The Second Chapter of the American Dream

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One of the unexpected privileges of being a financial advisor has been simply observing patterns in human behavior.

Every week I sit down with clients, the majority of whom are either entering retirement or have already been retired for several years. While each family is different, there are multiple clear commonalities in each of their stories. They worked hard throughout their careers, consistently saved and invested, lived within their means, and likely made countless sacrifices along the way.

Today, many of them have accumulated significantly more wealth than they ever assumed possible. One of the most common phrases I hear during planning meetings is, "I never thought I'd have this much." It usually comes after reviewing their net worth statement when they've never had someone simply take inventory of their current assets, or after walking through our long-term Retirement Projections. In those projections, even after assuming decades of retirement distributions, conservative investment returns, constant inflation, taxes, and rising healthcare costs, these families are in many cases projected to be worth a multiple of their current net worth in the coming decades – double, triple, even decuple their current wealth as they head into a multi-decade retirement.

Our clients aren't movie stars or billionaires. They are what's commonly described as "the millionaire next door." They're teachers, physicians, engineers, business owners, accountants, and countless others who simply made disciplined financial decisions year after year. They lived below their means, consistently invested, stayed the course through recessions and market downturns, and allowed compounding to work its magic in the background. In many ways, this is exactly what successful long-term investing is supposed to do.

Most people dramatically underestimate the power of compounding over the thirty- to forty-year retirements we're seeing and planning for today. They expect to retire comfortably, but most of them don't expect their portfolio to continue growing throughout retirement while they're simultaneously spending from it. Yet for many clients, that has been exactly the outcome. They have achieved the goal they spent their entire working lives trying to achieve: **having enough.**

Once they feel confident in knowing they have enough, though, they're asking an entirely different question.

That question typically isn't, "How can we spend more money?" When most people picture a multimillionaire, they imagine expensive cars, lavish vacations, or extravagant homes. In reality, that's rarely what I see. Yes, many of them take the trips they've been dreaming about, remodel the kitchen they've wanted for years, or purchase the classic car they've admired since they were a kid. They live comfortably, but the same habits that built their wealth continue steadfastly throughout retirement. They remain thoughtful with their spending, continue living below their means, and rarely feel the need to dramatically change their lifestyle simply because they can afford to.

Instead, the conversation almost always shifts toward family. Parents begin asking whether they should help their children purchase a home. They wonder if it makes sense to pay off their son's mortgage, contribute toward a grandchild's education, or give their daughter a portion of what they know will eventually become their inheritance to invest on their own today.

More than anything else, these retirees want to see the impact their life's work can have while they're still here to enjoy it. I've come to think of this as the *second chapter* of the American Dream.

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The first chapter of the American Dream was creating opportunity for yourself. Building a business, climbing the career ladder, buying a home, raising a family. The second chapter is creating opportunities for those you hold closest.

This is something I don't believe we've ever seen before at this scale and frequency. With previous generations, all that was left to pass on to the next generation was typically whatever happened to be left over. Maybe you inherited what remained in a parent's retirement account, a few bank accounts, CDs, or a modest life insurance policy. In most cases, there wasn't an inheritance at all. In fact, many of today's retirees have spent or are spending years helping to financially support their own aging parents rather than receiving support from them.

That's what makes this increasingly common pattern so remarkable. Instead of wondering whether there will be anything left to pass on, many retirees are now asking whether they should begin transferring a portion of their wealth while they're still here to witness the impact. Not because they're extraordinarily wealthy, but because decades of disciplined investing, funded retirement plans, home appreciation, and compounding have left many families with more financial flexibility than they ever imagined.

We are living through a period that many have dubbed The Great Wealth Transfer. Over the next two decades, an estimated $124 trillion is expected to pass from one generation to the next in the United States, with the vast majority of that transfer coming from Baby Boomers. Most of that wealth will transfer after death, but sitting across the table from retirees every day, I can't help but wonder whether we're beginning to see an even more significant trend emerge. More and more families aren't simply making sure their wealth transfers to the right people, they're asking **when** that wealth will have the greatest impact.

The role of timing in wealth transfer is one of the most important pieces of this discussion for clients.

A dollar received at age 35 is fundamentally different from a dollar received at age 65. Not because it's worth more (it will most likely be worth much less, actually), but because it arrives when it has the greatest opportunity to change someone's financial future. It may allow a young couple to purchase their first home years earlier, avoid decades of mortgage interest, invest more aggressively while compounding is still on their side, or simply create enough financial security that they can begin building wealth on their own. Time is part of the gift, and in many cases, it may be just as valuable as the dollars themselves.

Perhaps the most overlooked consideration is taxes. For many retirees today, the largest asset they'll eventually leave behind isn't their home or their brokerage account. It's their traditional IRA or 401(k). While those accounts benefited from decades of tax-deferred growth, they were never tax-free. Under current law, most non-spouse beneficiaries must distribute inherited retirement accounts within ten years. In many cases, those beneficiaries will be in their peak earning years when they inherit these assets. The resulting effect is that large IRA distributions may be stacked on top of an already substantial income, creating significant tax consequences and reducing the amount of wealth that ultimately stays within the family.

For example, take an individual at age 60, earning $150k today, and drop a $2M inherited IRA in their lap—it can create a surprisingly large tax problem from a planning perspective. This individual would now have 10 years to completely empty the IRA. At that level of earnings, this person would already be well into the 24% federal tax bracket (assuming they're single, 22% if they're filing jointly). If they inherit a $2M IRA, their first required distribution will be roughly $76k based on current beneficiary distribution rules. With their earnings and this required distribution, they'll now be in the 32% tax bracket and owe between $35–$44k in federal taxes, depending on if they're maxing out their retirement plan. Their tax liability would just about double from the added distribution requirement. Now, of course, I must remind you that if you're paying taxes, it means you made or received money. But if you could avoid or minimize that tax liability through thoughtful planning and strategic wealth transfer, wouldn't you?

This does not mean everyone should or can begin transferring wealth to their children today. Your own financial independence and security should always come first, and every family's goals and circumstances are different. In many cases, leaving assets as a traditional inheritance remains the right decision. The point isn't that one approach is better than another. Rather, I believe this may represent a meaningful planning opportunity for many families to build generational wealth, and to structure it strategically and thoughtfully to make the most of it for each beneficiary.

Of all the patterns I've observed through my work, this one may be the most human of them all – the desire to help. For more and more families, the American Dream hasn't ended with financial independence. It simply has entered a new chapter.

Frequently Asked Questions

Should I give my children part of their inheritance while I'm still alive?

There is no universal answer. For many families we work with, lifetime gifting can create a greater impact than leaving the same assets later through an estate. The right strategy depends on your own financial security, your children's circumstances, tax considerations, and your family's goals. Our planning work aims to help you make legacy decisions with greater confidence by evaluating your options and their impact on your long-term financial picture.

Why can inherited IRAs create large tax bills?

Assets held in Traditional IRAs, 401(k)s, 403(b)s, and 457(b)s have never been taxed. Under current law, most non-spouse beneficiaries must fully distribute inherited retirement accounts within ten years of the original owner's death. 100% of the distributions over that 10-year period will be taxable as ordinary income to the beneficiary. For large retirement accounts, these required distributions can substantially increase a beneficiary's taxable income, potentially pushing them into higher tax brackets—particularly if they're already in their peak earning years.

How can retirees reduce taxes on wealth passed to their family?

Potential strategies may include:

- Roth conversion planning
- Strategic charitable giving
- Lifetime gifting
- Coordinating withdrawals across taxable, tax-deferred, and Roth accounts
- Estate planning with attorneys and tax professionals

Every family's situation is different, making personalized planning essential.

What is the Great Wealth Transfer?

The Great Wealth Transfer refers to the unprecedented transfer of wealth expected over the coming decades as older generations pass assets to younger generations. For many families, the planning opportunity isn't simply deciding who ultimately receives assets, but determining when and how those assets can create the greatest benefit.

At what net worth should someone begin thinking about legacy planning?

Legacy planning isn't reserved for ultra-high-net-worth families or for retirees. Any household with investment portfolios, retirement accounts, real estate, or appreciated assets can benefit from discussing tax-efficient wealth transfer long before estate taxes become a concern.

How do I know whether I've saved enough for retirement?

The only reliable way to answer that question is through a comprehensive retirement projection that models your income, spending, inflation, taxes, healthcare costs, conservative investment return expectations, and longevity. There’s no target net worth that can be applied across the board. What constitutes “enough” is dependent on each individual’s situation. We work with our clients to give them clarity on whether they’re on track and what they can do to refine their long-term plan.

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