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INSIGHTS FROM GOELZER INVESTMENT MANAGEMENT

Thoughtfully Transferring Wealth to the Next Generation

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Families spend decades building wealth, yet one of the most important decisions is determining when and how the next generation should begin benefiting from it. While wealth is measured in dollars, its true value is often found in the opportunities it creates, from providing financial flexibility to helping future generations pursue meaningful goals. Before selecting an account, trust, or gifting strategy, it is important to define the role wealth should play and what success looks like for the family.

The most effective wealth transfer plans are not defined solely by tax efficiency or sophisticated legal structures. Rather, they are shaped by a family's values, priorities, and vision for future generations. Some families use wealth to create opportunities and accelerate success, while others view it primarily as a source of security that balances support with personal responsibility. Some prioritize flexibility and autonomy, while others favor greater oversight and stewardship. Consequently, families with similar wealth often choose very different strategies. The right approach is ultimately the one that best aligns resources with the family's goals and values.

Building Long-Term Wealth

If a child or grandchild has earned income and the objective is long-term wealth accumulation, providing gifts as contributions to a custodial Roth IRA is one of the most compelling opportunities available. While contributions cannot exceed the lesser of the child's earned income or $7,500 in 2026, parents and grandparents often make annual gifts that effectively match the child's earnings. For example, a child who earns $3,000 from a summer job could be given $3,000 by a parent or grandparent to contribute to a Roth IRA, allowing the child to retain their earnings for other purposes. This approach reinforces the value of work and saving while taking advantage of a vehicle that offers tax-free growth and potentially decades of compounding.

While Roth IRAs are generally most effective when held for the long term, they offer significant flexibility. Contributions can be withdrawn at any time, for any reason, free of tax and penalty. Exceptions also allow access to earnings before 59 ½ without the typical 10% penalty, including for a qualified first-time home purchase (up to $10,000), within one year of the birth or adoption of a child (up to $5,000 per child), for higher education expenses, and for various other times of need.

Funding Education

If education funding is a primary objective, the income tax advantages and structure of a 529 should be considered. Many states provide significant state income tax deductions or credits for contributions to accounts, and federal law allows bunching up to five years' worth of annual exclusion gifts in one year, assuming no other annual exclusion gifts are given to the same recipient in the five-year period following the gift. Legislative changes over the past several years have expanded flexibility in the use of 529 accounts, including a broadened list of qualified expenses and higher distribution limits ($20,000 per year in 2026) for K-12 expenses and the ability in some situations to transfer unused 529 assets to a Roth IRA.

Because state rules vary and may not fully conform to federal provisions, families should understand both the federal and state implications before implementing a strategy.

Preserving Flexibility

If flexibility is the goal without funding limitations, a Uniform Transfers to Minors Act (UTMA) account may be appropriate. These accounts have no contribution limits, and investment income is generally taxed to the child, though higher income levels may trigger the kiddie tax.

Compared to 529s and custodial Roth IRAs, assets in UTMAs become fully accessible to the child at the age of majority (generally either 18 or 21, depending on state law, with some states allowing up to age 25), allowing them complete access to the funds. At that point, the beneficiary has complete discretion over how the funds are used, whether for education, a home or vehicle purchase, entrepreneurship, debt repayment, future investment, or other financial goals. This unrestricted access is both a primary advantage and limitation of the account. For some families, outright control is entirely appropriate. For others, it may introduce more flexibility than they are comfortable granting at an early age.

Exploring New Opportunities

As families evaluate various strategies, Trump Accounts represent a new account type with several notable features. These include potential government contributions of $1,000 for children born between 2025-2028 and philanthropic contributions (e.g., Dell contribution of $250 per child in certain zip codes). Family contributions are generally limited to $5,000 per child per year, excluding eligible government and philanthropic contributions. Employers can also contribute up to $2,500 per employee without being included in the employee's income, but these contributions count toward the $5,000 family contribution limit. Assets grow on a tax-deferred basis and unlike Roth IRAs, no earned income is required for contributions.

Distributions are not allowed until the child reaches age 18. At that time, the account is treated similarly to a Traditional IRA, with distributions taxed on a pro-rata basis (personal contributions as after-tax and federal, philanthropic, and employer contributions as pre-tax). Certain exceptions may permit penalty-free distributions before age 59 ½. If intended for longer-term growth, a Roth conversion could be considered after age 18, when the beneficiary is likely in a lower tax bracket relative to the rest of their life.

Maintaining Control & Stewardship

When planning objectives involve larger balances, longer time horizons, asset protection concerns, or multi-generational control, trust planning becomes a viable strategy.

Trusts can be tailored to a family's specific goals, providing conditions and safeguards around distributions, while also preserving the ability to pass on wealth to future generations. The tradeoff, of course, is additional complexity, administrative responsibility, and higher implementation costs.

Gifting in Practice

Before implementing a gifting strategy, individuals should ensure that the gift, whether one-time or ongoing, does not compromise their own financial well-being.[1] Some families base the gift amount on a specific objective. Others use the annual exclusion amount ($19,000 per year per recipient in 2026), which does not count toward usage of the federal unified gift and estate tax exemption ($15 million in 2026).

Annual exclusion gifts can transfer meaningful wealth over time and can be directed toward nearly any of the structures, subject to funding limits of the specific structure. In addition, tuition and medical expenses paid directly to providers do not count against either the annual exclusion or lifetime exemption, creating additional opportunities to provide support.

When estate planning is a central objective and trust structures are used, gifts exceeding the annual exclusion amount are common. Families may intentionally opt to use some of their lifetime exemption to remove assets from their taxable estate, allowing future growth to occur outside the estate for the benefit of children or grandchildren.

Designing Opportunities for the Next Generation

These strategies are more effective when integrated into a broader plan rather than viewed in isolation. A family might combine 529 funding for education, Roth IRA contributions for working teenagers, and trust planning for larger legacy assets. Another family may utilize a different mix of vehicles based on the age of beneficiaries, tax considerations, and the balance between flexibility and oversight.

As children mature, family circumstances evolve and tax laws change, wealth transfer strategies should adapt accordingly. The goal is not simply to transfer wealth, but to intentionally connect resources with opportunities while preparing the next generation to use those opportunities wisely. A well-structured gifting strategy should be integrated within your broader wealth, tax, and estate plan.

Please consult your wealth advisor to develop a customized approach to transferring wealth across generations.

[1] Alexander, David, Generation X: You Must Put Your Oxygen Mask on First, Goelzer Insights, February 2026, goelzerinc.com/insights_post/generation-x-you-must-put-your-oxygen-mask-on-first.

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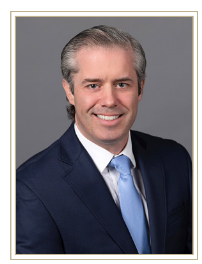

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