

Navigating the Great Wealth Transfer: A Family Guide to Generational Planning

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Create a lasting legacy that goes beyond finances. This article explores strategies for transferring both wealth and values to future generations.

By Sandra D. Adams

A generational wealth transfer is underway. If you haven't heard about the trillions of dollars currently "in motion" between generations, you have been living under a rock. Cerulli Associates estimates that \$124 trillion in wealth will be transferred between generations through 2048.

Planning for this transfer of wealth is something we are talking about with clients on a regular basis, and it is not as simple as you might think. This planning is not always about estate planning and transfers of wealth to the next generations at the end of life. It is also, for many, not just about monetary or investment assets. It can be about transferring values, history and stories that are just as important and valuable to the family.

Comprehensive planning around the transferring of wealth involves thinking about the financial planning goals, retirement planning as well as estate and income tax situations of all parties involved. For many of the clients we work with, there is a desire to begin to give monetary gifts to the next generation during their lifetimes. By doing this, they can give the gifts when their family members might need the gifts more and to have the pleasure of watching their family members use and enjoy the gifts. For some, there might be an added layer of using the lifetime gifts as a "test" to see how responsible certain family members might be if there is a question about financial decision-making ability.

When thinking about strategies for lifetime wealth transfers, consider:

- **Can you afford to safely transfer wealth now**, i.e., are you certain you will not
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need the funds for your own financial security during your lifetime. If it's possible the funds may be needed for your own retirement or possible long-term care needs, it's not advisable to gift during your lifetime

- **If there is plenty of excess in your financial plan** for lifetime gifting, start with gifting that keeps you within the annual gifting limits (for 2025, this is \$19,000 per person with no income tax reporting requirements).

- Depending on the recipients' financial situation and experience with money, there are **several options for gifting**:

If you're in a higher tax bracket and the recipient is in a very low tax bracket, it may make sense to gift highly appreciated securities (on which you would pay no taxes and the receiving parties may pay little to no capital gains taxes on if they sell).

You may decide it makes sense to fund a retirement account with a portion of the gifted funds. If the receiving party has sufficient earned income, you can gift up to the maximum amount for an IRA or Roth IRA for the year. For 2025, this amount is \$7,000 for those under age 50 and \$8,000 for those age 50 and over.

You can also fund a 529 college education account for a child or grandchild. With a 529, a lump sum gift of \$95,000 is allowed (5 years of gifting at \$19,000 for a single filer or \$190,000 for joint filers).

Paying directly for the outstanding tuition or medical expenses of a family member will NOT count as a gift. All other bills that are paid on behalf of a family member would count as a gift. Some find that paying bills directly for family members is a gifting strategy they prefer versus giving the family member cash to be used for frivolous purchases when there are real needs the cash should be used for. Paying a vendor directly gives the gifter greater control over how the funds will be used.

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there are real needs the cash should be used for. Paying a vendor directly gives the gifter greater control over how the funds will be used.

- **Gift to provide experiences.** Many individuals are using funds during their lifetime to provide experiences with their families. For example, renting or buying vacation homes where their families can spend time or spending the money to take entire families on vacations together.

- **Reward for what is important.** Many are using lifetime gift transfers as rewards for accomplishments that satisfy important family values. For instance, helping with the purchase of a first car with a successful college graduation.

- **If charitable endeavors are important to you** and your family, donor-advised funds (DAFs) are becoming a popular tool. You can fund a DAF and then make it a family affair each year to choose the charities that receive grants from the fund. Named successor donors are the next generation family members and the annual gifting activity provides an opportunity for the elders of the family to pass on charitable values to the younger generations of the family.

Whatever the specific strategies involved, it's advisable to have a family wealth transfer policy in writing and communicated to family members. In many cases, having a family meeting (or a family meeting that occurs every year or every few years) makes sense to keep everyone on the same page. This, hopefully, helps to prevent future family disagreements around money by keeping the topics out in the open and always relevant. The family meeting format provides a format for open discussion, and by involving a financial adviser, is an opportunity for all members of the family to gain basic financial literacy as an added benefit.

About the author: Sandra D. Adams, CFP

Sandra D. Adams, CFP®, is a partner and CERTIFIED FINANCIAL PLANNER professional at Center for Financial Planning, Inc.®. Having joined The Center team in 1996, Sandy has more than 25 years of financial planning industry experience.

She was nationally recognized by Forbes as a Top Woman Wealth Advisor Best-in-State in 2023 for the fourth consecutive year, and recognized on Forbes' 2022 Best-in-State Wealth Advisors list. Sandy specializes in longevity planning and is a frequent speaker on related topics with the Michigan Association of CPAs, Wayne State University Institute of Gerontology (WSU IOG), SOAR (Society for Active Retirees), AICPA (Association of International Certified Professional Accountants) and other public and professional groups.

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24800 Denso Drive, Ste. 300 Southfield, MI 48033 Tel. 248-948-7900
