

Protect Your Inheritance in 5 Steps

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Receiving an inheritance can be life-changing, but without proper planning, it can lead to financial disaster. Discover a proven 5-step plan to safeguard your inheritance and achieve your financial goals.

By Kelsey Simasko

Receiving an inheritance from a loved one is a great honor. Depending on what you receive, an inheritance has the potential to change your life. However, if it's not managed properly, you could risk major financial damage. As an elder law attorney and wealth preservation professional, I've seen this situation play out time and time again, but my first encounter with a mismanaged inheritance happened back in college.

When I was 19 my friend (who we'll call Jill) inherited a lot of money following the death of her grandmother. Unfortunately, her grandmother didn't include any rules or guidance on what to do with that money, giving Jill complete freedom to spend it however she wanted. Jill even had a debit card attached to the account that she frequently used to spoil her friends. She would take a group of us out on the town, using her inheritance to pay for everyone's tab, transportation and take-out at the end of the night. At one point, she even took us on an all-expenses paid trip to Chicago that included a 5-star hotel, fancy meals and tickets to a play. Unfortunately, all of this spending caught up to her and Jill's entire inheritance was gone in less than a year. Now that we're older, Jill often says she wishes she could use the money now to purchase a home instead of having wasted it in our college days.

For the sake of simplicity, Jill's grandmother chose not to put the money in a trust, giving a young, naive college student the freedom to spend it with no oversight. If her grandmother had put the money in a trust that included specific rules on how the money should be used, Jill could still be benefiting from that financial gift today.

If you're expecting to get or leave an inheritance, please let this story serve as an example of what not to do. If you've recently received an inheritance, the following steps can help ensure you protect your inheritance and use it to your benefit.

1. **Create your own estate plan.** It's never too early to make an estate plan. You never know when you're going to need it. If you want to transfer wealth to your children, you'll need to have the proper documentation to allow that to happen. Your estate plan should include the following documents.

Durable Power of Attorney: This person will have the authority to make financial decisions on your behalf should you become unable to do so. This person will only be allowed to do exactly what the document gives them the authority to do. Therefore, it's important to have a document that does not limit their ability to do advanced Medicaid planning, veterans benefits planning, estate planning and other financial protections.

Patient advocate: This person has the authority to make all medical decisions on your behalf if it is determined that you can no longer make them for yourself. This document should include a statement of your philosophy surrounding your decisions, authority to manage life support decisions, a HIPPA release and the ability to make all other medical decisions such as signing a Do Not Resuscitate order.

Deeds to all properties: This will help ensure your properties avoid probate.

Will: This document should detail who has authority to act on your behalf when you pass away. It should also include instructions on how assets should be distributed should they have to go through probate court.

A trust: Opening a trust can be useful for many reasons. A trust can help assets avoid probate court, it can ensure beneficiaries don't misuse funds and it protects assets from a beneficiary's creditors. Utilizing a trust can protect your assets while providing instructions on how you want them to be used.

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7. **Meet with a financial adviser.** Receiving an inheritance can be overwhelming, especially at a time when you're also grieving a loved one. Hire a financial adviser before you make any purchases or investments with your inheritance. If you don't want it to just sit in your bank account, consider putting it in a high-yield savings account where it will accrue more interest until you get established with a financial professional.

8. **Identify your financial goals.** Your financial adviser will likely ask you what your financial goals are. Do you need to pay off debt? Are you interested in purchasing a home at some point? Do you want to build your emergency savings fund, or start a college savings fund for your children? Once you identify what your financial goals are, you can start making a plan to achieve them.

9. **Create a budget.** Now that you have newfound wealth, it may be tempting to take that dream vacation or buy a new car. But if you aren't intentional about how you're saving and spending that money, it could be gone in the blink of an eye. Consider setting aside some money to spend now, later and never. Keep some liquid and invest some into an investment vehicle you can access in the future, such as a CD. The rest of the money can be put into a long-term investment such as an annuity—especially if the interest rates are good.

10. **Invest in your future.** One of the best ways to maximize your inheritance is to invest in the future. If you're inheriting an IRA, there are different rules you'll need to follow depending on your relationship to the deceased. For example, if the beneficiary is a surviving spouse, the IRA becomes a Spousal IRA and all traditional IRA rules apply. For non-spouse beneficiaries, the IRA becomes a Beneficiary IRA. In this case, the beneficiary must drain the entire IRA within 10 years. If the account isn't fully withdrawn within that time frame, any remaining money will be cashed out at the end of year 10. These accounts are also taxed as income, so cashing in an entire IRA at once could skyrocket you into a much higher tax bracket.

Receiving an inheritance from your loved one can be life changing, but it can also severely damage your financial situation if you don't know how to manage it. Think of your inheritance as an opportunity to grow your wealth. Avoid making large purchases or investments until you can talk with a financial adviser. They can help you navigate taxes on the inheritance, properly set up an estate plan, maximize your savings and make investments that are beneficial to you.

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Kelsey Simasko is an associate attorney at the Simasko Law firm, where she specializes in elder law and wealth preservation. She follows in the footsteps of her late grandfather, Leonard J. Simasko, who started the firm in 1955, as well as her uncle, James M. Simasko and father, Patrick M. Simasko – partners of the Simasko Law firm. Kelsey has been featured in CBS MoneyWatch, U.S. News & World Report, USA Today, Yahoo Finance and The Wall Street Journal.
