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Inheritance: The Solution to Your Financial Struggles?

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If you are sitting neck deep in debt, living beyond your means, and still calm and collected about your own financial well-being, then chances are, you are one of the many millions of people expecting an inheritance at some point in the future. Like other inheritance recipients, perhaps you are expecting your personal balance sheet to align just as soon as your parents or a favorite grandmother or aunt passes away. The question is, though, is that really a sound strategy for dealing with your current finances?

For Canadians, there appears to be some reason to believe that this strategy has been working for quite a few younger people. Nearly a decade ago, experts estimated that roughly a trillion dollars in inherited wealth would be making its way into the hands of younger Canadians by 2026. Almost a decade later, many analysts believe that this process of generational wealth transfer is well underway. At this time, there are some estimates indicating that nearly four of every ten Canadian workers are expecting tens of thousands of dollars of anticipated inheritance to help them balance their budgets and resolve outstanding debt.

The wealth accumulated by these older Canadians represents a sizable wealth transfer that clearly has the capacity to change many younger lives. At the same time, though, it can be inherently risky to manage your finances based on the expectation of inherited wealth that may not be yours for decades to come. Many of those Boomers are certain to live for many years, so a financial strategy that is based on a future windfall may not be the wisest of plans.

There are better ways to deal with these issues that arise. If you know you have an inheritance coming at some point in the future, waiting may not be the most prudent strategy for either you or your older loved ones. In addition, without careful planning, there is a risk that a large portion of an inheritance could be lost because of income tax obligations.

Rather than waiting for wealth to be passed on when they pass away, your loved ones can make accommodations now to gradually transfer some of that wealth to you while they are still alive. Such a strategy lends itself to various options, ranging from simple assistance with a down payment on a home to more complex family trusts. Families with sizable estates can even effectively freeze the value of those estates at current rates, and then issue shares to beneficiaries – much as a corporation does through various stock plans. In addition, issuing shares at current rates can provide some tax benefits to your loved ones, and still enable them to maintain the type of control that can provide them with peace of mind.

As you can see, there are a number of options that can make that inheritance a real benefit for you even before your loved ones pass away, which are incredibly important and worth discussing since they offer an important option for retaining more of the assets' actual value. Meanwhile, and until you have assurance that your inheritance is actually on its way, your best strategy is almost certainly financial restraint and moderation.

Do you have questions about your investment strategies?

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