

Ask the Advisor



“Many people our age, baby boomers, either inherit a bit of a nest egg or, in my case, I may be getting my nest egg from an insurance company. How do I make the most of a sudden influx of money?”

Ella in Dunstable

What a great quandary to have in these challenging economic times.

The first question to answer is, do you owe any taxes? Depending on your state and whether the influx is inheritance, lottery winnings, a gift, an insurance or legal settlement, or something else, you may have a large and unexpected tax bill coming. *Consult your tax professional.*

Once you've answered the tax question, the next questions are, do you have emergency reserves and are you properly insured?

Emergency reserves can double as savings, retirement funds or investment funds, and the general rule is to have six to eight months of living expenses in reserve.

Insurance? Is there anyone who would suffer financially should something happen to you? If so, look into life insurance.

What if you were injured and couldn't work? Disability insurance can help.

Can you afford an extended stay in a nursing home, or better,

professional medical care in your own home that can prevent or delay you from having to go into a nursing home? Long-term care insurance can help.

Are your home and car properly insured and do you have good health insurance?

After insurance is addressed, what about past-due bills or high-interest debt, credit card or otherwise. Bad debt can ravage good financial health -- avoid it like the plague, and pay it off as quickly as possible.

How's the retirement looking? Are you on track with continued funding or is your nest egg looking a little thin? The sudden influx could make a huge difference.

Are the kids or grandkids headed to college? College costs are growing far faster than the rate of inflation. It's better to save a little early than to borrow a lot later.

As a parent, don't for a second make the mistake of not saving for college because you think it might hurt a financial aid package. This is especially true with regard to your retirement

savings, which are generally not even included in the federal financial aid formula.

Perhaps the influx is icing on the cake and you don't need the money for any of the aforementioned needs.

You can give, without tax consequence, this year, up to \$13,000 to anyone (and to as many recipients as you like) as long as the gift is free and clear to the recipient with no strings attached.

You can also pay the tuition or medical bills, but not insurance premiums, of anyone (and of as many recipients as you like) as long as you pay the medical provider or qualified educational institution directly.

You can also give to qualified charities and receive a tax deduction.

The fiscally responsible options are endless but even if the funds aren't enough to take care of every need, consider using at least a little for good old-fashioned enjoyment!

After all, a memory that lasts a lifetime is a pretty good investment too!

Ron Valpey, CFP®, AIF®

Ron Valpey is a fee-only CERTIFIED FINANCIAL PLANNER™ professional, an ACCREDITED INVESTMENT FIDUCIARY™, and a registered investment advisor representative of Focus Capital Wealth Management, Inc. If you have a financial planning question, please call Ron at 888-278-9359 or visit his website at www.ronvalpey.com.