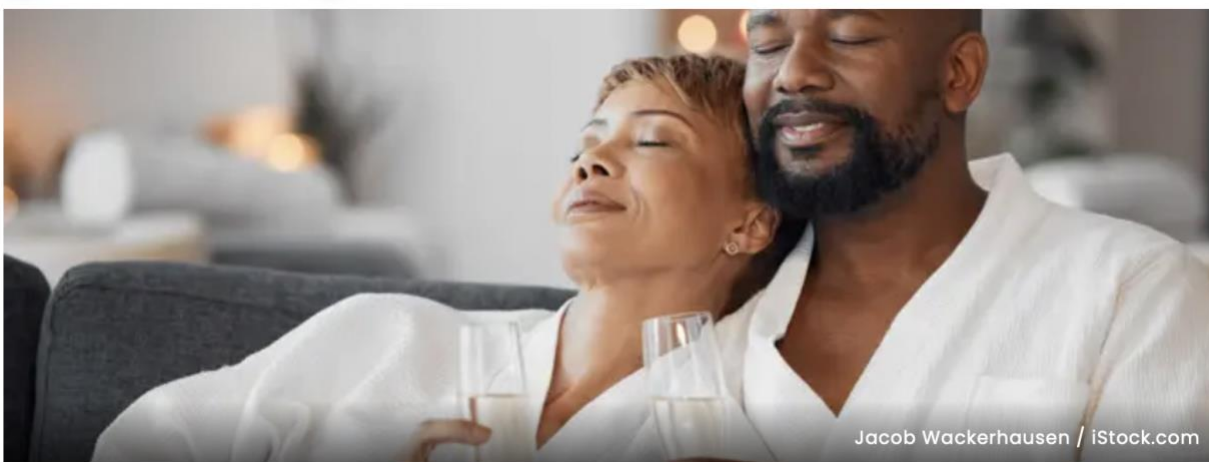


3 Tools the Wealthiest Americans Use To Safeguard Their Generational Wealth

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By Laura Bogart



When you imagine the wealthiest people you know — whether in real life or on the covers of magazines — you know that hard work or good luck (or a combination of both) likely played a role in building their fortunes. But [keeping that wealth intact for decades](#) — and ensuring it benefits future generations — takes [deliberate planning and the right financial tools](#).

And because you're putting nose to the grindstone to grow and protect your own wealth, you know that building a legacy of financial security also involves a lot of effort. Still, you might not be sure exactly how the wealthy safeguard what they have worked so hard to build.

To preserve what they have built and ensure it is available for future generations, high-net-worth individuals turn to a variety of tools, products and strategies — many of which could also help everyday people like you [grow and protect your own wealth](#).

As you see what the experts GOBankingRates spoke with shared, you will realize that the resources you need to reach these goals aren't so challenging to find.

Diversification

For Lukendric A. Washington, JD, LLM, CFP, RICP, CEO of [Manifest Wealth Management](#), the question of how wealthy people safeguard their wealth has one very clear answer — [diversification](#). He wants clients to make sure their wealth isn't bottled up in one kind of asset, because if that asset performs poorly, well, the bottle can break, and with it, their nest egg.

“In their investment portfolios they likely have a mixture of several, if not all, asset classes,” he said. “Beyond the typical investment options, there are private equity options, which can be riskier and less liquid, but can also reduce the risk that one event or one bad investment will destroy their entire portfolio.”

The wealthy and wise spread their assets across different categories to mitigate the risks that can come with having too much exposure to a single investment. Smart diversification can happen across industries (for example, having a portfolio with investments in different sectors) or by including alternative investments such as precious metals, real estate or even fine art.

Life Insurance

Washington likens [life insurance](#) to the “Swiss Army knife of wealth building.” It's a vivid description of the myriad functions that a properly structured life insurance plan can serve.

“If done correctly and structured appropriately, [life insurance policies](#) can help fund long-term care needs, allow for tax friendly retirements, and shift wealth from one generation to the next,” he said.

He's far from alone in this opinion. Michael Unger, vice president of Investments and Planning at [Coral Gables Trust](#), also praises life insurance for its versatility as an estate-planning tool.

“For high-net-worth families, a well-designed policy can provide immediate liquidity to pay estate taxes, so heirs are not forced to sell assets at an inopportune time,” he said. “It also delivers a guaranteed, tax-free death benefit, which can be used to equalize inheritances among heirs or fund charitable giving.”

Unger adds that, when the policy is owned by an [irrevocable life insurance trust \(ILIT\)](#), the proceeds are kept outside of the taxable estate — which minimizes tax exposure even further.

Proper Estate Planning

When wealthy people look to the future, there are many bright and hopeful things they want to see with their families: Weddings. Graduations. Loved ones reaching new stages

of success. But they also use estate planning to help ensure that this growth continues even when they're not around to see it in person.

As an estate planning attorney and founder of [2-Hour Lifestyle Lawyer](#), Laura Cowan is very well acquainted with how wealthy families can use a mix of wills and trusts to protect their assets and control how they are passed down. She said that wills leave instructions about what happens to your assets — who inherits what or who takes guardianship of young children. However, the downside of wills is that they usually must go through probate court, which Cowan said, “can be public, slow and expensive.”

She's seen wealthy people use trusts to anticipate pressing issues, like taxes or control over a business. For instance, a wealthy person might place shares of their company in a [revocable living trust](#) — which holds assets during your lifetime and gives you control over who manages and inherits them — to keep the business running smoothly even after they've passed away. And, critically, without any involvement from the courts via probate.

Another kind of trust that wealthy people often create is the irrevocable trust, which can help protect assets from creditors and reduce estate taxes, but, as its name suggests, once you've set it up, you can't change it.

Cowan also cites generation-skipping trusts as a pathway to passing wealth directly to grandchildren, or even later generations, to avoid the family paying estate taxes twice. With a charitable trust, you can support a cause close to your heart [while also getting tax benefits](#). “For instance, a family might create a charitable remainder trust that pays them income during their lives and leaves the rest to a charity when they die,” she said.

Bottom Line

The tools wealthy people use to safeguard and share their wealth across generations aren't beyond the reach of people working hard to make their first million. Finding the right resources and learning how to use them wisely is the best first step. The next step? Knowing you don't have to go it alone.

“The wealthiest Americans don't just rely on one tool,” Cowan said. “They use a mix of trusts, family entities, life insurance, gifting strategies, and charitable funds, all coordinated by a team of advisors, CPAs, insurance agents, and estate planning attorneys. Many of these strategies work just as well for everyday families.”

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