

Creating Generational Wealth



Generational wealth is wealth that transfers from one generation of a family to the next generation, like from grandfather to father or mother to daughter. This wealth may come in different forms, including cash, expensive belongings (such as artwork or antiques), real estate, family business interests, or other financial assets, and the transfer may be made while both generations are alive or upon the passing of the older generation.

This type of wealth is beneficial because it makes life easier for younger generations. It allows individuals to pursue their interests and hobbies instead of forcing them to work in unwanted jobs to earn money. It can provide funds for higher education at institutions or levels that would otherwise be unattainable or provide for medical care in cases of illness or disability. It can help prevent families from having to pull money out of their retirement funds or savings in cases of emergency or during unfavorable economic times.

Of course, building generational wealth is easier said than done. Before money can be passed on to someone else, your own budget must be in good order and the amount of income that is being brought into the household must exceed household expenses (including money that is directed toward an emergency fund or retirement account).

There are a few pieces of advice that are often disbursed to those looking to create or build generational wealth:

Live below your means. [Creating a strong spending plan](#) is arguably the most important step when it comes to creating and growing generational wealth. To build savings and investments, households must live below their means. This doesn't mean that a family can't splurge from time to time, but if fast growth is the goal, spending needs to be controlled so that extra funds can be allocated toward savings for future consumption. Once an emergency fund has been established, the focus shifts to building retirement accounts and investments. Having an emergency fund is important so that, in the case of an expensive emergency, funds can be

pulled directly from that account instead of decreasing the earning potential of funds stored for a longer-term purpose in an investment vehicle with more potential for growth. If a wage earner gets a raise, the household can grow its wealth more quickly by putting the additional earnings away and continuing to live on the previous salary.

Consider good debt. Credit card debt and vehicle debt have high interest rates and can result in debt that grows over time if large payments aren't made. Credit card debt may have a variable rate of interest, which can be the hardest to get a handle on, especially if you are only making minimum payments. That said, not all debt is bad debt. People who own multiple properties may have multiple mortgage payments, but property loan interest rates are historically lower than credit card and vehicle interest rates, and properties can be rented out so as to actually make money while the mortgages are still being paid. If you have sufficient income to afford payments (even without renters) as well as the repairs and other expenses, the fact that real estate appreciates on average faster than long-term inflation indicates that it is often a good investment. Education debt, too, typically boasts lower interest rates than other forms of debt – and if additional education can further your job prospects and therefore increase your future earning potential, it can also be considered good debt. Of course, all debt must be repaid, and that debt decreases your ability to save and invest.

Contribute to a retirement plan. Whether you have an Individual Retirement Account (IRA) or are able to contribute to an employer-sponsored retirement account, once you have adequately managed your debt, it's important to put as much extra money as possible (up to the contribution limit) toward retirement. These accounts are tax-advantaged, often offering either tax deductions at the time of contribution or tax-free withdrawals. If you have an employer-sponsored account, it may provide an employer match – in other words, free money – that is deposited on top of your own contributions. Further, money deposited into retirement accounts can have decades to grow. It's not solely the amount of money that you put toward retirement that matters, it's also the time that the money invested has to compound and grow that dictates how your funds look in retirement.

Educate children when they are young. Start [talking to your children about money](#) when they are young before they develop bad habits like making impulse purchases, not paying off their credit card bill in full each month, or otherwise living beyond their means. Lessons should be age appropriate and may include knowing the difference between wants and needs, understanding the importance of retirement funds, and knowing how to calculate compound interest. Involving your children in family financial conversations and letting them learn money lessons hands-on (when appropriate) can build a strong foundation for their futures.

Purchase life insurance. Life insurance death benefits are [typically paid out to beneficiaries tax-free](#). While term life insurance can protect your loved ones from the financial impact of your death if it were to happen during a key time period (e.g., before the mortgage is paid off or while your children are attending college), it typically isn't used to grow generational wealth. This is because term life insurance is purchased to provide a financial back-up plan *on the off chance you pass away* during the covered term; coverage ends when the term does. [Whole life insurance](#), on the other hand, allows you to leave a legacy to your loved ones regardless of the timing of your death. If they do not need to use the death benefit proceeds to pay for your long-term care while you're still alive or final expenses after your death, the full amount of the death benefit can be passed to the next generation in support of their own financial goals.



Invest to outpace inflation. Inflation essentially makes your money worth less in the future than it is worth in the present. Currently, inflation rates are hovering just below 4%, meaning that you need to grow your investments by at least 4% annually to actually make money.

Conservatively investing all of your money then, in a savings account or Certificate of Deposit, is unlikely to help you create generational wealth – or even produce a real rate of return by outpacing inflation. Spreading your money across multiple investments (stocks, annuities, high-yield savings accounts, mutual funds, etc.) can increase the likelihood of your money growing faster than inflation and help you build wealth.

Create multiple streams of income. The average household may only have one or two streams of income, depending on the number of wage earners in the household – one stream of income for each career. However, households that are set on building generational wealth find ways to make their money work for them to provide additional streams of income. For those with the capital to maintain an additional mortgage payment, rental properties can provide such a stream of income. However, other households may consider purchasing [annuities](#) that grow over time and, once mature, pay back a larger sum of money than was originally deposited. Limiting expenses and diversifying investments are also key to generating wealth in your post-wage-earning years.

Write a will and make beneficiary designations. A Last Will and Testament allows you to dictate which of your assets and belongings transfer to whom upon your death. Beneficiary designations on bank accounts, life insurance policies, and retirement accounts (which are made separately from your will) allow you to do the same thing. If you are hoping to set particular individuals up for financial success after your death, listing them in your will and on your accounts is essential. This prevents the court system in your state from determining how to divide your belongings – making decisions that may not align with your wishes. Note that a beneficiary designation on a financial account or life insurance policy takes precedence over beneficiary designations for those same accounts or policies as listed in a Last Will and Testament. It is important to keep your will and beneficiary designations current as circumstances change throughout your life.

If you are interested in learning more about how whole life insurance and annuities can further your family's financial goals, call [800-628-6011](tel:800-628-6011) or [schedule an appointment](#) with a representative. Our Education Department also has a team of accredited counselors that can assist with setting up a spending plan and understanding credit. You can reach them at education@navymutual.org.