A financial advisory practice of Ameriprise Financial Services, LLC

Eight Steps to Prepare for an Inheritance

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When you're preparing to receive an inheritance, where do you start? The loss of a loved one can be an emotional experience and managing an inheritance can be complex.

The process may seem overwhelming but being planful and prepared can help. No matter the amount you receive — from relatively modest and straightforward to substantial and complex — the following steps can help you navigate the intricacies of managing an inheritance and establishing your own legacy:

1. Take a Pause

Smart money management involves proceeding with intention. This is especially true when managing an inheritance due to the array of emotions that are often at play. If you know in advance that you'll be receiving an inheritance, consider talking with a financial advisor to discuss how you can prepare for this event.

When you receive the funds, take a step back and evaluate your options before you make any decisions. For example, you may want to consider temporarily placing any monetary assets in a FDIC-insured account, like a CD, savings account or money market account.

2. Tap into Experts

Inheriting money or other assets can begin an important — and sometimes overwhelming — new chapter in your financial life. There are many decisions to make and factors to consider, some of which you may not yet even be aware. What are the short- and long-term tax implications of the inheritance? What paperwork do you need to complete to transfer assets to your name? What, if any, legal documentation should you have in place prior to receiving your inheritance?

A financial advisor can help you navigate these and other important decisions. Depending on the size and scope of your inheritance, it may be beneficial to consult with a tax professional and/or attorney who specializes in estate planning.

3. Understand Your New Assets

An inheritance can arrive in many forms. Before you move forward, it's helpful to have a thorough understanding of what you inherited. Asset types could include retirement plans, stocks and bonds, life insurance, cash endowments, businesses or real estate.

A financial advisor will help assess the elements, help calculate the estimated value of assets and determine if they'll be available to you immediately or distributed over time.

4. Factor in Tax Implications

Taxes surrounding an inheritance can be complicated, and you may owe taxes on your newfound assets. If you've inherited a variety of asset types, several different tax treatments may come into play:

- **IRAs:** If you inherit an IRA from your spouse, you have options for managing the account. A required minimum distribution (RMD) that must be withdrawn from the account each year may or may not apply depending on what option you choose. If you did not inherit the IRA from a spouse, RMD rules apply and depend on several factors. There is a tax penalty of up to 25% of the amount not taken if you do not follow RMD rules.

- **Inherited Stocks or Other Investment Assets:** For tax purposes, the cost basis of inherited stocks and other assets is based generally on the fair market value of the asset on the date of the decedent's death, not at the original cost of the asset. This is called step-up in basis and can affect the amount of capital gains tax you pay when you sell the assets.
- **Life Insurance Proceeds:** The money you receive as part of a life insurance payout is not typically taxed. However, if you place the funds in an interest-bearing account, you will be taxed on the interest you earn. These taxes can be significant if you inherited a large amount of money, which may require you to make estimated tax payments.

How you navigate the tax implications of an inheritance can have a huge impact on your finances. A financial advisor can partner with your tax professional to determine ways to help preserve your assets while adhering to tax laws.

5. Consider Your Financial Goals

Once you have a solid grasp on your inheritance, it's a good time to revisit your financial needs and goals. You'll want to explore options that help you achieve the goals most important to you. For example, you could:

- Rebalance your portfolio
- Strengthen and diversify your retirement savings
- Contribute the maximum amount for workplace retirement plans
- Create or add to an emergency fund
- Pay off debt
- Purchase or enhance long-term care insurance
- Invest in home improvements
- Donate to a charity of your choice
- Leave a legacy

A financial advisor can help you consider the investment strategies, insurance options, cash management vehicles and other tools specific to your circumstances and goals.

6. Evaluate Insurance

New wealth and assets may require more property and casualty insurance coverage – for example, umbrella coverage – particularly if those assets are significant. In addition, this is a good time to assess your circumstances and explore your protection options.
You may want to consider reviewing your current life insurance needs with a financial advisor.

7. Create or Update Your Estate Plan

After receiving an inheritance, you may want to set up your own financial legacy by establishing an estate plan or updating one you already have in place. Work with your attorney to update your will, establish a trust or to take steps which can help reduce federal or state estate taxes for your beneficiaries — all of which are especially important if you've inherited a substantial sum.

8. Proceed With Confidence

When preparing for and receiving an inheritance, take advantage of the professional guidance available to you. Consider connecting with a financial advisor at S&T Financial Services, a financial advisory practice of

Ameriprise Financial Services, LLC. They will review your complete financial picture and guide you through critical decision points so that you can feel more confident about managing your inheritance — and your future.

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