

5 Common Pitfalls When Inheriting Money and How to Avoid Them

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Tim's mother passed away and he is about to inherit a substantial amount of money. Tim is married for the second time, he has two children from his previous marriage, and he has two younger brothers. As the executor of his mom's estate there are a lot of issues for him to consider.

Tim and his mother were particularly close and he's deeply saddened by her loss. In addition to his grief, his youngest brother is anxiously awaiting money to be distributed and has threatened Tim with a lawsuit if he doesn't hurry. His first wife is worried that his current wife will take all of his inheritance and not leave anything for his children. Tim's uncle is having financial difficulties – he claims Tim's mom was about to loan him some money and he wants Tim to honor the loan. Tim's current wife is planning a major vacation and a new car purchase and he like to know if he can retire early.

Let's help Tim make some good decisions about how to handle some potentially difficult situations.

1. **Recognize that you are in an emotional state** – the loss of a loved one that created these issues can't be ignored. Some say it takes six months to over a year before you can get back to your old self. Try not to make hasty or long term decisions particularly in the first six months.
2. **Tension between siblings can be high** – it's far more common to see problems among siblings than it is to see everyone get along. When one person is put "in charge" it creates a conflict between the other beneficiaries. Sometimes they want their payout before it is feasibly possible. Try to sit down, as early as possible, and have a family meeting. Make sure everyone understands their roles and responsibilities.
3. **Titling of assets is very important.** Children from a previous marriage can lose out if the assets you inherit are commingled with your current spouse. When you inherit assets you might be better off keeping the assets in your own name or in a separate property trust. Once you commingle them into a joint account, your new spouse owns half of them.
4. **Lending money** – this can be a difficult situation. On the one hand, you want to help them out; on the other hand, if they can't qualify for a loan by a bank you are in real danger of not being paid back. If you decide to make a loan, then make sure all beneficiaries are in agreement. Also, make sure the terms of the loan are in writing and everyone signs the contract.
5. **Beware of Lottery Syndrome** – Many lottery winners are broke within 3 years. Now is a good time to revisit your financial plan – or create one if you haven't done one yet. The assets you are inheriting can create an income stream that can benefit you throughout retirement.

Having awareness around these 5 common pitfalls is the first step to making smart decisions. Let's see what happened to Tim.

Tim started by meeting with a family therapist and is dealing with the emotional side of his grief. He scheduled a family meeting with his two brothers and they confirmed that they wanted him to handle the distribution of the estate. Together they created a timeline of what to expect and now meet once a month to review the issues. Tim set up a special trust that would pay his second wife income during her lifetime and pay his children the principal upon her death. Tim and his brothers decided to make a small loan to their uncle; they had a written contract which they all signed. Tim and his wife took a modest vacation, bought a used car, and he is going to retire 2 years earlier than originally planned.

These are just a few of the issues you can potentially face when inheriting money. During this difficult time there are a lot of professionals available to help in these situations. An Accountant can help you with final Tax Returns, Estate Tax Returns, and the impact to your own tax situation if any. An Attorney can help you title your assets properly, create regular and special situation trusts. A Financial Planner can help you incorporate the new assets into your long term plans, can calculate RMD's from IRA's, can help you invest, and can work closely with other professionals as needed.



About Danette Lowe, CFP®

Danette Lowe focuses her practice on helping families prepare for retirement through Comprehensive Financial Planning and Proactive Investment Management.

TruNorth Wealth Management, LLC

TruNorth Wealth Management, LLC provides families with financial guidance. Located at 1700 County Rd., Minden, Nevada 89423 the firm prides itself on crafting unique strategies for each client.

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