



What to Expect When You're Expecting an Inheritance

Receiving an inheritance is good news, but in almost every case, instead of getting whatever assets are coming to you, you'd rather have that special person back. So, for most people it's a mixed blessing at best.

But if you've never been through it before, the process of receiving an inheritance can be more complicated than most people realize. Here are a few tips to help get you through the process.

It's Hard to Figure Out What You're Going to Get

It's rare that someone knows the exact terms of their loved one's will, even for the closest of relatives. And even if you do, you may not know the true value of any assets or liabilities that the deceased may have had.

In addition, there are potentially huge assets, such as life insurance and retirement plans, that don't typically go through the probate process at all. In most cases, these plans require the designation of a beneficiary—and the process is completed entirely outside of the will. So it's best not to guess.

It's Going to Take a While

As the families of Casey Kasem, Aretha Franklin and Michael Jackson have found out, it can take many years to settle an estate. Most cases take less than a year.

But things such as family strife, a complicated plan, the sale of illiquid assets, and potential litigation can all add time to the clock. So it's generally not a good idea to risk making a major expenditure until the money is in hand.

Even if There's No Estate Tax, There are Still Fees Involved

The person in charge of the disposition of assets is known as the executor. It's a big job. They must inventory the assets and liabilities, notify the beneficiaries, close the accounts of the deceased and pay any leftover bills.

It's a lot of work, and the executor gets paid for it. Executor fees are normally dictated by state law. In New York for example, an executor generally gets five percent of an estate that's less than \$100,000. The percentage goes down gradually as the size of the estate increases. It's two percent for estates in excess of \$5,000,000. Most other states use a fixed percentage, but some states will allow the probate court to determine the fee based on an assumed hourly rate. If you yourself are the executor, understand that the fees don't get paid until the very end.

You Need a Plan

According to Nobel prize winning economist Richard Thaler, people tend to spend a small inheritance but invest a larger one.

Getting an inheritance can be considered an opportunity to help shore up your financial weaknesses. If your emergency fund is a bit low, or if you have a significant amount of credit card debt, then maybe cleaning that up should be your first move. Then you might want to take a look at your investments. Or perhaps it's an opportunity to re-evaluate some of your charitable goals.

Don't Go it Alone; Seek Professional Help

Much like winning the lottery, a bad move in the early going could cost you dearly. Does this inheritance change your financial goals? How about your attitude toward risk? Are you going to make any lifestyle changes?

This is especially true when you inherit real estate. You may have just inherited your uncle's ski lodge, but what if you're an avid surfer? The good news is that there is a so-called "step-up in basis." If your uncle bought the place for \$50,000 in 1972 but it's now worth \$500,000, your cost basis when you inherit it is \$500,000. So you generally won't pay any income or capital gains tax if you sell it at the current market value.



You May Need to Adjust Your Own Estate Plan

Sometimes disruption is good! Too often people sign a new will, throw it in a drawer, and never look at it again, even when the tax laws change. If the inheritance is big enough, it may give you a good excuse to take an in-depth look at your own will, account beneficiaries, and any trusts that you may have. You may want to double-check the beneficiaries on your life insurance policies and retirement plan. Be sure to seek the assistance of a qualified estate planning attorney when you make any changes in your own estate plan.

More often than not, the death of a loved one is a sad disruption. An inheritance may help ease the pain. But think carefully about how you handle it. That is certainly what your loved one would have wanted. There are many other considerations which may impact your unique situation.

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