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The 'Great Wealth Transfer' may not be as great for some

There's been a lot of hype in the media over the past decade about the 'great wealth transfer.' The transfer is estimated to total $72 trillion over the next 20 years. Understandably, younger generations are looking forward to this. The data show that Gen X, Millennials and Gen Z are marrying later and having fewer children than previous generations, often citing financial instability as the reason. Many young adults may feel the impact of stagnant real wages, increasing student debt, a challenging housing market, and an above-average increase in elder and childcare expenses. Last year, we wrote about the ballooning cost to raise a child in America; it's eye opening.

For some, an inheritance is a key component of long-term financial security. It can be a complete game-changer in terms of a family's well-being, education, lifestyle, and retirement. On the upstream side of the equation, older generations are hoping to leave a legacy for their children and grandchildren. Some fund educational accounts or trusts and help with the costs of purchasing a first home. In other cases, the goal is to provide supplemental income for general living expenses.

Retirees can usually control their lifestyle expenses, but very few are willing to skimp on healthcare expenses – with good reason. Americans are living longer at a higher cost. And because of this, there may not be as much wealth to pass down as initially expected. Healthcare expenses in the US have inflated at approximately 5.5% annually over the past several decades. Most healthcare expenses occur after age 65, and the last few years of life tend to be the most expensive. 70% of people who reach the age of 65 will require long-term care, and 20% of them will need it for at least five years.

Long-term care services are not covered by most medical insurance plans. The average cost of a private room in a nursing home is approximately $125k, a year but it varies significantly by state. In California, the cost averages about $170k. These figures are in today's dollars, so $170k inflated at 5.5% over 25 years is about $650k.

Medicare and most health insurance plans do not cover long-term care, but there are other funding options to consider. Long-term care (LTC) insurance is an option. Unfortunately, only a minority of Americans have policies because the cost of the average policy has increased significantly over time – making coverage out of reach for many. Another option is a life insurance policy that has a long-term care rider. If LTC is required, the life insurance policy value may be used to pay for healthcare costs. Lastly, many folks choose to self-insure and pay 'out-of-pocket'. Funds are typically withdrawn from investment, savings, and retirement accounts and as a result, LTC expenses may significantly deplete assets. Some sell their home to finance the costs of LTC.

In summary, we recommend considering the rising costs of healthcare when planning for wealth transfer. It's important to set realistic expectations for the next generation. For those who are expecting to receive an inheritance, keep in mind that unavoidable healthcare costs may decrease the intended gift or bequest.

Please reach out to your Wealth Manager with questions about wealth transfer planning and health expenses later in life.