



Managing an Inheritance Prudently in Canada: A Guide for Different Life Stages

By Weichurn Woo, CIM, EPC

Receiving an inheritance can be a life-changing event, offering both opportunities and challenges. Whether you're in your 20s and 30s or approaching retirement, it's crucial to manage this windfall wisely. This guide will explore prudent strategies for handling an inheritance in Canada, tailored to different life stages.

For Young Adults in Their 20s and 30s

Go Slow and Plan Carefully

When you receive an inheritance in your younger years, it's essential to resist the urge to spend impulsively. Take time to process your emotions and carefully consider your options.

In the short-term, consider placing the funds in a money market fund while you develop a comprehensive financial plan and long-term investment strategy.

Pay Down High-Interest Debt

One of the most prudent moves for young adults is to use a portion of their inheritance to eliminate high-interest debt, such as credit card balances or personal loans. This strategy can significantly improve your financial health and free up future income for savings and investments.

Invest for the Long Term

With a potentially long investment horizon ahead, young adults should consider investing a substantial portion of their inheritance. A diversified portfolio of mutual funds or exchange-traded funds (ETFs) can harness the power of compound growth over time.

Consult with a financial advisor to create an investment strategy aligned with your risk tolerance and long-term goals.

Maximize Tax-Advantaged Accounts

Take advantage of tax-sheltered accounts to grow your inheritance:

1. **Registered Retirement Savings Plan (RRSP):** Contribute to your RRSP to receive immediate tax deductions and defer taxes on investment growth.
2. **Tax-Free Savings Account (TFSA):** Utilize your TFSA contribution room for tax-free growth and withdrawals.
3. **Fee-based non-registered accounts:** A fee-based taxable investment account, once you max out your TFSA and RRSP (or if you are self-employed, you may prefer not to have RRSP as you get enough via business tax deductions), will allow you to deduct investment management fees your advisor charges for tax purposes.

Invest in Your Education or Career

Consider using some of the inheritance to further your education or enhance your career prospects, or even start a business! This investment in yourself can lead to increased earning potential and long-term financial stability.

Start Building Your Real Estate Portfolio

If homeownership is a goal, your inheritance could provide a substantial down payment. However, be cautious not to overextend yourself financially. Ensure you can comfortably manage mortgage payments and other housing expenses.

For Semi-Retired or Retired Individuals

Reassess Your Retirement Plan

An inheritance during or near retirement can significantly impact your financial landscape. Take this opportunity to reassess your retirement plan and potentially adjust your lifestyle or legacy goals.

Consider Tax Implications

While Canada doesn't have inheritance taxes, there may be tax consequences related to the estate. Consult with a qualified tax professional to understand any potential tax liabilities and strategies to minimize them.

Enhance Your Retirement Income

Use the inheritance to create additional income streams or bolster existing ones, such as using covered call high-dividend ETFs.

Estate Planning and Gifting

If the inheritance significantly increases your wealth, it's crucial to review and update your estate plan. Consider the following:

1. **Early gifting:** You may choose to gift some of the inheritance to your children or grandchildren while you're alive, potentially helping them with major life expenses like education or home purchases.
2. **Charitable giving:** Explore options for charitable donations, which can provide tax benefits while supporting causes you care about.

Healthcare and Long-Term Care Planning

Very important for my own client base. Use this opportunity to ensure you're adequately prepared for potential healthcare costs as Canada's healthcare system continues to look increasingly challenged and bleak. Set aside funds specifically for future medical costs not covered by provincial health insurance, such as out-of-country medical tourism and surgeries. My own clients reported success traveling to Mexico or the US for hip and knee private surgeries, instead of waiting a very long time here for an operation. Do your extreme due diligence on the pros and cons of any out-of-country surgeries.

Diversify Your Investment Portfolio

No matter the amount of money involved, focus on diversifying your investment portfolio to manage risk:

1. **Fixed income:** Allocation for stability.
2. **High-dividend investments:** Enough allocation to generate the retirement income suitable for you.
3. **Growth investments:** A small to moderate allocation to long-term investment themes could potentially boost growth and performance. A bigger allocation may be suitable if there is lesser goal for retirement income generation, and the investor can handle higher volatility.
4. **Alternative investments:** Explore options like long / short investment funds or precious metals to further diversify.

Strategies for All Ages

Seek Professional Advice

Regardless of your age, consulting with financial professionals is crucial when managing a significant inheritance. A team including a financial advisor, tax specialist, and estate planning attorney can help you navigate complex decisions and optimize your financial strategy.

Create an Emergency Fund

If you don't already have one, use part of your inheritance to establish a robust emergency fund. Aim for 3-6 months of living expenses in a readily accessible savings account.

Avoid Lifestyle Inflation

While it may be tempting to upgrade your lifestyle dramatically, resist the urge to significantly increase your spending. Focus on long-term financial security rather than short-term luxuries.

Invest in Your Health

Consider allocating some funds towards improving your health and well-being. This could include gym memberships, preventive medical care, or stress-reducing activities that can pay dividends in quality of life and potentially reduced healthcare costs in the future. Improving your diet to have more expensive but healthy food is crucial as well. In Canada, unlike many other countries, junk or unhealthy foods tend to cost less, and higher quality healthy foods more expensive.

Give Back to Your Community

If you're in a position to do so, consider using a portion of your inheritance to support charitable causes. This can provide personal fulfillment and potential tax benefits.

Managing an inheritance prudently requires careful consideration, planning, and often, professional guidance. By taking a thoughtful approach tailored to your life stage and personal circumstances, you can make the most of this financial opportunity and secure a stronger financial future for yourself and your loved ones.

If you want to explore post-retirement goals aimed at creating healthy and balanced financial strategies, please contact me at wwoo@researchcapital.com.

Wei Woo, Investment Advisor, CIM, EPC
Research Capital Corporation
3481 Allan Dr. SW
Edmonton, AB, T6W 3G9
Cell: 780 – 299 – 0760
Office: 780 – 460 – 6628

Research Capital is a national investment firm with offices in Vancouver, Calgary, Edmonton, Regina, Toronto and Montreal. The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of Research Capital Corporation ("RCC"). The information and opinions contained herein have been compiled and derived from sources believed to be reliable, but no representation or warranty, expressed or implied, is made as to their accuracy or completeness. Neither the author nor RCC accepts liability whatsoever for any loss arising from any use of this report or its contents. Information may be available to RCC which is not reflected herein. This report is not to be construed as an offer to sell or a solicitation for an offer to buy any securities. This newsletter is intended for distribution only in those jurisdictions where both the author and RCC are registered to do business in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. RCC and its officers, directors, employees and their families may from time to time invest in the securities discussed in this newsletter.

©2024 Research Capital Corporation. Member-Canadian Investor Protection Fund / member-fonds canadien de protection des épargnants

Research Capital Corporation (RCC) makes no representations whatsoever about any other website which you may access through this one. When you access a non-RCC website please understand that it is independent from RCC and that RCC has no control over the content on that website. The content, accuracy, opinions expressed, and other links provided by these resources are not investigated, verified, monitored, or endorsed by RCC.