BDO WEALTH ADVISORS, LLC

AN INTERGENERATIONAL APPROACH TO WEALTH PLANNING

Traditionally, only the wealthiest of families considered estate planning from an intergenerational perspective. During the Gilded Age, several went so far as establishing trust companies to ensure that their wealth was successfully handed down from generation to generation.

In recent years, that intergenerational approach to estate planning has become more popular as wealth transfers have grown both in scale and complexity. But intergenerational planning isn't just reserved for the ultra-wealthy. In fact, recent changes to the U.S. tax code have led to an **increase in expected lifetime taxes on the middle class**, expanding the need for better wealth planning more broadly.

Intergenerational planning means taking steps to ensure that not only is someone able to pass assets onto the next generation, but the next generation is also well-positioned to make the most of those assets. Successful intergenerational planning also requires detailed tax planning to ensure assets are passed on as efficiently as possible.

Intergenerational wealth planning begins with a deep understanding of what the individual wants their legacy to be.

Build the Foundation

A good place to start intergenerational planning is deciding whether one wants to see the impact of giving their assets within their lifetime. For example, if a goal is to help children become homeowners as part of one's legacy, it may not make sense to wait to begin the giving process.

A major consideration in any estate plan is the **direction and protection of one's assets**. With the guidance of a trusted advisor, there are ways to protect an estate from creditors, estate taxes, and other undesired outcomes. Advisors also can help give direction to assets — including the names of individuals and charitable organizations those assets will go to — so there is no ambiguity over who gets what.

The balance between direction and protection should be a core part of one's financial plan. For example, does the individual want to designate specific charities in their will? Or do they prefer to set up a private foundation and involve surviving family members in making contribution decisions in line with the foundation's mission?

A third major consideration is the gifting strategy for family members. How much effort does one want to put into preparing the money for their family versus preparing their family for the money?

The first approach is more traditional and allows for control over how and when beneficiaries will receive the assets. The second approach focuses on educating the next generation about wealth management so they are prepared to responsibly handle the assets they receive.

Other questions for exploration include:

How transparent does one want to be about their assets and financial plan?

How critical is tax efficiency to the individual?

Are the next generation's attitudes about investing and wealth different?

Should input from other family members be sought about charitable giving strategy?

Is there potential for certain family members to be adversely affected by the plan?

To Trust or Not to Trust?

Trusts often play a role in intergenerational planning for a number of reasons, particularly for those who are concerned about the direction of their assets, because trusts allow savers to be very specific about how their assets are distributed.

If someone already has a revocable living trust in place rather than a will, they are already familiar with the benefits of using a trust to distribute assets. Two types of trusts that are often used in intergenerational planning are generation-skipping trusts and dynasty trusts. A financial advisor or estate planning attorney can explain the pros and cons of these trusts and help determine if they align with an individual's specific goals and values.

Plan for Success

An estimated 70% of wealthy families will lose their wealth by the second generation and 90% will lose it by the third.[1] While there are a number of reasons why intergenerational wealth transfers may fail, common factors include a lack of communication and inadequate preparation.

One way to avoid a negative outcome is by sharing one's values with children/heirs and educating them about wealth management. Ideally, this is handled through a series of age-appropriate conversations that start while heirs are still young. For example, it may make sense to discuss college costs with high-school age children and the various ways people pay for this education.

With adult children, it may be beneficial to introduce them to members of an estate planning team, such as a financial advisor and estate attorney. Depending on family dynamics and the individual's comfort level, periodic family meetings to discuss financial matters can also be valuable.

The key to a successful intergenerational wealth plan is to start with a clear understanding of one's goals and values. To explore an estate planning strategy that works for you, contact your BDO wealth advisor.

1 Nasdaq, "[Generational Wealth: Why do 70% of Families Lose Their Wealth in the 2nd Generation?]", accessed December 15, 2022.

HAVE QUESTIONS OR WANT TO LEARN MORE? **CONTACT US!**