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Money Sense: How to manage a gift of money or other asset

By Marc A. Hebert
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PERHAPS YOU received an extra special gift this year such as a large sum of cash or other property or maybe even some stocks. If you are (or anticipate being) among this group, here are some tips to help you manage your gift.



Develop a strategy. Take time to breathe. Understand just how much you have been gifted and the form it is going to take. Did you receive a portfolio of stocks? Or maybe a rental property? Each has different implications.

Take time to review your financial goals and how your gift might help you reach them. Are you on target for retirement? How high is your debt? Developing a budget to see where you currently spend your cash is a great start.

Sometimes the best first step is to put the

money in a bank account until you have your situation sorted through.

Consider paying down your debt. This is the time to review your debt. Near the top of the payoff list should be high interest rate credit card debt. If your mortgage rate is relatively low, it may not be worth paying off as the money may earn more if invested.

Fund an emergency account. The most commonly mentioned amount for an adequately funded emergency reserve is at least three to six months of living expenses that you could tap at a moment's notice. You might need more if, say, you are self-employed and your income isn't necessarily steady.

Make savings a priority. This could be for retirement, education, or other life expenses. Review your goals to determine the best place.

Don't rush to spend big. While purchasing a luxury sports car may be tempting, the money might be better saved for other goals. Achieving financial independence is a good one. The trick is to avoid an impulsive decision that you might regret down the road.

Develop an investment strategy. Consider the time you have until you will use the money. For example, retirement may be a longer term goal while education money may be needed five years down the road. Your appetite for risk is another factor.

The idea here is to make the gift work for you without unnecessary stress. Educate yourself. There is plenty of material on the web and at the bookstore. Given this, read widely before making any choices, whether they involve which mutual funds to buy or how to fund retirement.

Have a tax plan. Your funds could open up tax opportunities you may not otherwise have had. For example, you might be able to increase your contributions to your workplace retirement accounts, as you will have other funds to live on.

You might be able to make Traditional or Roth IRA contributions. Your investments might generate interest, dividends and capital gains, all of which will impact your tax picture.

Address your past. If you have developed some bad financial habits that have caused you issues in the past, now is the time to seek competent help. A gift is a great opportunity to set your financial future going in the right direction. Past bad habits shouldn't get in the way.

Splurge thoughtfully. Though we did say don't rush to spend, it is OK to have a little fun. Reason and moderation are the key words here.

Get help. Consulting a certified financial planner, investment professional, lawyer or accountant can help you create a plan and monitor it down the road. You will have a better idea of your options, entire financial picture and your goals. Having a team of people can help you now and going forward.

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