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Wising up to a windfall

Sure, a big fat inheritance would make your life easier. But are you really sure you'd know how to handle it?

By Amanda Gengler, Money Magazine writer-reporter
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(Money Magazine) -- Anne Schuette, sadly, was not surprised when her mother, Dorothy, died in 2003 after years of battling cancer. But discovering that her mother had left her and her two siblings \$400,000 each was a shock. "I had no idea she had that much money," says Anne, 48, who described the revelation as "bittersweet."

It's also scary. Four years after they got word of the inheritance, Anne, who lives in Sherborn, Mass. and is a program manager at an Internet-security company, and her husband Magnus Nicklasson, 43, a tennis pro, are still paralyzed by their options. Should they prepay their mortgage? Purchase a vacation home? Invest it all for retirement?

With no clear strategy, Anne and Magnus have kept their inheritance in the mix of IRAs, annuities, managed accounts and cash that Anne's mother set up while she was alive. "It's a bunch of money, and we don't want to blow it," says Magnus.

It's hard to plan for an inheritance. It seems greedy, for starters, and the money may never materialize. Much of what financial service firms have touted as the Greatest Transfer of Wealth in Human History has been siphoned off by growing life spans and skyrocketing medical costs. As a result, the majority of people who have received an inheritance had no idea it was coming, according to a recent Putnam Investments survey. Fewer than one in five had plans for it.

So if and when an inheritance comes your way, you may suddenly have some unexpected number crunching - and soul searching - to do. "For a short period of time your choices seem infinite, and as cool as that is, it's overwhelming," says certified financial planner Susan Bradley, founder of the Sudden Money Institute, which provides guidance for people who come into new wealth.

Bequests are also full of potential pitfalls. One bad move, such as cashing out Mom's IRA, could cost you thousands in avoidable taxes. But don't let the fear of doing the wrong thing prevent you from making some lasting improvements to your family's finances. In all likelihood, the person who left you the money wanted you to get a leg up on some major financial goals. Follow these steps to make that a reality.

Call a time-out

Inheriting money shouldn't lead you to an "I'm going to Disneyland!" moment. Rash decisions can wreak havoc on your inheritance, so now is not the time to quit your job, buy around-the-world airplane tickets or open that artisanal pretzel shop you've dreamed of.

"We call it the decision-free zone," says Bradley. She recommends making only essential decisions initially, such as selling an inherited property you can't afford.

Other than that, leave the money where it is. If that's not an option, park it in safe investment vehicles such as a money-market fund or a certificate of deposit. Anything that can be put off (such as buying a home or a long-term investment) should be tended to only after you've had enough time to develop a clear game plan.

Bring in the experts

In the movies, inheritances are usually distributed in one convenient lump sum of cash. If only it were that simple. In the real world you're likely to inherit a variety of asset types, from bonds to IRAs to real estate, each with its own set of rules and implications. To understand them all (and make sure the bulk of your inheritance stays in your hands and doesn't go to taxes), you need to make two phone calls.

The first is to your C.P.A. or financial adviser, who can explain how each asset is taxed when you cash it out and, if you plan to spend some money, which accounts you should tap first. Next, dial your estate-planning attorney to discuss ownership of the assets. You may want to add your spouse's name to an account, move money into a trust or update your will.

Plug holes

Before a dime goes to anything else, use your money to solve



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helps a reader who has inherited a large windfall.
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Set priorities

If you still have money on the table after you've covered the big, long-term concerns, make a wish list, says certified financial planner Diane McCurdy of Bakersfield, Calif.

Maybe you'd love to buy a beach house, take a big annual vacation, fund your grandchildren's education and own a sailboat. Unless you're dealing with astronomical sums, your inheritance will let you accomplish some - but not all - of these goals.

So start running the numbers on your dreams: If you buy the vacation home, can you still afford the boat? The yearly trips? Maybe you're willing to pass on the house if it means that you get the boat and the trips. "It's easier to give something up if you know what you'll get instead," says McCurdy.

Although Anne and Magnus are still working through their choices, they acknowledge that they are happy just to have the options. "When my mom's parents died, they left her a bunch of stocks to give her a financial cushion," says Anne. "I think she wanted to help us out in the same way."

Anne and Magnus are \$400,000 richer. But now what? Certified financial planner Deborah Maloy of Wakefield, Mass. [weighs in.](#) ■

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