

When an inheritance comes your way

Canada's baby boomers are in line to inherit a vast collective fortune in the next 20 years. Spending and investing it wisely requires careful planning.

It is estimated that Canadians will inherit \$1 trillion over the next couple of decades, primarily in the form of real estate, investments and cash. When they do, they will have important decisions to make about what to do with their newly acquired assets.

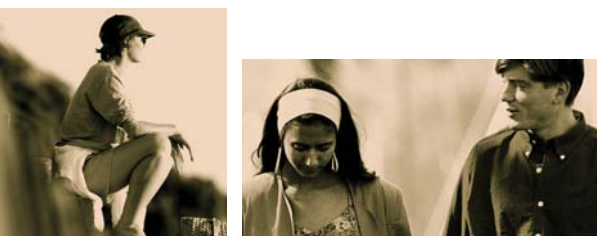
If you find yourself in this situation and you are considering your options, says financial advisor Adrian Mastracci, president of KCM Wealth Management in Vancouver, you should try to avoid making impulsive decisions. "Park the inheritance for 30 to 90 days, maybe longer, before making major decisions," he suggests.

In the meantime, Mastracci continues, you should review your own will to accommodate the additional assets in your estate. As well, you should re-examine

your insurance coverage to ensure that it adequately covers your expanded assets. And, depending on the size and complexity of the inheritance, you might also consult a financial advisor for guidance in developing a plan for spending and investing your newly acquired wealth.

Among other things, your plan might include the following:

- Repaying non-deductible debt such as credit cards and mortgages
- Maximizing your contribution to a registered retirement savings plan (RRSP), including using any unused contribution room from previous years
- Investing the remainder of your inheritance according to a financial plan developed in consultation with an advisor



Chartered accountant Dennis Weiler of Guelph, Ontario, says that your plan should include paying off debts such as credit card and mortgage loans, “especially credit cards, because of the high interest rate. That’s a very intelligent thing to do.”

As well, keep in mind that if you invest it in a registered retirement savings plan, you can reduce your taxable income and put the money to work for you, tax-free, as long as it stays in the plan. Although RRSPs may not be appropriate for people earning less than \$30,000 a year, Weiler suggests that people making more than \$60,000 a year should take full advantage of their plans. In addition to making your allowable annual contribution, you should also consider using some of your inheritance to meet your deduction limit for the year. This limit includes unused RRSP contribution room that you have carried forward from previous years.

CONTRIBUTE TO AN RESP

If you have set up a registered educational savings plan (RESP) for your children or grandchildren, you might consider contributing some of your inheritance to that plan, as well. The annual contribution limit is \$4,000, and the lifetime limit is \$42,000. Contributions are not tax-deductible, but money within an RESP grows tax-free until the child withdraws it to cover the cost of attending a university, college or vocational institution.

If you still have money left over, you may want to put most of it into your investment plan. That doesn’t mean that you can’t do something extraordinary with at least some of your inheritance. You might treat yourself to a vacation, for example, or some other indulgence. You might also consider giving some of the money to charity. But if you invest it while you are planning your vacation or charitable donation, then you can earn interest on the money that you inherited before you spend it.





When it comes to investing, however, it is important to adopt a strategy that focuses on dividing your investments among different kinds of assets – stocks, bonds and cash – to optimize the risk/reward tradeoff. Your aim should be to develop a well-allocated portfolio where the returns will be maximized for your level of risk.

David Bach, a financial advisor and author, distinguishes between short-term, mid-term and long-term savings and recommends different types of investments for each. For short-term savings of less than two years, he suggests cash investments such as money-market funds, guaranteed investment certificates and treasury bills. For mid-term savings of two to five years, liquidity becomes less critical and you can afford to take a bit more risk, so Bach recommends investing in bonds or a bond fund. For longer-term investments of three to 10 years, he suggests stocks or equity mutual funds, diversified by size of company, industry sector and geographical location.

Depending on the complexity of the estate, it can take months or, in some cases, years to collect an inheritance. Your inheritance may be part of a trust,

for example, in which case you will need legal advice about how to proceed. With more straightforward estates, you usually will receive your inheritance within a few months of the death.

BOOST TO THE NEST EGG

“What you end up with will depend a lot on the tax rules,” says John Natale, a member of the Tax and Regulatory Services Group at Manulife Investments in Waterloo, Ontario. When a person dies, Natale says, Canada Revenue Agency taxes the profits on the estate’s assets as if they had been sold. After that, the beneficiaries can decide how to spend and invest their inheritance.

“Receiving an inheritance can be a tremendous boost to the nest egg,” says Mastracci. “A little thought to allocating the windfall will assist in achieving those personal goals.”



CANADIAN WEALTH

Number of Canadian baby boomers (those born between 1946 and 1964):	9.4 million
As a percentage of the population:	28
Number of American baby boomers:	78 million
As a percentage of the population:	26
Percentage of the Canadian population 60 years of age or older in 2006:	13
Projected for 2056:	27
Percentage of Canadian families 65 years of age or older who own RRSPs ¹ :	66%
Average value of those RRSPs:	\$46,000
Percentage of Canadian families 55 to 64 years of age who own RRSPs:	62
Average value of those RRSPs:	\$97,000
Percentage of Canadian families 65 years of age or older reporting debts:	27
Of those 55 to 64 years of age:	62
Percentage of Canadian couples 65 years of age or older who own their principal residence mortgage-free:	76
Of those 55 to 64 years of age:	74
Total financial assets held by Canadians in 2005:	\$2.1 trillion
Projected for 2014:	\$4.3 trillion

Number of Canadian estate settlements in 2000:	64,000
Number of Canadians who inherited more than \$10,000 in 2000:	150,000
Estimated value of Canadian inheritances in 2010:	\$70 billion
Estimated total value of Canadian inheritances for the 10 years ending in 2010:	\$550 billion
Estimated amount that will be inherited between 1998 and 2017 in the U.S.:	\$7 trillion
Between 1998 and 2052:	\$25 trillion
Maximum inheritance tax rate in the United States:	49%
In the United Kingdom:	40%
In Canada:	0%
Total inheritance tax collected in the United Kingdom for 2002-2003:	£2.5 billion

¹Includes RRIFs and LIRAs.

Sources: Boston College Social Welfare Research Institute; Cap Gemini Ern & Young; Japan Ministry of Finance; Mature Market Institute; Statistics Canada, US Census, Vanier Institute of the Family, Investor Economics. www.inheritance-tax.org

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