

Make the Most of Your Inheritance

As baby boomers age, we're seeing more wealth being transferred between generations than ever before. Maybe you've just received an inheritance and the money has been deposited into your account.

Now what?

The best next step is to consult with your Investment Advisor, who can suggest how to allocate your inheritance in a way that makes the most sense for your circumstances.

Addressing your financial goals

Before meeting with your advisor, give some thought to the following common goals so you can hold a productive conversation. Also think about your goal priorities so your advisor understands what's most important to you.

Pay down debt. Whether it's reducing the balance on your credit card or line of credit, or pouring extra money into your mortgage payments, paying down debt is a practical use of your inheritance. Start with the debt that charges the highest interest rate, then the second-highest rate, and so on.

Build your retirement savings. You can work towards retiring comfortably by contributing (subject to limits) to your RRSP or TFSA. If your workplace has a pension plan or share purchase plan that permits additional contributions – which the company often matches to some extent – consider taking advantage of it.

Save for education. The cost of post-secondary education, especially if the student lives away from home, continues to rise. An investment vehicle like the RESP can help fund a child's education and, when you add in any qualifying government matching and grants, you'll be better positioned to save for future schooling.

Create an emergency fund. A rule of thumb is to put aside at least three months of living expenses in case you lose your job, become seriously ill or face unexpected maintenance costs (e.g., your furnace stops working or vehicle breaks down).

Invest. Putting a portion of the inheritance into your investment portfolio may be an effective strategy for growing long-term wealth. This is another area where your advisor – who knows your investment objectives, risk tolerance and time horizon – can add value.

If you decide to spend some of your inheritance on something that's for pleasure and not related to your wealth plan, just be sensible about it and remain committed to your goals.

Importantly, there's no inheritance tax in Canada, unlike many other countries. Taxation takes place at the estate level on the deceased's final tax return, based on the value of assets that comprise the estate.

Educate heirs about wealth management

If you'll be leaving an inheritance but are concerned your heirs might be irresponsible with their "windfall," suggest that they learn about financial basics. Using an inheritance sensibly is a way to respect the person who provided it. Without the ability to handle money, they could squander their inheritance quickly.

In addition to any financial knowledge you pass along, your heirs can learn from courses and other educational means. It's also good to introduce them to your advisor if they don't have one, as advisors are familiar with intergenerational wealth transfers and working with families to build and preserve wealth.

If you recently received an inheritance or want to encourage your heirs to manage their inheritance wisely, we can help

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