

Baby Boomers Inheriting Trillions

Perhaps that financially secure retirement you envisioned may actually become a reality. The baby boomer generation has begun to receive the largest transfer of wealth in the history of mankind. Having already inherited \$2.4 trillion, boomers are poised to inherit another \$8.4 trillion, largely from their parents. When there are 12 zeros after a \$ sign, we are talking about a substantial amount of money!

This will become for most baby boomers, the group born between 1946 and 1964, one of the largest windfalls in their lives. These staggering numbers are the product of a Boston College Center for Retirement Research study on wealth transfer, commissioned by MetLife. Two thirds of all boomer households will receive inherited funds. On one side stand the donors, having lived through the Great Depression, the "Greatest Generation" is famously frugal and many retired with generous pensions. On the other hand stand the boomer spendthrifts, the antithesis of frugal. With an average savings per household of only \$60,000, the baby boomers have not come close to saving enough for retirement. Inheritance amounts vary dramatically, however the median boomer will receive \$64,000. A \$64,000 inheritance is considerable for someone with \$60,000 in savings. Most boomers will not be able to make up for years of under-saving by waiting around for Mom and Dad's inheritance. The typical individual will need a lot more money in retirement than they anticipate requiring. For the wealthiest 10 percent of boomers, the average inheritance will be approximately \$1.5 million. Although the wealthier households will receive a much larger inheritance in dollar terms, these amounts represent a much smaller percentage of their existing wealth.

Any prospective inheritance is uncertain, according to Sandra Timmermann, director of the MetLife Mature Market Institute. Although these monies will significantly help many households, the study warned these boomer inheritances are "not a silver bullet". The deep recession, along with the decade's second steep drop in the financial markets, may force many parents and grandparents into revising their plans. Wealth is being consumed by skyrocketing health care costs and longer life expectancies. The financial crisis has many individuals reconsidering the legacy they plan on leaving behind.

There is a significant transfer of wealth happening while the older generation is still alive. Many financially secure retirees find themselves funding college tuition for grandchildren or chipping in to pay off student loan debt. They also frequently help provide down payments for home purchases in a tightening mortgage market, while bailing out the younger generation from a host of other financial challenges. How much money they have left, after a protracted illness or years spent living in a nursing home, will be hard to predict. The end of life can get expensive and is likely to erode many parents' savings.

Despite the volatile financial markets and increasing longevity, boomers are still in line to receive a significant transfer of wealth. The lives of those fortunate enough to receive inheritances will change in varying degrees. Some will sleep better knowing they have more savings than ever before. A large number of boomers can expect to receive amounts that will improve their prospects for retirement and possibly their ability to pass wealth on to succeeding generations. Some inheritances may provide boomers with an once-in-a-lifetime

opportunity to secure their financial future. Disciplined financial planning and capable investment management are necessary to realize the full potential of these windfalls. Sound financial decision making is vitally important and remains paramount well before an inheritance is headed your way.

Inheritance Suggestions

Keep it Separate - Inherited property is the separate property of the spouse who receives it in most states. Many couples have different appetites for investment risk and keeping inherited assets separate can, for example, allow a wife to balance the more aggressive investment style of a husband with a higher tolerance for volatility. Other advantages in keeping inherited assets separate include protecting these funds from your spouse's creditors or delineating ownership in the event of divorce.

Inherited IRAs - When IRAs are inherited from a parent, you can stretch out that IRA's income over your own life, along with the tax benefits, if you keep them separate from your existing IRAs. Inherited IRAs should never be comingled with your IRA and need to be titled "*John Smith deceased, inherited IRA for the benefit of John Smith Jr.*"

Review your own estate plan - What happens to your inheritance should you die tomorrow? Keeping these inherited assets in a separate account, make passing them directly to your children easier, if you have a second spouse.

Discuss your parents' estate plans with them - If possible, talk with aging parents about their plans for passing on assets. This is especially important while they are still healthy, thinking clearly and not reeling from a sudden health crisis. It is even more crucial if there is a family business involved. One child may be more capable managing the business than another. Sound estate and financial planning can make possible the orderly transfer of the family business to that child, through the use of a life insurance trust to facilitate the buy-out of an ill-equipped sibling. It is essential to have candid discussions with your parents about finances, sooner than later, including who they name as beneficiaries, their long-term care needs, estate taxes and more. Those who wait to have these conversations until a downturn in health will find the discussions significantly more challenging and less productive for everyone involved.