



Wealth  
Management

# the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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## Receiving a significant cash inflow

If you have recently received a substantial sum of money; either through an inheritance, lottery, gift, or other means, you may be feeling somewhat overwhelmed about what to do with this sudden new wealth. A number of different thoughts and emotions may race through your head such as the emotional high that comes with a lottery win or the emotional low that comes from the loss of a loved one. You may wonder: What should I do first with this money? Do I have enough to retire immediately? How do I put this money to best use? Can I finally buy something I always wanted? What would my loved one have wanted me to do with the money?

This article outlines some common financial planning issues to reflect on, as well as suggestions on how to use your new wealth to your best financial advantage, for now and the future. By considering some financial planning ideas now, you may be able to make your new wealth go further and provide an even greater benefit.

### Initial issues to consider

The time required to adjust to this change in fortune can vary (six months to one year is not uncommon) depending on the amount of money received, your personality and the circumstances surrounding this event. For example, if the money came from the death of your spouse or parent, you may need time to work through the grief and adjust to your new circumstances. If you just won the lottery and have little money management experience,

you may be feeling paralyzed as you try to decide what to do first.

If you received an inheritance and have the added responsibility of being an executor for the estate of the deceased person, you may be feeling even more overwhelmed, particularly if there are several other beneficiaries or if you are unfamiliar with the duties of an executor.

The emotions you are feeling as a result of your new-found wealth may influence you to make a decision



that you would not otherwise make. It may therefore be a good idea to delay making decisions about what to do with the money until you feel you have adjusted to your new situation. In the meantime, consider putting the money in an investment such as a Treasury bill or redeemable guaranteed investment certificate (GIC) that will guarantee the capital and keep the investment liquid. This will give you time to seek the advice best suited to your unique situation.

You may also want to set aside a small amount (so you do not feel guilty about spending it) as “fun money” to do something you enjoy; however, try to avoid making impulsive decisions.

With new-found wealth, you should also be careful with your money as you may be subject to requests and solicitations from family, friends and charities. Remember, it's okay to say no or not yet to requests that you receive. This will give you more time to put a plan in place and properly evaluate any requests.

### **Make a wish list**

While you adjust to your new financial situation, take some time to consider all the possible uses for your new wealth. Deciding how to use these funds will take some consideration.

The following are some ways you can use your new-found wealth, depending on the amount of money you received:

- Invest the funds to meet your future financial needs and provide current cash flow from regular interest or dividend income
- Pay down existing debts for which interest is not tax deductible such as credit card balances or home mortgages
- Pay for renovations to your existing home
- Purchase a new home or investment property
- Put money away for a child or grandchild for their post-secondary education
- Gift amounts to family members who require financial assistance
- Help a child purchase a home or start a business
- Make a donation to a charity

As your first step, put together a current picture of your financial situation. This doesn't need to be difficult. By making a list of your current financial needs (such as your outstanding debts), you will be well on your way to making smart financial decisions to ensure the best use of your new wealth.

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### **Prioritize items on your wish list**

The next step is to prioritize the various items you have included on your list. If you have outstanding debts with high interest rates, you may wish to give the reduction of these debts priority over other items. Your RBC advisor may be able to help you with this step and can also provide independent advice at a time when you may be dealing with deep emotional issues.

Your RBC advisor can work with you to determine the impact that the reduction in debt could have on your future cash flow. This decision could save you significant amounts in interest costs per year, which you could use toward some of the financial needs you outlined in step one. Planning your financial decisions can help you to make your money work harder for you.

### **Develop a personalized long-term financial plan**

Consider developing a solid, personalized, long-term financial plan with the help of your RBC advisor. This will give you better insight into whether your long-term objectives (e.g. the ability to sustain a desired lifestyle) can be achieved. Once you know that your long-term goals can be achieved, you can then focus on short-term objectives such as upgrading your existing home or helping a family member. You should also consider reviewing your Will and power of attorney with a qualified legal advisor in the light of your new-found wealth to see if any changes are appropriate.

### **Don't forget the tax issues**

The thought of paying income taxes can be the downside of new-found wealth. In addition to paying the government money that you would probably like to use for other purposes, the complex tax rules can be confusing. However, it's important to consider income tax issues whenever you engage in any financial planning. You want to maximize the amount of cash you have left after your taxes are paid to use toward the needs and desires you identified on your wish list.

Some good news about lottery winnings and inheritances is that they are generally received on a tax-free basis, but there are exceptions. In some cases, the lottery winner can choose to receive an upfront lump sum payment on a tax-free basis or an annuity payment for life, a portion of which may be subject to tax. A qualified tax advisor can help you determine which of these options (a life annuity or a lump sum payment) is best for you.

You may want to consider investing your new-found wealth to generate regular cash flow. You will have to pay taxes on any income you make, but remember that earning certain types of income, such as Canadian dividends and capital gains, may result in less tax payable than putting the money into interest-bearing investments. The amount of tax that you pay on each dollar of income is an important consideration because it affects the after-tax amount that you have available to meet your needs.

Where you invest can be as important as what you invest in. Consider putting money into registered plans so your funds can grow on a tax-deferred or tax-free basis. If you have available room, you may want to make a tax-deductible contribution to your registered retirement savings plan (RRSP). You may also want to consider maximizing your tax-free savings account (TFSA). The income earned on funds in a TFSA are not taxed. You also don't get a tax deduction for your contributions, but withdrawals are not taxed either. If owning a home is on your wishlist, consider the potential benefits of opening a tax-free first home savings account (FHSA) and making tax deductible contributions to it. If you use the funds for purchasing a home, the funds can be withdrawn from the FHSA without tax. Your wishlist may include putting some of the money aside to fund your children's or grandchildren's post-secondary education. With a lifetime contribution of \$50,000 available for each beneficiary and matching grant for annual contributions, you may want to consider investing in a registered education savings plan (RESP). These funds could grow tax-sheltered until they are withdrawn at a future date. The Canadian government provides a 20% matching contribution (called the Canada Education Savings Grant) on the first \$2,500 contributed to an RESP each year for a child who is 15 years old or under (there are special rules for beneficiaries who are 16 or 17). If you make a contribution of more than \$2,500 in a year, you may be able to receive a grant of up to 20% of the first \$5,000 if there are prior years when you did not make RESP contributions for your child or receive a grant payment. The tax is payable on the income earned in the RESP only when the growth in the plan is withdrawn.

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## Conclusion

You have many choices for using your new-found wealth. By taking a step back to analyze your circumstances using basic financial planning techniques, it's possible to ensure that the funds you receive provide the most benefit to you and your loved ones. Some complex financial planning issues may arise, so please consult your RBC advisor and a qualified tax/legal advisor if you would like assistance with these issues.

*This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.*



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