# The Great Generational Wealth Transfer (or Not)

Will the so-called great generational wealth transfer be more hype than reality? Only time will tell—the key is to start planning now.

Mark J. Gilbert, CPA/PFS, MBA
President, Reason Financial Advisors
mgilbert@reasonfinancial.com
ICPAS member since 1982

Almost from the time I began my second career in personal financial planning in 1997, I can remember hearing about the great amount of wealth that would be passed down in America from the Greatest Generation (born between 1901-1927) and the Silent Generation (born between 1928-1945). And while there's already been a fair amount of wealth received by the children and grandchildren of these generations over the last two decades, the future transfer of wealth from baby boomers (born between 1946-1964) and Generation X (born between 1965-1980) to millennials (born between 1981-1996) and Generation Z (born between 1997-2012) will outpace it substantially by most accounts.

It seems, collectively, today's "kids" will have it made down the road—at least financially speaking. Of course, nothing in personal finance is ever as easy as it seems, which begs the question: Is the great generational wealth transfer more hype than reality? Let's first look at some facts and numbers.

Without context, the numbers are almost too large to appreciate. According to global real estate consultant agency Knight Frank, approximately $90 trillion in wealth will move from the Silent Generation and baby boomers to millennials between now and 2044. According to financial services industry consultant Cerulli Associates, baby boomers alone will leave about $68 trillion through 2044 to their Gen X, millennial, and Gen Z heirs. By comparison, at the end of fiscal year 2023, the accumulated government debt in the United States was $33.2 trillion.

Cerulli Associates further estimates that 68% of the wealth transferred through 2045 will come from only 6.9% of U.S. households—the estimated number of households with at least $1 million in investable assets.

Knight Frank believes that the nature of wealth will change as it passes between generations. They point to Gen X and older investors, whose wealth creation occurred with the help of historically low interest rates through ownership of publicly traded securities—especially in individual retirement accounts and 401(k)-type plans—and real estate. On the other hand, millennials and Gen Z have mostly seen higher interest rates, which has made property ownership less attainable and, in some instances, publicly traded securities less appealing. As a result, these younger folks often rent rather than buy their residences and look for other opportunities to grow their wealth, such as through private and entrepreneurial business ventures.

The use of wealth also seems likely to change among the younger generations. According to a 2023 Modern Affluence Summit report, 49% of Gen Xers focus on investing with purpose, compared to 66% of millennials. The environment is another area that shows clear differences among younger generations. According to Knight Frank's 2024 Wealth Report, "The Next Chapter," a smaller percentage of baby boomers (59% male; 67% female) let environmental concerns influence their investment decisions, compared to millennials (80% male; 79% female).

## IMPEDIMENTS TO THE WEALTH TRANSFER

Despite the trillions in wealth held across generations, there are several hurdles that may impact transferring wealth.

1. **Increased credit and debit card spending.** In a June 2023 report, Bank of America reported that the Silent Generation and baby boomers are spending more on all types of cards, and increasing spending at a faster clip, than younger generations. The logic, of course, is that the older generations are wealthier than their children's generations, so why not spend more of their assets? However, if this trend continues, then there will be less wealth to pass along to heirs. It's ironic given that parents of these older generations historically tended to reduce, not increase, spending in their later years.

2. **Increased health care and long-term care spending.** Credit and debit card spending is typically discretionary and can be reduced as needed. On the other hand, health care is often looked at as a non-discretionary cost. Long-term care costs—typically in the last years of a person's life—are even less discretionary. According to a 2023 Fidelity study of retiree health care costs, a 65-year-old is projected to spend, on average, $157,500 in lifetime retirement health care costs (almost double the $80,000 estimate from 2002). A 2023 Genworth survey of long-term care costs estimates the median annual cost of living in an assisted living facility to be $64,200, while the annual median cost of a full-time home health aide is $75,500. Additionally, the median annual cost of a semi-private room in a skilled nursing facility is $104,000. These costs, even if incurred for a short period, can certainly deplete a meaningful amount of wealth that would otherwise be left to younger family members.

3. **Wealth remains among wealthy families.** There's a very real chance that much of the wealth to be transferred will come from wealthy members of the older generations and pass to already-wealthy members of younger generations. It's predicted that only 1% of the households in the U.S. (the wealthiest 1%) will pass as much as 42% of the available generational wealth or about $38 trillion. Though, it may largely go unnoticed, as the beneficiaries of this wealth transfer will likely be able to handle it discreetly. The bottom 50% of the Silent and baby boomer generations will pass approximately $6 trillion to their heirs (though, I predict a more conspicuous show of this newfound wealth).

## PREPARING YOUR CLIENTS

As your clients' trusted CPA advisor, you can play a tremendous role in assisting them in successfully transferring their wealth to the next generation. By successful, I mean a transfer of wealth with a minimum loss due to taxation and legal or administrative processes, and in such a way to meet the expectations of all parties. Here's how you can do that:

1. Make your clients aware of the urgency to plan for the transition of their wealth, especially if it's reasonable to believe the amount left to their heirs will have a material impact on those heirs' financial positions.

2. Wherever possible, develop financial projections that tangibly show estimated levels of wealth, administrative and probate costs, taxes, and the net wealth left for their heirs.

3. Develop a wealth transfer team to assist clients in transforming their hopes and wishes into tangible action steps to be followed through appropriate estate planning documents. The team should consist of a CPA, estate planning attorney, financial planner, and any other professionals you and your clients see fit.

4. Share findings concerning traits and attitudes around wealth among millennials and Gen Zers so that your clients can consider their heirs' interests and financial abilities to handle wealth.

Advising on the proper way to transfer wealth is among the most important, endearing services we can provide to our clients. Only time will tell whether the great generational wealth transfer will be proven to be more hype than reality (likely over the next couple of decades or so). Until then, I highly recommend that you educate yourself on this potential opportunity so your clients can be well-prepared to pass on their assets to the next generation.