

# How to Manage Your Inheritance Wisely

Many of us have thought about what we'd do if we came into a large amount of money. We've dreamed of the trips we'd take, the things we'd buy, and the debt we'd take care of. While our chances of winning the lottery may be slim, there's a likelihood that we'll come into some sort of inheritance. Around 30–40% of Americans<sup>1</sup> receive some kind of inheritance at some point. And according to a 2019 Survey of Consumer Finances (SCF), the average inheritance for a middle-class American is just over \$110,000.<sup>2</sup> Unfortunately, it is common for recipients of inheritance money to use up most or all of the funds within a few years. One study from Ohio State University found that inheritors save, on average, only half of their inheritance.<sup>3</sup>

There are more advantageous ways to manage a financial windfall like this—strategies that build on the asset and increase your gains over the long term.

In this article, we'll discuss some of the first initial steps to take when you receive an inheritance and offer suggestions for making your inheritance work for you through proper investing and saving.

*Managing an inheritance can be a tricky situation. It's a good idea to reach out to a financial expert, whether a wealth management advisor or a tax professional, to help you understand the ins and outs of tax requirements for inheritance and how to make the most out of this financial windfall. [Book a consultation with Keesler Federal's wealth management team to get started](#)*

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## Things to Consider When You Receive an Inheritance

Because everyone's financial situation is unique, receiving an inheritance can mean different things to different people. It's a good idea to have a plan in place before you start moving your inheritance around.

### HIMMAS

A high-interest money market account, or a HIMMA, is a type of savings account that earns higher dividends on your money while still allowing access to your funds. These accounts are unique because they offer such high APY (annual percentage yield) compared to other savings or checking accounts.<sup>4</sup> While the average money market rate is less than half a percent, money market accounts can offer APY as high as 2% or more. That's a great way to gain capital without doing anything.

[Learn more about Keesler Federal's HIMMA options](#)

## High-dividend Checking Accounts

If you're considering spending some of your inheritance immediately and need easy access to your funds, look into a checking account that pays high dividends on large balances or cash-back programs. This way, your money is still working for you, even as you spend it.

[Explore Keesler Federal's Kasasa Cash@ account](#)

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## How To Use Your Inheritance?

Understanding where you are in your life can help you make smart decisions that will support you here and now and down the road.

### Your Demographics

Things like age, family structure, and upcoming life events are one way to determine a course of action.

- **Are you of retirement age?** An inheritance can make retirement more comfortable and influence how soon you retire.
- **Do you have children?** Consider putting money aside for higher education or a wedding fund.
- **Are there other family obligations?** Inheritance money could be used to support other aging or ailing family members.

### Your Current Financial Situation

An inheritance can be a way to stabilize your finances.

- **What does your debt look like?** A portion of inheritance could help alleviate credit card debt or go towards large purchases like a car or a house.
- **Have you saved for retirement?** Fifteen percent of Americans have no retirement savings.<sup>5</sup> In an ideal world, an inheritance is a nice cushion to add to your retirement funds, not the beginning of them.
- **Do you have an emergency fund?** Life happens—medical bills, unexpected repairs to your home or car, or job loss can make you feel strapped. Maintaining an emergency fund can help ease the burden of these unexpected expenses.

### Your Financial Goals

Financial goals change as life moves along. Depending on where you are, an inheritance can help make some of those dreams a reality:

- **Buying a home.** Whether it's your first home or one of many, inheritance money can make it easier to own a home free and clear or build your investment portfolio.
- **Making updates.** Now might be the time to start that home renovation project you've been dreaming of, like a new kitchen or an ADU.
- **Starting a business.** Time for a new career path? An inheritance can make launching your business easier, from patenting to renting a commercial space to paying staff.

*The process of earning interest on a principal amount and then, in turn, earning additional interest on top of that.*

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## Prioritize Financial Security

Using your inheritance for frivolous items or expensive trips can be tempting. And while it's important to leave room to treat yourself, putting your financial security ahead of short-term thrills is a more sustainable way to support your financial health.

### Pay Off Debt

Using an inheritance to pay off debt can help ease the financial burden (and your stress levels) so you can move forward unencumbered. Start with debt that incurs the highest interest, like credit card debt. Also, look at paying down your mortgage—the less you owe, the lighter your monthly expenses and the more you'll earn from any potential sale later. Experts recommend that higher earners aim to save closer to 15%, whereas lower earners can stick closer to 10%.

### Establish an Emergency Fund

Protect yourself and your family from unexpected financial hardship by contributing some of your inheritance to an emergency fund. Put at least three to six months' worth<sup>6</sup> away to cover unforeseen events like job loss or sudden medical bills.

### Create a College Fund

Student loan debt has doubled since 2010.<sup>7</sup> An inheritance can help support you or your children through their higher education without the burden of debt later in life.

### Open an HSA (or Maximize Your Contribution)

Putting some of your inheritance towards a health savings account can ensure that you have ample funds to cover medical expenses. The current plan<sup>8</sup> year allows contributions up to \$3,650 for self-coverage and \$7,300 for family coverage. One of the benefits of an HSA is that any unused funds continue to roll over each year, so you never lose the money you didn't spend.

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## Investing Your Inheritance

Investing a portion of your inheritance gives you an opportunity to grow your wealth and continue supporting financial goals like paying off debt, saving for retirement or higher education, or building an emergency fund.

Because everyone's financial needs and goals differ, it's a great idea to reach out to a financial advisor and a tax expert to look at your options and understand your potential tax implications before investing. One thing to keep in mind when considering contributing inheritance funds to an IRA is that there are eligibility requirements to contribute to an IRA<sup>9</sup> based on your earned income and maximum contribution limits set by the IRS.

### IRA Options

Putting some of your inheritance into a retirement fund is a way of investing in yourself and your future. Your age and your timeline for retirement will impact how much and how aggressively you want to invest, so take your time discussing your options with loved ones and a financial advisor. Remember that inheritance money cannot be invested in a typical IRA because it isn't considered "income." But there are other ways you can use your inheritance for retirement.

[Dive deeper into Keesler Federal's IRA options to see what you may qualify for](#)

### Certificates

Certificates of deposit, or CDs, are savings accounts that offer a fixed rate and term. It's a great way to hold allotted savings amounts and grow them without doing too much heavy lifting. Because certificates have short terms of growth—usually a year or less—they make excellent options for post-retirement money or even emergency funds.

[Check out certificate options with Keesler Federal here](#)

An inheritance can give you and your family a financial edge and offer relief from certain financial burdens. Now's a great time to speak with a financial advisor and develop a strategy specific to your financial goals.

[Set up an appointment with a Keesler Federal advisor here](#)

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### Sources

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