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What Should You Do With an Inheritance?

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If you were to inherit a large sum of money, what would you do with it?

The question may not be hypothetical, especially if you are in the millennial, Gen X, or Gen Z demographic groups. That's because the baby boomers—often referred to as the richest generation in history—are poised to transfer some \$30 trillion in assets over the next few decades, according to the consulting firm Accenture.

Of course, this is a “macro” figure, and everyone's situation is different. Furthermore, since baby boomers are living longer and more active lives, the total amount passed on may end up being considerably less than the estimate. Nonetheless, you may well receive a medium to large inheritance someday, and when that day arrives, you'll need to decide how best to use your newfound wealth.

Your first move may be to do nothing at all. Generally speaking, you have enough time to decide how to handle the various elements of an inheritance, although if you are inheriting an investment vehicle such as an IRA or a 401(k) plan, you will eventually have to make some decisions about liquidation or withdrawals. (Since these accounts may carry tax obligations, it's a good idea to consult with your tax advisor fairly soon after you receive your inheritance.) But if a big part of your inheritance consists of cash parked in a bank account, there's nothing wrong with moving the money into a cash management account at a financial services company until you decide what to do with it.

However, after some time has passed, you may want to put your inheritance to good use. If you're already working with a financial advisor, you might want to get some guidance on how to use your new assets to strengthen your existing investment strategy. Do you have any gaps in certain areas? Can you use the money to help

diversify your holdings? Diversification can't guarantee profits or protect against all losses, but it can help reduce the impact of volatility on your portfolio.

If your inheritance is large enough, it may permit you to "max out" on your IRA for years to come and possibly free you to have even more of your salary deferred into your 401(k) or similar employer-sponsored retirement account. You could also use the money for other long-term goals such as funding a tax-advantaged 529 college savings plan for your children.

You also might use part of your inheritance to donate to the charitable organizations you support. Due to recent changes in tax laws that caused many people to stop itemizing their deductions, charitable groups are in need of support more than ever.

Last, but certainly not least, take this opportunity to review your goals. Is your inheritance large enough for you to adjust your planned retirement age? If you do adjust that age, what about your other plans for retirement? Will you now be free to travel more or pursue other hobbies? Will you need to modify the way you invest for your new reality, possibly by taking a less aggressive approach? Again, a financial professional can help you answer these questions.

Someone thought enough of you to leave you a valuable inheritance—use it wisely.