What is Generational Wealth?

Generational wealth is money that you pass on to the next generation, usually in the form of an inheritance or a trust.

But it doesn’t only have to be an inheritance. Any form of financial assistance from one generation to the next counts.

No matter who you are, passing on wealth to the next generation is a worthy goal.

You spend your entire life working to build your career and business, accumulating wealth along the way.

Most of your life is also spent raising children and grandchildren and making sure that they are well-educated and have the life skills they need to have a good life.

The truth is, one of the things that can help your children the most is financial assistance at key points in their lives.

Some planning is needed to make sure that your hard-earned money benefits the people you love, before and after you have passed away. Without planning, there is a chance that your legacy will dissipate.

How much do people pass on to the next generation?

Investopedia reports that more than 55% of inheritances between 1995 and 2016 were under $50,000 and 2% of inheritances exceeded $1 million.

You don’t have to die to transfer money to your heirs

There are several ways that you can enrich your family members before you die that will be more satisfying (because you can see them enjoy it) and more advantageous in terms of taxes.

You can pass the money on in the form of:

- **Gifts.** You do not have to wait until you die to pass it on. In the United States you can give money as a gift tax-free up to $16,000 per person or $32,000 per couple each year. In Canada, you can give money as a gift to anyone, whether they are related or not, tax-free, no matter how large the gift is.

- **Helping with the down payment of a house.**
- **Paying for someone's higher education.** In the US, money paid directly to the school is exempt from gift taxes.
- **Taking care of medical expenses.** Money paid directly to the medical facility is not taxed.

How do you create generational wealth?

If you're the first generation in your family to aspire to do this, congratulations! This is a huge step for your entire family.

This may sound obvious, but you need to create wealth in order to pass it on to the younger people in your lives.

Start by having a positive net worth

The main reason that Canadians are in debt is that they have credit card debt. On average, Canadians have $8,500 in consumer debt, not counting their mortgage, and 12% of Canadians have over $25,000 in credit card debt.

According to the Motley Fool, 16.6 million Americans have a negative net worth because they are in debt. One of the biggest reasons for so many people having a negative net worth isn't credit card debt or mortgages. It's that so many people carry a high level of student loans. That's one reason why, in the U.S., paying for someone else's education can have such a big impact on their future.

Households with a negative net worth are also more likely to rent than own a home, which means they are not building equity when they pay rent month after month.

If you have a negative net worth, you won't be able to pass anything but debt to your children! It is very difficult to grow wealth when you are saddled with debt.

Start creating investments for newborns or young children

But the question is where to invest, because the typical advice that you are getting may not be giving you the best results because you're losing so much money to fees. Here's why.

Most financial advisors will recommend that you put money into your own Roth IRA and 401(K), which you can pass on to your children. Or to create a custodial account for your children that you can contribute to directly and use to make investments and they say that "compound interest will do its magic".

At BG Wealth, we take a different approach. You see, after taking a close look at our clients' accounts, we see time and time again how their traditional retirement accounts siphon off profits through hidden fees that really add up.

We tell our clients to put their money into real estate instead.

Build wealth for your family with real estate

Investing in real estate is one way to diversify your portfolio so that it is not vulnerable to the volatility of the stock market. For example, when stocks crashed temporarily at the outbreak of COVID-19 in 2000, house prices continued to rise. While there is always risk in any type of investment, houses tend to become more valuable as time goes by and real estate is by its nature a long-term investment.

Have an inheritance discussion with your beneficiaries

If you intend to preserve your wealth and grow it, you need to discuss what you plan to pass on to your family members. Make sure that the beneficiary list on all of your accounts is up to date, and create a will or a living trust so that your family will know how to manage the wealth that you have created for them.

If you would like to discuss your plan for reaching specific financial goals for yourself and your family, schedule a virtual wealth-building consultation here.