

Whether Obtained Through Luck or Death, Planning is a Must for Windfalls

For some people, large sums of money come through luck. For most others, it comes through inheritance or a result of the death of a friend or family member. Whether such a windfall comes from lottery winnings or an inheritance, whoever is its recipient often feels as though he or she is set for life.

Seven state workers probably felt that way last month when they won a \$317 million Mega Millions jackpot. And two recent studies show that many people are feeling that way too, believing they will be able to count on income from an inheritance to get them through retirement.

It's a way of thinking that is as risky as the lottery is chancy.

According to a December 2010 study

by the Center for Retirement Research at Boston College, two-thirds of baby boomers are expected over their lifetimes to inherit \$8.4 trillion (in 2009 dollars). Baby boomers, who were born between 1946 and 1964, have already received \$2.4 trillion in inheritances. Even on the other side of the Atlantic, inheritances are strongly playing into people's retirement plans. In Britain, the Telegraph

recently reported

that 24 percent of Britons plan to use the windfall from an inheritance to support them financially through retirement.

However, baby boomers could put themselves at great financial risk if they bank too much on windfalls – whether won or inherited – to provide them with income for retirement. As the recent recession has demonstrated, wealth fluctuates. Additionally, the value of what baby boomers stand to inherit can be two or more times greater than what they have accrued throughout their life. It could be easy to be overwhelmed by such large sums of money and even to mismanage them.

Baby boomers should expect to be bombarded with suggestions from family or friends on how to spend or invest their windfalls. They must be wary of “too-good-to-be-true” investment recommendations. These often have unexpected, disastrous long-term financial implications. Making overly risky investments or purchasing excessive amounts of real estate are typical examples. Baby boomers could even find that giving away inherited assets is a complicated matter because of uncertain gift tax laws.

People should not be deceived by the size of their lottery winnings or inheritances. Believe it or not, huge six- or seven-digit windfalls can dwindle away quickly, if not properly managed. An estate planning attorney can help people determine the best methods for protecting such windfalls both in the short-term and long-term.

To schedule a meeting with one of Tully Rinckey PLLC's estate planning attorneys call

518-218-7100.