trusts, do not receive a step-up in basis. These types of accounts have different rules, distribution requirements and taxation, making it necessary to seek professional guidance.

Consolidating accounts can be beneficial, but not all account types can be combined. Aggregating into fewer accounts can help ease record keeping and control. Naming beneficiaries on inherited accounts is also important to ensure the funds are distributed according to the client's wishes while hopefully avoiding probate.

Inheriting an IRA can be particularly tricky, especially if it has a large balance. Depending on whether the beneficiary is a spouse or non-spouse, different rules apply. If the beneficiary is not a spouse, the beneficiary typically has ten years to distribute the full account, however the distributions are taxable. The financial planners at James are available to work with you to create a strategy to help minimize taxes and avoid penalties.

Finally, it is important to treat the inheritance wisely. Although it may be a windfall, it is not a reason to increase one's standard of living without careful consideration. These funds could be used to pay down debt, fund retirement savings, purchase a new home, or many other opportunities. It is essential to have a deep understanding of future needs and to determine a safe amount to spend annually before making any financial decisions.

In conclusion, inheriting assets is almost always a complex process. Seeking professional guidance is essential in avoiding costly mistakes and missed opportunities. At James, we help our clients navigate the inheritance process, ensuring they make informed decisions that align with their current and future needs.

- The James Team

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