Managing Your Inheritance

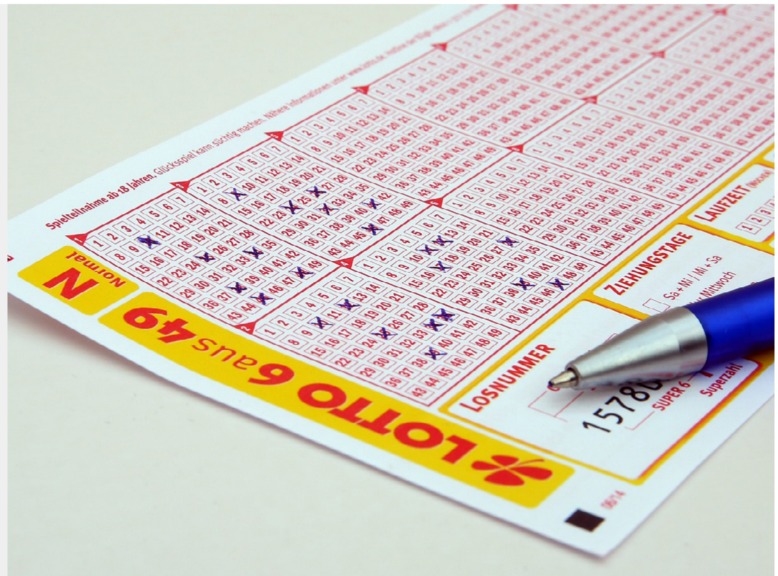
Steps to Take and Mistakes to Avoid

Today, someone will wake up to an extra $100,000 or more in their bank account.

This person isn't a professional athlete, stock trader or CEO.

They came about their money the easy way: Winning the lottery.

You'd think this kind of money would change their life. And it does—often for the worse.



70%
of lottery winners end up broke

33%
of lottery winners declare bankruptcy

Source: National Endowment for Financial Education

Why should you care?

Because Boomers will transfer trillions of dollars to people who are GenX or younger over the coming decades. It will be one of the largest wealth transfers in history.

That means you might benefit. And if that's the case, **you need to start preparing now**.

We don't want you to squander your inheritance.

Tim Adams, CIMA®
Owner, President
The Princeton Group

THE Princeton GROUP

theprincetongrp.com

STEPS TO MANAGING YOUR INHERITANCE

THE Princeton GROUP

theprincetongrp.com

MANAGING YOUR INHERITANCE

Step 1:

Prepare to Have "The Talk"

Be honest: Do you expect to receive an inheritance? And if so, how much does your retirement depend on it?

Your answers might be "Yes." and "A decent amount."

But what if it turns out you *won't* receive an inheritance? That's means your plans might change drastically.

Nearly 75% say talking about an inheritance would help them plan better for the future

Source: Versta Research Survey Conducted for Wells Fargo Wealth & Investment Management

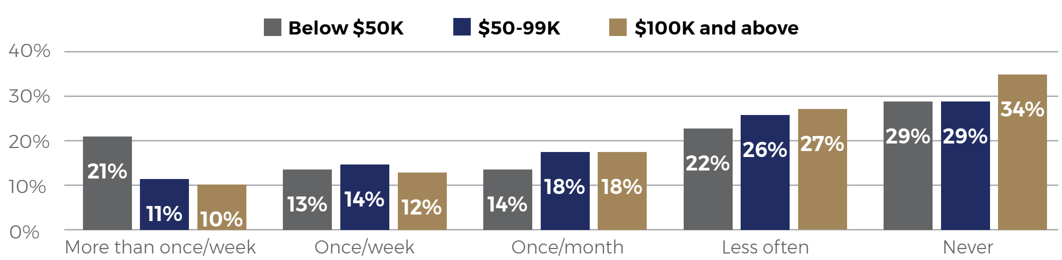
68% **of Millennials expect an inheritance**

33% **of their parents will leave one**

Source: Nataxis U.S. Investor

If your family is open about their financial situation, consider yourself lucky. Discussing finances with kids **or** spouses is widely avoided in our country, regardless of household income.

HOW OFTEN DO YOU TALK TO YOUR CHILDREN ABOUT YOUR HOUSEHOLD FINANCES? (BY INCOME)



Source: Survey conducted by Momentive

There are reasons for this:

- Your parents or loved ones might be embarrassed about how they've (mis)managed their money
- Inheritances imply the passing of loved ones
- Parents don't want their children to worry about their financial well-being
- Parents don't want their children to grow up with a sense of entitlement

THE PRINCETON PERSPECTIVE: You may have to start a conversation about any inheritance you will—or won't—receive. It might be uncomfortable, but there are ways to lessen the awkwardness.

MANAGING YOUR INHERITANCE

Step 2:

Have “The Talk” Itself

How do you brace yourself for such a consequential conversation?

First and foremost, **your parents need to know they are in control of the narrative**. You’ll want to approach this delicately.

Potential Topic Openers

- “I came across an article on wills and was wondering if you’ve set one up yet.”
- “I’m starting my estate planning. Have you done the same?”
- “What can we do to ensure your end-of-life wishes are honored?”

The common thread here is **compassion**. And just as there are ways you *should* approach this topic, there are things you should avoid.

Don’t

- **Discuss Specific Dollar Amounts** – The number can change for better or worse before you see a single dollar
- **Talk Without Everyone Present** – This conversation should include siblings, cousins or anyone who stands to be affected
- **Do it Spur of the Moment** – Consider putting this talk on everyone’s calendar with the appropriate topic so no one is caught off guard

THE PRINCETON PERSPECTIVE: It may seem counterintuitive, but scheduling this talk during a family dinner or party might be the best time. Everyone who should be there will be there, resulting in a sense of unity, caring and compassion about your relative’s wellbeing—not any individual’s financial gain.

MANAGING YOUR INHERITANCE

Step 3:

Build an Estate Team

You probably have a Primary Care Physician, or PCP.

But no matter how much you respect them, they don't specialize in *everything*. You might have an issue that requires an oncologist, radiologist and pulmonologist all working together to improve your outcome.

The same concept applies to your estate.

Only instead of focusing on your body's health, **an estate team tends to the health of your property, assets, wills and so forth**. This team can create a plan specific to your goals and circumstances.

More importantly, they all work together when an inheritance becomes a reality.

Who Should Be On Your Estate Team?

A Certified Public Accountant (CPA) to administer the estate and prepare filings with the court

A Financial Advisor to plan for how to invest or save any assets passed on to you in tax-advantageous ways

An Estate Attorney to prepare legal documents such as will, trusts, Power of Attorney, etc.

An Insurance Underwriter to provide liquidity in certain estate plans

THE PRINCETON PERSPECTIVE: Don't hire the first person you hear about. Interview, read reviews and make an informed decision to assemble your all-star estate squad.

MANAGING YOUR INHERITANCE

Step 4:

Sidestep These Myths

So, what *would* you do if someone handed you $50,000? $500,000? $3 million dollars?

The possibilities are endless, because it's a hypothetical situation.

But you'll need to make real, informed decisions if you receive an inheritance. And combatting common myths surrounding wealth transfers can get you in the right frame of mind.

Myth: You'll receive your assets moments after your relative dies.

Reality: You might have to wait months—even years—to receive anything. This can be due to the probate process or how the will or trust was written.

Myth: You'll be set for life.

Reality: This largely depends on how much wealth is transferred to you. And even if you do receive a life-changing sum, family wealth fails to last beyond three generations 90% of the time.

Source: Nasdaq

Myth: You don't need to do anything extra.

Reality: You should strongly consider updating your own will or estate plan when you receive an inheritance. And if you have neither, create at least one. Being proactive can help you extend your family's financial wellbeing.

THE PRINCETON PERSPECTIVE: Perception differs from reality. Being level-headed can make a profound difference in how you approach this situation.

MANAGING YOUR INHERITANCE

Step 5:

Avoid These Traps

When you inherit assets, you receive what your loved one worked a lifetime to leave you. Ideally, you discussed your family's values as part of "The Talk" to help guide your thinking.

Even then, you might make a mistake while trying to honor their vision and wishes.

Mistake #1: Hoarding

Some people put their liquid assets in a low interest-bearing account. While these accounts don't offer as much growth, they may be appropriate in some cases. To find out if these make sense for your situation, talk with a financial advisor.

Mistake #2: Holding On When You Shouldn't

On the surface, inheriting a house, expensive vehicle or other valuable asset might seem exciting. But mortgage payments, insurance, HOAs or other fees can add up. Admitting something isn't financially viable can be difficult, especially if it's been part of your family for decades.

Mistake #3: Selling Stocks and Funds Right Away

Taking a short-sighted approach might trigger unwanted tax expenses.

Mistake #4: Not Knowing How to Say "No"

You might feel like being extra nice: To you children, friends, charities. Even to yourself. But being too generous can rapidly deplete your inheritance.

THE PRINCETON PERSPECTIVE: We see these mistakes all too often, which reinforces why building an estate team can help you navigate an unfamiliar, emotionally-charged life event.

MANAGING YOUR INHERITANCE

Step 6:

Understand What Will Be Taxed

There's no escaping taxes, even in death. That's why you should have at least a general understanding of what you might have to pay, as **taxes can make a drastic difference** in how much you *actually* inherit.

Not Federally Taxable:

CASH

INVESTMENTS
(shares of stock, mutual funds, insurance policies)

PROPERTY
(e.g. houses, cars, art, etc.)

Taxable:

CAPITAL GAINS FROM INVESTMENTS

PROCEEDS FROM SELLING STOCKS OR INVESTMENTS

PROCEEDS FROM SELLING PROPERTY

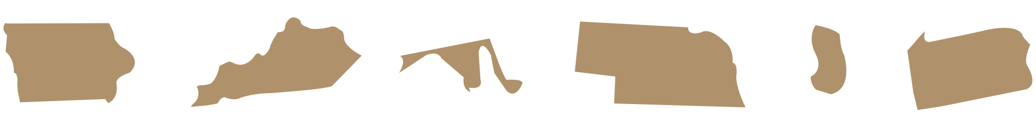
Estate and Inheritance Taxes

Here's some good news: The threshold for estate taxes paid to the Federal Government is set to increase to $12.92 million in 2023.

But if you live in one of the following states, you might be subject to state estate taxes separate from the federal government:

CT HI IL ME MD MA MN NY OR RI VT WA DC

Additionally, certain states impose an inheritance tax ranging from 1% to 20% on the property or cash you inherit:



IA KY MD NE NJ PA

How to Help Minimize Taxes

There are certain actions you should take that can help maximize how much you have left over.

- **Consider Alternative Valuation Dates.** This will assess the value of inherited property six months from the date of death. If the value is lower, this can decrease the gross amount of your tax liability.
- **Consider a Step-Up in Basis.** There is a decent chance the value of investments you inherit will have risen since they were purchased. A step-up in basis assesses the fair market value of the assets on the date of the deceased's death.

Here's an Example:

Let's say stock you inherit is worth $20 per share, but they were purchased for $5 per share. A step-up in basis results in your cost basis becoming $20, instead of $5, reducing the capital gains you would owe.

THE PRINCETON PERSPECTIVE: Taxes can be confusing, especially when dealing with new assets. Consult with an accountant and financial advisor so you can keep more for yourself.

MANAGING YOUR INHERITANCE

Step 7:

Know Your Wills and Trusts

The old saying is "Possession is nine tenths of the law." When it comes to inheritances, **documentation is everything**.

This is why you'll want to learn if a will, trust, both—or none—is part of your family's established estate plans. The contents of these will define who gets what.

Wills Vs. Trusts

This can be a complicated topic, which once again underscores the importance of having an estate attorney as part of your team.

Below is a brief description of each.

Wills	Trusts:
• Become publicly available	• Remain private
• Must be filed with probate court	• Are not subject to probate laws
• Take effect upon death	• Take effect once assets are titled, including while the trustor is alive
• Distribute assets as probate process allows	• Distribute at specific dates or within a certain timeline
• Require appointment of an Executor	• Require appointment of a Trustee

What Happens If There Is No Will?

The deceased is referred to as "intestate" and the probate process will decide how to distribute the assets—and all assets will be frozen until an executor is named.

Typically, distribution follows the order of surviving spouse followed by eldest children.

As with most things, there can be exceptions to the rule, which is why establishing a will is the bare minimum that should occur.

Which Takes Precedence: Wills or Trusts?

More often than not, trusts trump wills in their binding legal authority. However, assets not listed in the trust may be subject to the instructions of the will, which will need to go through the probate process.

THE PRINCETON PERSPECTIVE: There are multiple types of trusts that can be paired with a will. The combination right for you depends on your assets and goals, which is why you should speak with a specialist in this area. The absence of a will at the very least will lead to more stress during an already stressful time.

Receiving an inheritance, no matter how small, is an honor. Planning what to do with yours is a must. This could mark a once in a lifetime opportunity to establish or continue generational wealth.

What will you do with yours?

Schedule a Meeting with a Financial Advisor from The Princeton Group:

Yardley, PA
267.392.5189

Philadelphia, PA
267.758.9944

Collegeville, PA
267.227.0935

Cherry Hill, NJ
856.452.7100

Margate, NJ
609.246.7601

Wilkes-Barre, PA
570.852.5500

Clarks Summit, PA
272.722.2092

Norcross, GA
678.585.6513

Arlington Heights, IL
866.870.8750

Bluffton, SC
854.429.0037