7 Tips to Successfully Transfer Wealth to Your Kids

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Here's an alarming statistic...70% of family wealth is lost by the end of the second generation and 90% by the end of the third.* Why? According to these same studies, the biggest issue is **lack of communication and trust among family members.** Here are seven tips that can help you navigate these issues so you can successfully pass your wealth to the next generation.

*Source: Time, 2015.

01

Communicate frequently.

Talk to your children about your fears and beliefs about budgeting, investing and planning; reinforce the steps you took that got you to this point in life; continually restate your values. If they don't learn from you, they may be influenced by the financial habits of their peers. Your children need to understand the responsibility that comes with the wealth they'll receive.

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02

Consider gifting.

Gifting is one of the easiest ways to pass wealth to the next generation. You can gift up to $15,000 per year to as many people as you wish without the amount of the gift counting against your lifetime exemption. Married couples can gift up to $30,000 per year.*

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*Source: IRS, 2019.

03

Review your estate plan.

An estate plan is not a dust collection device but is something that should be continuously updated and monitored. We recommend reviewing your estate plan with your financial advisor on an annual basis.

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Incorporate a GRAT into your estate plan.

A Grantor Retained Annuity Trust (GRAT) is an estate planning technique that can help minimize wealth transfer tax liability. Rather than your beneficiaries having to pay estate taxes, you will pay taxes when the trust is established. Assets are placed in the trust and then an annuity is paid out to you each year during the term of the GRAT. When the GRAT term expires, the beneficiary receives the assets tax free. This will allow your kids to get the future appreciation on your assets; however, you get to retain some control. GRAT's can be an effective way to transfer wealth and educate the next generation about your estate plan during your life.

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Once a GRAT is established and funded, it is set for the predetermined term. Lack of flexibility and access to other funds need to be taken into consideration. A GRAT may be a useful tool as a standalone strategy or in combination with other strategies. The cost of establishing and administrating the trust should be carefully considered with your advisor(s). A GRAT is not a strategy that is meant for everyone however when used appropriately can be a great tool for effective wealth transfer.

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Set up an Irrevocable Life Insurance Trust (ILIT).

An ILIT owns your life insurance policy for you, removing it from your estate. You can dictate who your initial beneficiaries will be and define the terms under which they will receive benefits such as how and when your wealth will be distributed. An ILIT protects your wealth from creditors, allows some control over your assets and avoids estate taxes.

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For ILIT assets to avoid estate tax the beneficiary must have access to annually gifted funds for 30 days. Proper notification to the beneficiary is required. Administration of an ILIT can be complicated and may require a corporate trust to ensure all requirements are being met. Fees for a corporate trustee as well as legal fees should be taken into consideration when considering this strategy.

06

Timing is everything.

When it comes to sharing your wealth with your children, it’s important you inform them at the right time and distribute wealth accordingly. Each situation is unique so discuss the optimal time to discuss/distribute wealth with your financial advisor so they can help you with an effective game plan.

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07

Evaluate your life insurance policies.

It is important to review your policies regularly with your financial advisor to ensure that you are in a strong position to provide tax-free benefits to your beneficiaries. You can also use life insurance to provide liquidity to your beneficiaries to pay any estate taxes.*

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable by having the policy approved. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

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Ready to talk?
Contact us today!

While these seven ideas will help you prepare for the transfer of wealth to your kids, **your financial advisor** is a great resource for a personalized plan that **works for you.**

If you want a second opinion on your financial plan or need to discuss the optimal way to structure your wealth transfer, call us today to meet with one of our financial advisors. **We think a financial advisor should be as good at explaining investments as they are at making them!**

This information is not intended to be a substitute for specific individualized legal or tax advice. For a comprehensive review of your personal situation, always consult with a tax or legal advisor. Neither CWM, LLC, any other named entity, nor any of their representatives may give legal or tax advice.

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