



WHAT SHOULD YOU DO WITH YOUR INHERITANCE?

BY MEGHAN STREIT

Receiving an unexpected or larger-than-expected inheritance can be a boon for your financial well-being—if you’re smart about how you use it. We probably don’t have to tell you that doesn’t mean quitting your job and hopping on the next flight to Bora Bora.

TERRI CONKLIN, A UBS WEALTH manager in Northbrook, says the first thing you should do with a windfall is pay down debt, including credit cards and student loans. But she cautions you to first consult your advisor before paying off your mortgage, because that could have undesirable tax consequences. Once you’ve eliminated debt, Conklin says to use inherited money to make sure all of your basic financial needs are met. That means fully funding your retirement and emergency funds and making sure you have adequate insurance. If there’s money left after all of that, shore up your kids’ education funds. All that said, Conklin says you should also have a little fun with the money.

“I always tell people that this is an emotional time, so at the very end, you should always treat yourself to something,” she says. “It can be something that is meaningful to you or that gives you a little reward, but should be no more than 10 percent [of the inheritance].”

Laurie Itkin, a financial advisor and author of “Every Woman Should Know Her Options,” says many people inherit investment accounts rather than cash. In that case, she says it’s important to dis-

cuss with your financial advisor whether you should invest the money differently. Itkin says that women in particular can be overwhelmed by a windfall and end up not taking any action—which can be a big mistake.

“Sometimes there are feelings of guilt, or women are afraid to take responsibility of the money, so they keep the allocation as it is because they don’t want to mess it up,” Itkin says. “But in reality, the advisor they are working with might have structured the portfolio for a person who was nearing the end of life and needed income-producing assets, and that might be a huge tax liability for a younger couple.”

Northbrook attorney **Myrna Goldberg** says an influx of assets is a “life event,” just like divorce or death, so you should update your own estate plan accordingly. Depending on your age and other assets, you may want to begin passing wealth onto the next generation by gifting money or establishing trusts. Goldberg also reminds Illinois heirs that while federal law exempts \$5.3 million from estate tax, the state exemption is only \$4 million. So, it’s possible to inherit an estate that is exempt from federal tax, but still be on the hook in Illinois. ■