

DON'T BLOW

Don't let your inheritance throw you for a loop

Receiving an inheritance after the death of a loved-one can be emotionally and financially stressful. It may be difficult to wade through all the options and make plans for the money in a smart and meaningful way. Here are some considerations if you think you may inherit assets in your lifetime.



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A trend has been developing of late for the likes of the rich and famous. Millionaires and billionaires have publically declared that they will be giving the lion's share of their wealth to charity — not their kids — when they die. But, many Canadians have not been following suit. The Institut de la statistique du Québec, Quebec's statistics agency, reports that in 2012, 28 per cent of families received inheritances, compared with 17 per cent in 2007. The total value of inheritances in that province alone is estimated at \$20 billion between 2007 and 2012.¹

The passing of a loved one is an emotional time, which could make dealing with an inheritance an ordeal. It may come at a time when you are called upon to make potentially game-changing decisions for yourself and your family. "Depending on the size of the inheritance and the particular circumstances of the person receiving the inheritance, it can be life-altering from a financial perspective," says Tarsem Basraon, High Net Worth Planner, Wealth Advisory Services at TD Wealth. "For example, it may allow you to buy a dream home, to retire early, or it may get you out of a financial mess. Further, emotionally, it can be a roller coaster."

28%

In Quebec, 28 per cent of families received an inheritance in 2012.¹

As Basraon says, get ready for some guilt about your excitement for your inheritance, or some anxiety if your priorities don't align with those of your family's. "It is typical to have mixed feelings about inheriting money after the loss of a loved one," says Dr. Karyn Hood, a clinical psychologist at Yorkville Medical in Toronto. "People often feel conflicted about the money since they gained it as a result of the death of someone. This can take away from the joy or excitement one might typically experience from a windfall."

Dr. Hood also says that inheriting money can be linked to feelings of self-worth. "One may feel guilty or undeserving that this money resulted from the passing of someone they loved, or had a conflictual relationship with.

They can also feel a sense of obligation to spend the money in a meaningful way, or how 'mom or dad might want or expect.'"

Talk it Out Beforehand

If you expect to receive an inheritance, it's a good idea to open a discussion with your loved ones before they pass away. Just knowing what their wishes are can relieve a lot of stress and answer a lot of questions. If you didn't get that opportunity, it might be wise to take a pause after receiving your inheritance. "For many people receiving an inheritance, it will be the first time that they have that much of a liquid asset base," says Basraon. "This

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can be overwhelming, and in addition to that, the person may be grieving for a close relative or friend. At that point, the person may not have all of the options readily available and may not be thinking with a clear head."

Dr. Hood says that everyone will deal with an inheritance differently. "In the early stages of grief, people may be more likely to spend inherited money in either self-soothing or in impulsive ways," she says. "Using some of the money on treating yourself can be helpful for some. Spending money impulsively, on more extravagant purchases like

luxury vehicles, lavish vacations, or buying property, however, can be more detrimental and may result in running through the money quickly, with less forethought, and feelings of regret later on."

Basraon says one way to take away the temptation of spending much of the money outright is to put the money somewhere safe with a guaranteed rate of interest for a few months, so that you can ponder the options. If

it's property or other assets, take your time to make a decision that isn't a purely emotional one, and don't go it alone — surround yourself with trusted professionals and advisors who can guide you through the process.

Look at the Big Financial Picture

Coming into a lot of money might mean reassessing your life. Make this an opportunity to look at your big financial picture: How can you use the money to make you happy? What are your financial goals for yourself and your family? How much of the inheritance should go towards fulfilling the wishes of the gifter? "It is important to sit down with an advisor and create an investment plan that takes into account matters like existing debt management, retirement planning, insurance planning, etc.," says Basraon. "This will assist the individual in obtaining a 'big picture' as opposed to earmarking the inheritance for a particular function like paying off the mortgage." For example, perhaps inherited money was intended for a home purchase. Adding the money to your existing portfolio until real estate market conditions are favourable might be a better option than buying right now. If you are a beneficiary of money and you have debt, it might be advantageous to invest the money and use the gains to pay down debt, rather than paying down debt with a lump sum, particularly when interest rates are low.

Already Flush?

Even if you are in the enviable position of not needing the inheritance, a financial plan to deal with the inheritance is still a good idea. If it's a home or vacation property, perhaps you'd be better off selling it. If it's money, and you already have considerable wealth, make some estate plans of your own to bequeath the money to your loved ones. To develop a strategy for the inheritance, assess the intention of the inheritance and try to be true to the gifter so that you feel at peace with your decision. If it was earmarked for education, to buy a home or health care expenses, create a wealth plan around that. A investment professional can help you to find options for property and assets that will honour the legacy of your loved ones, and

enrich your life as well. Real estate may provide some long-term income, the cash of which can be used to invest in an education fund. To continue the gifter's philanthropic efforts, "charitable giving may be an effective way to honour the legacy of the deceased," says Basraon. "For example, you could pick a cause that was close to the heart of the deceased. There are many different ways of giving, like a cash donation, setting up a foundation, or setting up a scholarship fund."

With the right plan, your inheritance can be the gift that keeps on giving, and you can feel at peace with what the inheritance is doing for you.

"Some people benefit from talking to a professional like a therapist or psychologist," says Dr. Hood. "This person can help them process their grief and resolve any conflicted or unresolved feelings they may have about the loss, or the nature of their relationship with the deceased person. Taking time to deal with the loss of a loved one first, before making any major financial decisions, is recommended."

— **Denise O'Connell, MoneyTalk Life**

¹Institut de la statistique du Québec. Données sociodémographiques en bref. October 6, 2015. http://www.stat.gouv.qc.ca/salle-presse/communique/communique-presse-2015/octobre/oct1506a_an.html Accessed August 22, 2017.

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