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Cooler heads prevail: A big inheritance need not be squandered if the advice is right  
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Coming into an inheritance can be a life-altering event in a client's life. It can be fraught with conflicting emotions including guilt, grief, relief, gratitude and excitement. If the death was unexpected or premature, particularly in the case of a spouse, the client may be in a fragile state of mind.

Demographic trends suggest inheritances increasingly are going to be a common part of clients' financial pictures. Baby Boomers are the logical inheritors as parents and spouses die. It's estimated this already affluent generation will be the beneficiaries of a \$1.5-trillion in generational wealth transfers from now to 2015.

"Unlike other financial windfalls, there is an emotional component to inheritances that may affect the quality of decisions," says Cynthia Kett, CFP and principal at Stewart & Kett Financial Advisors Inc. in Toronto. "The sudden death of a spouse can be more of a shock than that of an ageing parent. Clients may be incapable of moving ahead or may undertake a flurry of activity, afraid of letting the money go to waste."

The advisor's job is to prevent clients from making any moves they might regret later. Dan Richards, president of Toronto consulting firm Strategic Imperatives Inc., advises taking the same approach as one would with lottery winnings.

"As with any major change, it's important to take time out to assimilate the repercussions," he says. "A lot of people may suddenly be knocking on your client's door, from the child that wants money for a car to the friend who wants to invest in a business. At the same time, the new wealth may open up different options and lifestyle choices for the client. The financial advisor can help by being the 'bad guy' who insists clients do nothing with the money for a few months, while they review their options."

Those options include paying off debts and mortgages, taking advantage of unused RRSP contribution room, starting a business, buying a new home or cottage, and helping children or grandchildren with education costs.

Diane McCurdy, president of McCurdy Financial Planning Inc. in Vancouver, says when dealing with a couple, she is always careful to point out any part of the inheritance that goes into the family home automatically becomes joint property, and would be split equally in the event of divorce or pass to the surviving spouse at death. Paying down the

mortgage can be attractive for many couples, but others may want to keep an inheritance separate.

She often recommends paying off non-deductible debt, particularly high-interest debt credit cards. Catching up on unused RRSP room for clients and their spouses is also a common recommendation, although she says it may be a good idea to spread contributions over a few years so the deduction doesn't take them into a lower tax bracket and reduce the tax refund. The tax refund can in turn be used to pay down a mortgage. Many mortgages allow repayment of 20% a year without penalty, Ms. McCurdy says.

"I ask clients to map out goals, a budget, and a wish list," she says. "Some overestimate what they can do -- they may not be able to take several vacations a year and send their kids to private school. For most people an inheritance enhances their life, but it's not a radical change. It's a hand up, not a hand out."

Warren Baldwin, regional vice-president at T.E. Financial Consultants Ltd. in Toronto, says instead of investing the proceeds of an inheritance directly, it may make sense to pay off a home mortgage, then borrow against the house and invest the proceeds. That way, non-deductible mortgage debt is converted to tax-deductible debt incurred for investment purposes.

Laurie Stephenson, a CFP with Freedom 55 Financial in Halifax, says many people want to preserve the value of an estate they inherit from parents to pass on to their children. Sometimes they learn from their parents' mistakes or omissions, and want to take more care in passing it on equitably among children and with a minimum of tax consequences. They may become candidates for life insurance and trusts as part of their estate planning.

One client, who inherited several million dollars, was able to set up a foundation and pursue philanthropic interests, but the client also experienced some negative consequences, including separation from her social circle and leaving a job she liked.

Sterling Rempel, a CFP with Future Values Estate & Financial Planning in Calgary, says emotional ties can make it difficult to sell unsuitable assets. "There may be ways to continue to honour the deceased wishes. For example, the deceased may have wanted a particular asset to be a legacy for future generations, but the proceeds of the sale can be put toward grandchildren's education."