

The mistake of not seeking professional advice

Personal Finance

BY DANIEL COHEN



Over the coming decades, large sums of money will be passed from one generation to the next. For the beneficiaries of these funds, it is not only important to properly manage the inheritance, but it is crucial to understand the impact on your taxes that certain decisions will cause.

A client of mine recently inherited money from a deceased parent. Part of the inheritance came from the balance of a retirement account held at a local bank branch. Unless the beneficiary of a retirement account needs the funds immediately, it is usually best to instruct the custodian of the account to create an inherited retirement account. This will allow the beneficiary to continue deferring taxes on the account while required minimum distributions are made each year based on the life expectancy of the beneficiary.

I advised my client to meet with me prior to making any decisions with the inherited funds. Unfortunately, by the time this client came to my office, the inherited retirement accounts had already been fully redeemed. One of my client's siblings was the executor on the estate and was not advised that they could defer distribution for the account beneficiaries.

Setting up an inherited retirement account could have possibly saved each beneficiary several thousands of dollars in taxes. If there

are multiple beneficiaries, some can choose to continue deferring the taxes while others can take their distribution immediately.

Another client recently inherited money, part of which was from the retirement funds of that client's deceased sibling.

This time, I advised that before making any decisions, they forward the forms to me so I could help them decide what's in their best interest and properly complete the forms. The client requested the distribution forms from the 401(k) plan administrator. It turned out that if this client had signed the forms provided then, a full liquidation would have been made, and the beneficiar-

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ies would have been faced with a large tax obligation.

I personally contacted the plan administrator and was given the proper forms. My client's inherited account was set up properly and the large tax liability was avoided. Again, no guidance was given by the plan administrator, but this time my client relied on me for the right advice.

Significant changes

Many people inherit money and don't already have an adviser ready to help them. Unfortunately, some choose to make a decision on their own, thinking they will save on the cost of advice. Seemingly small decisions like that can make a big difference in one's

financial life.

The examples cited illustrate the benefits of seeking advice from a certified financial planner prior to making decisions about how to best receive inherited funds. CFPs are charged with advising the client of all options, and they have access to specialists that can assist in providing an appropriate solution for the client.

One example is that upon retiring from a company you may face the decision to take a lump-sum payout of retirement funds or to roll over that balance to an individual retirement account. Another example is when a married couple owns a highly appreciated asset -- it may be advantageous to transfer that asset to the spouse with the shorter life expectancy. When an individual dies, the beneficiary who may be the spouse gets a step-up in cost basis to the current value, thus possibly eliminating the tax liability, if the position is then sold.

Other examples apply to divorcing couples, individuals with children, estate planning, gifting charity, and numerous other situations.

Many people prefer to invest on their own without the advice of a professional. That is a good choice for some. Be advised, however, that at those times of significant change in one's financial position, such as inheriting funds, most clients can benefit from the advice of a CFP, who has the experience and knowledge to collaborate with clients and help them achieve their short- and long-term goals with the appropriate advice and solutions. **NHR**

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