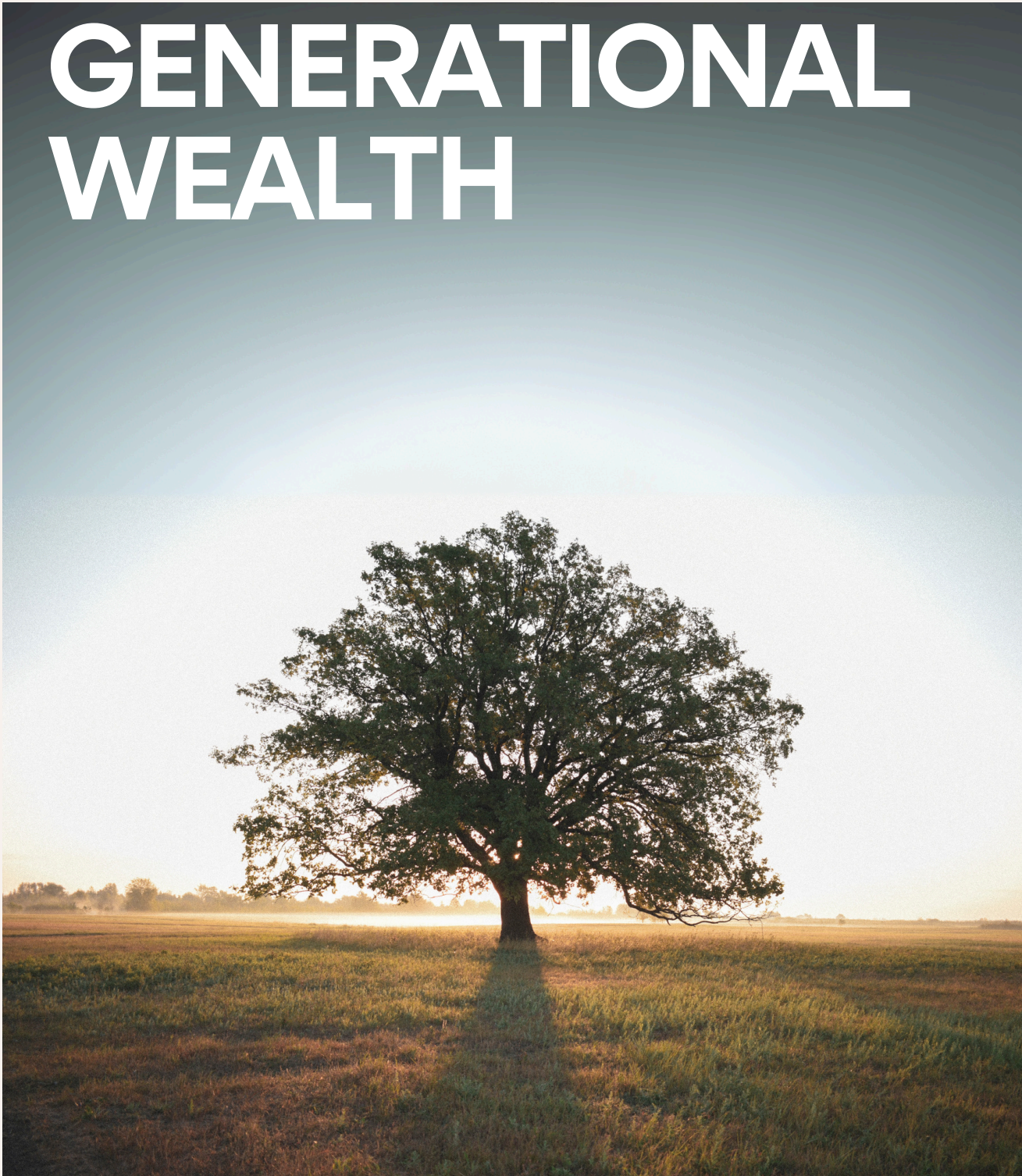
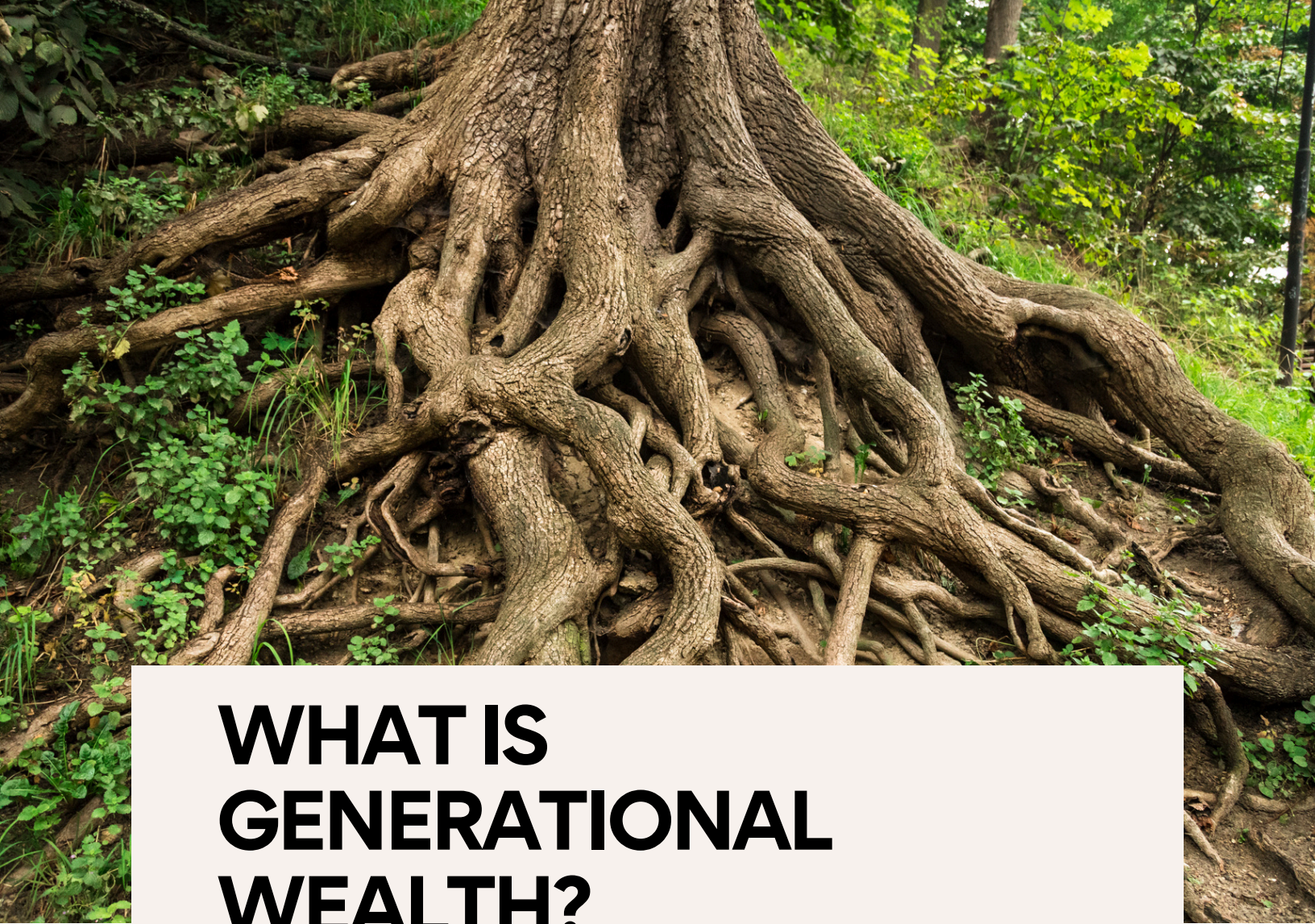


EXPLORING GENERATIONAL WEALTH





WHAT IS GENERATIONAL WEALTH?

Generational wealth consists of financial assets that are transferred from one generation of a family to the next. The transferable assets include cash, stocks, bonds, and other forms of investments, real estate, family business, as well as non-financial assets.

WHAT IS THE FUNCTION OF GENERATIONAL WEALTH?

Generational wealth is typically associated with the inheritance of money and possessions of value from a parent or grandparent to a child or grandchild, however, generational wealth often encompasses a far broader definition such as heirlooms, certain traditions, social or educational legacies, relationship capital, spiritual capital, and other non-financial capital.¹

Assets get passed down generally after the passing of a family member who owned the possessions, though there are instances when assets are transferred when both the giver and the beneficiary are still alive.

HOW DOES GENERATIONAL WEALTH WORK?

Generational wealth is more than just a concept. It is a financial planning strategy with the purpose of creating a portfolio of financial resources and a blueprint of how to distribute it to help benefit your beneficiaries, your children, grandchildren, other loved ones, or a charitable organization that meant something to you in life.

Most generational wealth gets passed down through an inheritance and according to www.federalreserve.gov, most inheritances are modest. For example, between 1995 and 2016, 55% of inheritances were under \$50,000.² Fast-forward to 2020, and the average inheritance is still pretty similar, \$46,200,³ and \$58,000 in 2022,⁴ but the number is not what is important. What matters is what happens to that number when it is transferred from the generation who earned it to the one who is going to manage what happens to it. Merrill Lynch did a study on how wealth transfer might potentially impact the market as different generations inherit money. For example:



Gen X
(1965-1980)
is estimated to inherit around
\$30 TRILLION

Millennials
(1981-1996)
are estimated to inherit
\$27 TRILLION

Gen Z
(1997-2012)
or younger are estimated to inherit
\$11 TRILLION⁵

Gen Alpha
(2013-2025)
More than 2.8 million are born globally every week.⁶

Judging by the downward trend in the historical data, we can surmise Gen Alpha will inherit less than Gen Z. That makes it that much more critical for generations to work together to preserve the dwindling wealth.



CREATE A MANAGEABLE GENERATIONAL WEALTH PLAN

Building wealth is difficult but something that can be done with careful financial decision-making, investing, and money management. Designing strategies and pinpointing attainable short and long-term goals to work toward is a good place to start. Some of the key points you may consider focusing on include:

- * *What amount or percentage do you want to leave for which beneficiary?*
- * *Which investing strategy and portfolio mix do you believe could be a beneficial one?*
- * *What have you learned about finances that you could pass along to your kids or grandkids after your death to help them with their wealth management?*



CREATE A PLAN

Recognize the critical steps required to prepare for a future generational wealth transfer to make it as efficient with as minimal stress as possible for your beneficiaries. Each person will have a plan unique to their lives and financial goals but some steps may include things like paying off debt (house, car, student loans, etc).

WORK TO PAY OFF YOUR DEBT FIRST

If you don't pay off your debts before you die, your assets could be used to pay some of the remaining debts. Now, if your assets aren't enough to cover all of the debts, some of them may be forgiven. Others, like unpaid tax debts, may not be forgiven. To help ensure your beneficiaries aren't left with a time-consuming and expensive headache slicing into their inheritance that you worked your entire life to build, work to get those debts paid off while you are alive.

BUILD AN INVESTMENT PORTFOLIO

Invest in stocks, bonds, other investing instruments

A popular retirement strategy for growing and preserving wealth is to have a diverse portfolio of investment instruments.

- **Stocks (equities)**
A security that gives you a share of ownership in a company.
- **Bonds (like an IOU)**
A debt security issued by governments and corporations. You give the issuer a loan, and they pay you a stated interest rate.
- **Treasury Bills (T-bill)**
A short-term U.S. government debt obligation backed by the U.S. Department of the Treasury. Terms range from four to 52 weeks.
- **Art and other collectibles**
The collectibles market is expansive and goes far beyond art. Other collectibles individuals invest in include jewelry, sports memorabilia, wine, classic cars, coins, and more.

A strong legacy

**begins
with smart
decisions.**



DESIGN AN ESTATE PLAN

Wills

A legal document that names beneficiaries and how to distribute assets and manage the custody of minor children. It is important that your will is very specific to help to avoid family conflict. If you don't have a will at the time of your death, it is called "intestate." In this case, the state law will determine how your estate is distributed in court.

Living Will

A living will is a legal document that gives an overview of how you want to be cared for medically should you be unable to make such decisions on your own. A living will is not the same as a regular will which provides legal guidance for the distribution of a person's estate and end-of-life arrangements. Keep in mind that not all states permit a living will. Ensure you understand your state's rules. It is recommended you have your living will signed by at least one witness or acknowledged by a notary public.

Trusts

A legal arrangement where one person or entity manages assets for the benefit of another.⁷ There are several types of trusts, such as:

- **Revocable living trust**

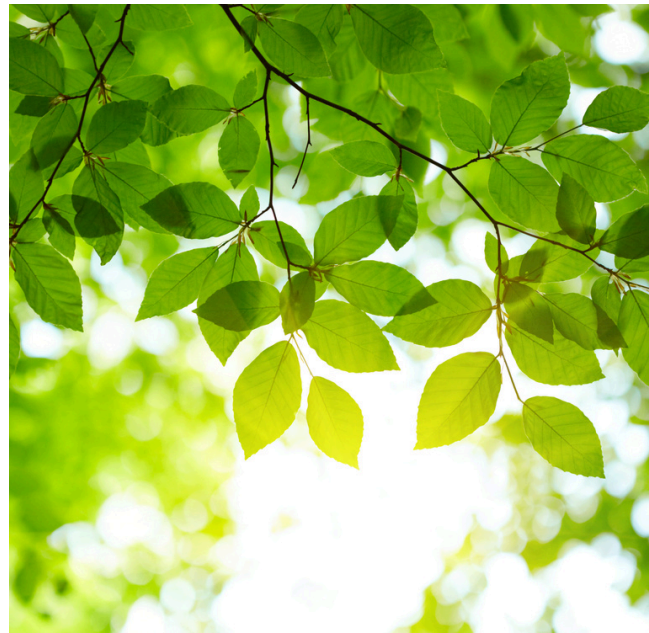
This is the most popular kind of trust that allows you to maintain control of your assets while you are alive and then transfer them to your beneficiaries after you die. A well-structured revocable living trust can also help you to avoid probate court.⁸

- **Irrevocable trust**

This trust protects your beneficiaries from creditors and future lawsuits. Once established, it cannot be altered or terminated.

- **Charitable remainder trust**

Assets may be transferred to a charity while retaining an income stream during the grantor's lifetime.



- **Marital Trust (Type A Trust)**

A type of irrevocable trust that allows you to transfer assets to a surviving spouse tax-free.

- **Grantor Retained Annuity Trust (GRAT)**

This trust is a financial instrument that can reduce the tax burden on large financial gifts to family members.

- **Generation-Skipping Trust (GST)**

A legally binding trust agreement where the assets are passed down to the grantor's grandchildren, essentially "skipping" the grantor's children.

- **Crummey Trust**

A trust provision often used that allows a gift that would otherwise be a future interest gift to be treated as a present interest gift and thus be eligible for the annual gift tax exclusion.

- **Qualified Domestic Trust (QDOT Trust)**

A special kind of trust allows a surviving spouse to take the marital deduction of estate taxes, even if you are not a U.S. citizen.

- **Dynasty Trust**

A type of irrevocable trust that is created and designed to pass on wealth from generation to generation while never getting reduced by transfer taxes.

Power of attorney (POA)

An agent or attorney-in-fact who is given legal authority to act on behalf of an individual referred to as the principal.⁹

Custodial accounts

Investment accounts that you manage for your child which they will own once they reach a specified age (generally 18 or 21), depending on the state. This strategy can be beneficial to help teach your child about how to manage money, how to invest carefully, and the importance of saving, budgeting, and investing with goals in mind.

A list of your assets and liabilities

Maintaining a list of your assets and liabilities ensures those administering your estate can manage your affairs with as little complication as possible. Some of these include inventory (items you own), non-physical assets (retirement accounts and brokerage accounts), intangible assets (patents, trademarks, and copyrights), and loans (mortgages, auto loans, home equity lines of credit (HELOCs), and other debts.

SAFEGUARD CASH IN SAVINGS

Cash is flexible and liquid and one of the easiest assets to consider when it comes to estate planning. Its value is straightforward and can be divided up easily. It is good to remember that cash is a piece of your taxable estate and is also subject to probate. There are bank accounts that offer a transfer on death (TOD) designation, and this can give beneficiaries a way to avoid probate court.

You can also consider establishing a trust to leave cash to your loved ones. A trust, when structured correctly, can help keep the money away from probate, and in the case of an irrevocable trust, it may be possible to remove the assets from your taxable estate.¹⁰

INVEST IN REAL ESTATE

Investing in real estate is a strategy for retirees that may add a layer of financial security and be something that can get passed through generations. This could be an opportunity for the receiving generation to earn money without the wealth disappearing, through such means as collecting rent or managing Airbnb's, as examples. It is important to keep in mind that there are also challenges with owning real estate including fluctuations in the housing market, property management complications, and other unexpected costs. But for many people, it is a beneficial method for generating wealth.



The choices you make **now** can **open doors** for generations to come.

LOOK INTO LIFE INSURANCE

Life insurance can help your family get by if you experience a tragedy and you can no longer provide for them. It can also be used to help cover the cost of bills, living expenses, burial expenses, and it can help to pay off outstanding debts and offer loved ones some financial stability. There are different kinds of life insurance to consider depending on your circumstances.

- **Universal life insurance**

A permanent life insurance policy that provides coverage for the duration of your life. You can adjust your premiums and death benefit as your life events change. There is also a savings component that can grow over time.

- **Whole life insurance**

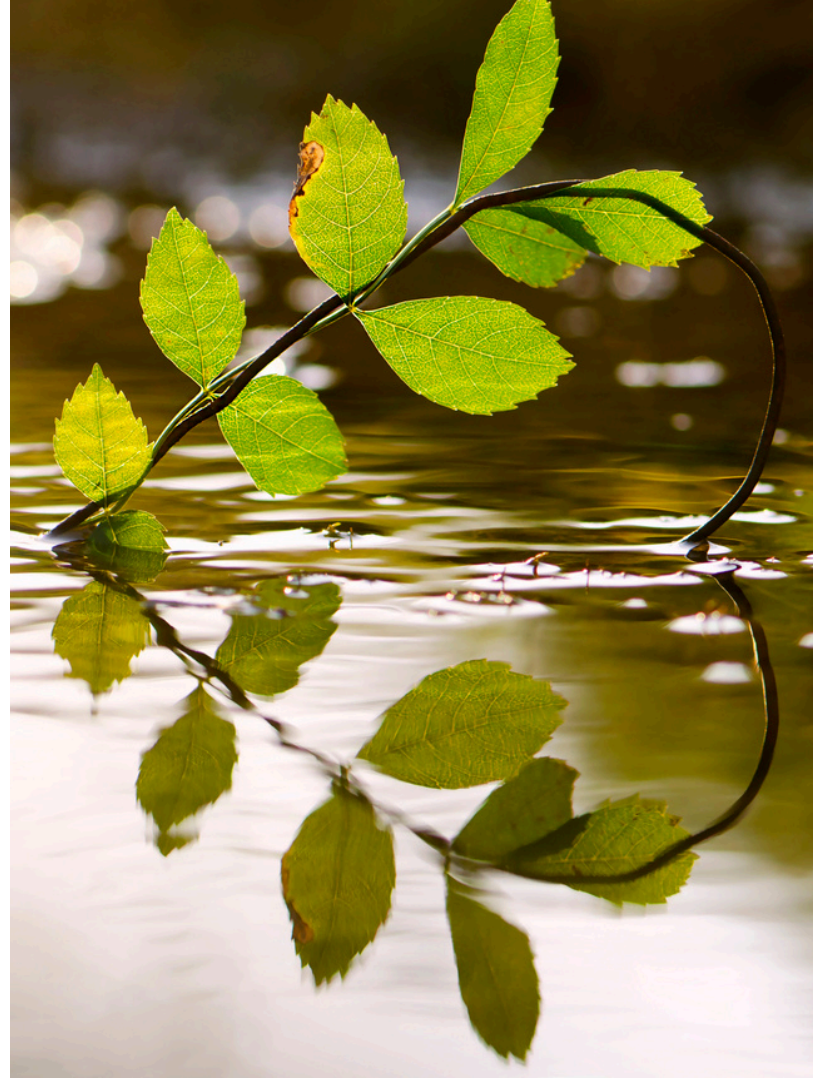
Seniors might find whole life insurance beneficial in retirement because the death benefit ensures your loved ones will receive a tax-free gift when you die, and, these policies, in many cases, have “living benefits” that can be helpful should you experience health problems as you age.

- **Term life insurance**

A popular strategy that covers you for a set period of time and pays a death benefit to your beneficiaries if you pass away during that time. Term life insurance is generally more affordable than permanent life insurance because it doesn't span your lifetime. Also, in most cases, the death benefit is tax-free for your beneficiaries.¹¹

- **Variable life insurance**

A policy intended to explore insurance needs, investment strategies, and tax planning goals. It pays a specified amount to your beneficiaries upon your death and also has a cash value option that varies depending on the premiums you pay, the policy fees, and the performance of the investment instruments, generally, mutual funds that are offered.



START A FAMILY BUSINESS OR PREPARE TO TRANSFER AN ALREADY ESTABLISHED ONE

One way to transfer generational wealth that is more than just cash that can be squandered is creating a business. Businesses can provide financial stability for the family and have the ability to pass down to their beneficiaries.

Passing the family business to your heirs involves a complex succession plan that includes many moving parts such as establishing a clear ownership structure, identifying a qualified successor, exploring possible tax implications and potential advantages, designing a buy-sell agreement, and managing the questions and concerns of family members.

HOW PARENTS CAN TALK TO THEIR CHILDREN ABOUT GENERATIONAL WEALTH



* ***The Power of Storytelling***

Tell your children stories, if possible, ones that involve family members, especially family members they may be close to, like grandparents, and the financial decisions they made good or bad and why. Stories are far more impactful than just giving advice. Most children and even young adults have difficulty with advice because they may still be pushing away from their parent's vice grip of control.

* ***Highlight Values***

Correlate generational wealth with family values, hard work, discipline, and looking toward the future. Lessen the importance of materialistic pursuits, keeping up with the Joneses, and constantly comparing yourselves to others.

* ***Be Open and Honest***

Parents should be transparent, and this is incredibly difficult because parents don't want their children to think they don't have to put in the effort to build their

own lives and create their own fortunes. They are worried their children might turn out like George Vanderbilt who received a massive inheritance and then went and built the most grandiose home in the United States and ran out of money in the process (see below).

* ***Encourage Questions***

Encourage them to ask questions about their own situation and goals and how to not only preserve the inheritance but benefit from it without losing it.

* ***Prioritize financial education***

Teaching kids about financial education

* ***Revisit the issue***

Don't just talk once to family members about the importance of money management when they receive an inheritance. Make it a topic you and your family members discuss periodically. Life events will occur in their lives, from how they view money, invest, save, and spend and it could change over time.



HISTORICALLY GENERATIONAL WEALTH HAS BEEN A PROBLEM.

WHY DOES THIS KEEP HAPPENING?

Being knowledgeable that generational wealth is fragile and historically it disappears within three generations is critical to help beneficiaries try not to fall into the same trap. The most famous case of generational wealth disappearing over generations involves the vast fortune of the Vanderbilt family. The Vanderbilts built their immense wealth in the shipping and railroad industries. It was Cornelius Vanderbilt who started the business which in time was expanded by one of his sons William Henry. Despite these two industrious family members, the fortune would dramatically shrink over the course of generations due to:

- **Deficient estate planning**

An estate plan that isn't correctly structured can create significant problems and cause your beneficiaries to lose money. The obstacles could be drawn out, time-consuming and in some cases could end up in probate court.

- **Extravagant spending**

Later generations were well known for their lavish spending and luxurious lifestyle which included purchasing and building palatial homes, throwing expensive parties, and participating in costly hobbies all of which chipped away at the fortune over the years.

- **Increased taxes**

Steadily increasing inheritance taxes helped to deplete the fortune.

- **Less involvement in the family business that built the wealth in the first place**

In some cases, for business owners, the kids or beneficiaries aren't interested in taking on the business. This is something that is out of their control, however, even if they sold the business, that doesn't mean they have to squander the money that comes from it.

- **Larger family to split the wealth**

If there is a large family, the more wealth that has to be distributed will mean that everyone gets less.

There is no one single reason why generational wealth tends to disappear by the third generation, however, a lack of communication from the generation that made the wealth to the next generation sits high on the list as a significant contributing factor. The second generation that receives the wealth, unfamiliar with having so much money and how to manage it properly, often may make financial decisions that lead to a loss of a portion of the wealth. Just as they never received guidance, they too often abstain from providing money management guidance to the third generation, who often run through the remaining money.

EXPLAIN TO YOUR BENEFICIARIES THE IMPORTANCE OF FINANCIAL VALUES

Sometimes people who come into a large sum of money tend to want to spend it on things they have always dreamed of having but couldn't afford. This happens all too often when generational wealth is involved. Children, grandchildren, or other beneficiaries who receive a large sum of money or assets from someone who dies and can't frown upon them for squandering the wealth might end up using it irresponsibly.

Taking the time to sit with your beneficiaries now and discuss your values and the importance of how difficult it was to earn the money, and the importance of saving, investing, and spending wisely can only help with the preservation of generational wealth. For someone who may never have had real money to burn, understanding the concept of managing needs versus wants doesn't exist. Talking with them about how easy it is to get these ideas confused once you have money may be the line of communication that could help them to preserve the wealth and even grow it for their own generational wealth conversations with their beneficiaries.

Also, making the effort to discuss financial values with your beneficiaries may start a pattern of financial communication that, in a way, is a form of generational wealth. Passing down the wealth of wisdom.



True wealth isn't just what you leave behind—
it's what you **teach**
along the way.

IS GIVING PART OF YOUR ESTATE PLANNING STRATEGY?



If giving to charity is something you want to do, there are ways to integrate your philanthropic goals into your estate plan for tax advantage purposes. Consider creating an income stream for the charity throughout your lifetime by establishing a charitable lead trust (CLT); or creating a charitable remainder trust (CRT) where your beneficiaries receive the income stream while you are still alive with the remainder going to the charity.

Giving is a powerful way to **extend your impact** beyond your lifetime.

INHERITANCE TAX

Maryland is the only state in the country that levies both an estate tax and an inheritance tax.

States that charge inheritance tax include Kentucky, Nebraska, Pennsylvania, New Jersey, and Maryland. Inheritance tax is not levied at the federal level.

UPDATE YOUR BENEFICIARIES

As life events happen, things change. New babies are born into the family, loved ones pass on, there are marriages and divorces all which change the family structure and may require more careful consideration when it comes to estate planning. It is essential that you regularly review your beneficiaries to ensure the person scheduled to receive your assets is still the person you want to receive them.

Remember, the beneficiaries listed on your 401(k), Roth IRA, traditional IRA, or other investment account will trump the individual you may have listed in your will should they be different. Also, keep in mind regarding 401(k) plans, Roth IRAs, and traditional IRAs, if a beneficiary is properly designated, those accounts will not have to go through probate. Conversely, if you have an ex-spouse still attached to one of those accounts, they could end up with your account or at least a portion of it if the beneficiaries are broken up into a percentage of ownership interest so pay close attention to this aspect of your estate plan.



CONSIDER CONSULTING A FINANCIAL PROFESSIONAL

A financial professional has the knowledge and experience to sit with you to discuss your options: which financial instruments to take advantage of, how to communicate effectively with your family members, and what strategies and goals would align with the transfer of your wealth efficiently while safeguarding those assets.

HAVE QUESTIONS? CONTACT US.

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