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You Might Already Be Building Generational Wealth – 6 Things You’re Doing Right

5 MIN READ

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The baby boomers are currently handing down trillions of dollars to their heirs in what’s known as the Great Wealth Transfer, but nearly half the country will be left out.

According to a new GOBankingRates survey of more than 1,000 adults, 46% of people don’t expect to receive an inheritance. With so many people struggling to get by in their own lives, building generational wealth to hand down to posterity might seem like an impossible hill to climb.

But the good news is that you might be taking steps to create a family financial legacy without even meaning to.

“The concept of ‘unintentional’ generational wealth creation is both interesting and quite accurate,” said Dennis Shirshikov, professor of finance, economics, and accounting at the City University of New York and the head of growth at the real estate investing site Awning. “Many people are indeed contributing to the building of generational wealth without realizing it.”

If you have any of the following good money habits, your children might one day thank you for building the foundation of a family fortune.

You Teach Your Kids About Money

You’re not doing any favors to the next generation by willing them wealth without teaching them how to manage and maintain it. If you’re sharing your knowledge about money with those who stand to inherit it, you’re on the right track.

“A parent can create generational wealth by teaching their children how money works and showing them by example how it’s done,” said Kim Scouller, a certified financial educator and author of “How Money Works for Women: Take Control or Lose It.” “For all parents, it’s important to educate kids about creating cash flow, sticking to a budget and living below your means so they can save and invest more money for the future. Spend time explaining your investment account statements to them and set up beginner investment accounts so they feel personally involved.”

You’re Covered With Life Insurance

Life insurance is the unsung hero of generational wealth building – particularly for those with average incomes. If you’ve paid to insure your life, you might have set up your kids for the remainder of theirs.

“Many people don’t realize that life insurance sets their family up for generations once they pass away,” said Samantha Hawrylack, a personal finance expert, retirement mentor and co-founder of the personal finance site How To FIRE. “Many young families benefit from term life insurance. They take out enough to pay off the mortgage and other debts, as well as to cover the children’s needs in the event that one or both parents pass away.”

According to New York Life, life insurance payouts are more than just a windfall. They are generally exempt from taxation and probate, and they provide broad asset protection.

You Invest in Education

If you're planning ahead for your child's education by funding a tax-advantaged account, you're relieving them of decades worth of student debt and five figures in interest paid to the bank that will instead stay in your family – and you're also setting them up to earn more money than their non-degree peers.

“While many see their children's education only as a responsibility, it's actually a great way to set up generational wealth,” Hawrylack said. “Saving money in a 529 plan gives your kids a jumpstart, whether they are infants or already teenagers. But it's all right if not every child chooses to attend college or needs to save for it, since they may also use their 529 money for trade and vocational schools.”

You Invest in Stocks

If you own a diversified blend of stocks that you bought with a buy-and-hold mindset, you're invested in the greatest wealth-generation machine in the world and amassing a growing pool of liquid assets for your posterity to inherit.

“Investing in the stock market is a long-term investment plan,” Hawrylack said. “If people make an investment of a few thousand dollars today and leave it for 30 years, their descendants will have a nest egg.”

You Own Real Estate

Real estate can build wealth through capital appreciation, passive rental income and equity growth. It also comes with unique and lucrative tax benefits that other asset classes don't enjoy. If you own real estate, you're setting yourself up for the transfer of generational wealth because you can will property to heirs while sparing them the capital gains taxes they would have owed if you transferred it to them during your lifetime.

“Long-term real estate ownership allows people to pass their properties on to succeeding generations,” Hawrylack said. “If they sell them for a profit, they can put the money into other investments to keep the money rising for upcoming generations.”

You're Building a Business

If you're an entrepreneur who launched a small business, you're creating an asset with more growth potential than anything else you're likely to leave to your children. Entrepreneurs sell successful companies they've built for huge profits because few things are more valuable than sustainable businesses with existing customer bases.

"Those who invest time and energy into growing a business are not only providing for their own livelihood," Shirshikov said, "but also potentially creating a valuable asset that can be passed down to future generations."