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The Inheritance Twist

By admin

There are many Baby Boomers who are anticipating hitting the jackpot via inheritances in the coming years as a solution to their own financial planning needs. We have heard many media reports about the tidal wave of money expected to move between the generations over the next 15 years or so estimated to be upwards of $1-trillion.

An HSBC report released last September found that 39% of working people are banking on some type of inheritance with a median value of about $77,000. While some 57% of fully retired people expect to leave some sort of inheritance.

The problem is that this expectation of an inheritance is affecting the behaviour of those expecting a windfall to the detriment of their own financial planning or well-being. A $100,000 is a lot of money to a 90-year old retiree with modest living expenses. But it will not go very far in terms of solving the retirement or debt problems of a 60 year old who may only receive $30,000 after splitting the inheritance with siblings or other heirs.

Unfortunately what sometimes happens is that heirs make decisions based upon an expected inheritance. This can include lifestyle expenses like vacations, renovations or even buying a bigger house with a mortgage while retired. It can also include basing their retirement income planning on an expected amount of capital which is expected to make up for their lack of savings.

The HSBC study also noted that 81% of today's retirees have never received any financial gift from relatives. But what happens if you never get that money or it is much less than you were anticipating?

There are many factors today that can affect a potential inheritance. People are living longer, the cost of living is rising as is the cost of medical care as governments cut back on what they can or will cover and tax-hungry governments are looking at ways to take their piece of the inheritance pie. As well, many Baby Boomers and other seniors are increasingly in debt or going into debt to maintain their lifestyles. Finally, low interest rates are leading risk adverse seniors to spend capital to maintain their lifestyles rather than seeking to increase returns through the investment markets. Seniors are paying the price for the financial crisis of 2008 through these lower interest rates.

All these factors may severely crimp your expected inheritance. As evidence attesting to these factors, Equifax reported in the second quarter of 2013 that debt for consumers age 65+ increased 6.5% over the previous year, the biggest year-over-year increase in that period for any age group.

This reminds us of that famous bumper sticker: We are spending our kids' inheritance.? Ouch!

From a financial strategy perspective it is important for you to keep a few things in mind. One thing to remember is the saying: If it is going to be it is up to me!? Make all your investing, saving and spending plans on the assumption there is no coming inheritance. If it happens it should be looked at as a bonus!

Do not count on anyone or the government to bail you out. That is the most prudent and conservative financial planning approach you can take to increase your odds of success. Please call us today for an appointment to discuss your situation and other strategies available for dealing with the impact of any inheritance on your personal situation.

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