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How to invest a £500,000 inheritance in your 60s

Increasing life expectancy means that the fortunate few of us who receive an inheritance may not do so until we're well into our 60s.
Whereas a 40-year-old might use a large lump sum to pay off their mortgage or other debts, if you're older your priority may be preserving capital for your future needs or generating income to help fund your retirement.

A financial adviser can help you invest your inheritance according to your individual circumstances but, in the meantime, here are some of the main considerations

Beware the erosive effects of inflation

When you reach your 60s, you still have plenty of years potentially ahead of you. This means you may need to take a more proactive approach with your inheritance than simply leaving it in a cash savings account. Even modest rates of inflation could erode the real value of your money over time. If the average annual inflation rate was 2%, a £500,000 inheritance could be worth just £302,000 after 25 years.

To give your money the chance to grow in real terms, you may wish to consider investing at least some of your inheritance in the stock market. Although the stock market has experienced plenty of adversity over the past few decades, history shows that over periods of ten or more years it tends to perform more strongly than cash and grow above the rate of inflation.

Diversify to reduce risk

If your main aim is capital preservation, the thought of investing your inheritance could make you feel anxious – and understandably so. If you've retired, your ability to recover from dips in the market will most likely be lower than for someone who is still earning and accumulating wealth.

The key is to build a diversified portfolio that spreads your money across different asset classes, including equities, bonds and cash. This helps to minimise the impact of one particular asset class falling in value. You could diversify further by investing across a range of sectors and regions.

Constructing a diversified portfolio is also important if your primary aim is to supplement income from pensions. If one investment or asset class underperforms, the others could cushion the blow and help to maintain a steady income stream.

How much money you allocate to each asset class depends on your individual circumstances. In general, the older you are the higher your allocation to bonds and the lower your allocation to equities. However, this is a very basic generalisation and it won't necessarily be right for you. A financial adviser can recommend an investment portfolio that suits your specific needs.

Don't forget your tax allowances

A £500,000 inheritance is a substantial sum of money, which makes it all the more important to maximise the tax allowances and reliefs that are available to you.
Making full use of your £20,000 annual ISA allowance is

a simple way to shield your money from income tax and capital gains tax, while the personal savings allowance lets you earn up to £1,000 of tax-free interest on savings. There are a whole host of other tax-efficient structures and allowances which, used together, could help you preserve more money for your future.

Now may also be a good time to assess your estate's inheritance tax position and, if appropriate, make tax- efficient gifts. Seeking professional advice early on will help you strike the right balance between passing on money to loved ones and ensuring you have enough for your own needs and goals.

Next steps

Receiving a large inheritance could make a big difference to you and your plans for the future, but only if you invest it wisely and according to your individual circumstances. Given what is at stake, you may want to leave it to the professionals. A financial adviser will look at your life
as a whole to develop a comprehensive financial plan tailored to your unique needs, so you can rest assured you've done the right thing with your money.

The value of investments, and any income from them, can fall and you may get back less than you invested. This does not constitute tax or legal advice. Tax treatment depends on the individual circumstances of each client and may
be subject to change in the future. Investment values may increase or decrease as a result of currency fluctuations. Information is provided only as an example and is not a recommendation to pursue a particular strategy.

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