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Can I Stop Saving Because of an Inheritance?

Q. I have always saved a lot, and I recently got a large inheritance, so now my overall savings will be enough to cover my retirement expenses. I'm 59 and I am still planning to work, so I'm wondering if I should stop saving in my 401k or if I should keep going?

A. We're glad to hear you're a saver.
We're also sorry to hear you've lost a loved one, but even a large inheritance shouldn't change your overall plan. It actually gives you an opportunity. Several opportunities, in fact, for both you and your heirs.
Before you make any moves, you need to be careful. "Statistically, recipients of 'sudden wealth,' such as a large inheritance or winning a lottery, are twice as likely to file for bankruptcy within five years of that event as compared to the general population," said Jim McCarthy, a certified financial planner with Directional Wealth Management in Rockaway, citing a University of Kentucky study from 2003.

"Additionally, interviews by the Williams Group of more than 2,000 families who had gone through a significant wealth transfer revealed that 70 percent of those families lost control of their assets — and their family harmony — in the first generation after the transfer," McCarthy said.
McCarthy said he uses a five-step process with clients in similar situations.
First, he recommends they do nothing different financially for at least 6 months, preferably a year. He suggests they put the money in a Certificate of Deposit (CD) or high-yield savings account for the time being. Be sure to be mindful of FDIC insurance limits of $250,000 per depositor per insured bank, so you may need to open accounts at several banks if the inheritance is substantial, he said.
Next, while the money is safely parked, start to assemble a team of advisors you trust, including a fee-based certified financial planner, an estate attorney, and an accountant, all of whom should have experience with high net worth individuals.
Third, develop a comprehensive financial and life plan.
"Spend time thinking about what you want the rest of your life to look like and what kind of legacy you wish to leave to your loved ones or causes you are passionate about," McCarthy said. "Your advisors can help you turn this into formal written plans." Next, be very careful of friends and family. Unfortunately, your new wealth may attract new friends and estranged family members may pop out of nowhere, McCarthy said. Be mindful of scam artists, too, he said. Finally, after a year, review where you are and where you want to go. "By that time you should have your advisor team in place, developed your plans, and had time to access the true impact of your new found wealth," he said.
There are still reasons to continue to contribute to your 401(k), even with this new wealth.
Even with the knowledge that your retirement will be secure and your inheritance may provide you the opportunity to relax your savings going forward, don't be quick to ditch your 401(k) plan, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge.**
Contributions to your 401(k) are pre-tax, which reduces your reported income. As a result, you'll owe less to the government every April, Mott said. "If you are looking to free up extra cash for an expense you've been delaying as you've socked away savings for retirement, you might use some of the inheritance instead," she said. "The income tax savings from the 401(k) contribution could be greater than a possible capital gain which might arise from the sale of an inherited asset."
Mott said you should continue to take advantage of your employer's matching funds, if offered. This is "free money" you shouldn't give up.
Your 401(k) also provides the benefit of tax-deferred savings through the reinvestment of dividends, interest income and capital gains, Mott said. Compare that to a traditional investment account, in which your dividends, interest and capital gains are taxed.
If you stop contributions, you don't want to simply absorb that extra money into your regular budget.
"If you want to reduce or eliminate your 401(k) contribution, consider where that extra money is going to go if you don't need it to meet your living expense needs," she said. "A Roth IRA is another tax-deferred savings account to which you can contribute up to $6,500 for 2015."
Before making any decisions on your 401(k) contribution, Mott recommends you review your annual living expenses and how they may change in the years before your retire. This will help you understand your cash flow needs and what you might have available for savings.