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**WHAT YOU
NEED TO KNOW
ABOUT CLOSING THE
RACIAL WEALTH GAP**

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The Law Office of Raymond E. Brown, LLC has been providing quality estate planning for our clients in Maryland and DC since 2018. Through the use of Living Trusts, Wills, Powers of Attorney, Living Wills, Irrevocable Trusts, Family Limited Partnerships, or Charitable Gifting Strategies, our firm helps families preserve their wealth for future generations, minimize estate taxes, and avoid the expense and nightmare of probate. We provide comprehensive, tailored estate planning services to meet all of our clients' needs.



We are committed to providing our clients with the highest quality estate planning services, regardless of their background. The first priority for our firm, through utmost compassion and attentiveness is to move you from client to family.

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WHAT YOU NEED TO KNOW ABOUT CLOSING THE RACIAL WEALTH GAP

Despite the fact that America has long been known as the “Land of Opportunity,” the reality is that Black Americans and other ethnic minority groups have operated at a disadvantage when it comes to building wealth. That disadvantage stems primarily from what is referred to as the “generational wealth gap.” Those whose ancestors began amassing wealth several generations ago have a built-in advantage over those whose ancestors were unable to do the same because that wealth has been passed down through the generations. The good news is that there are estate planning tools available that can help you close the generational wealth gap.

WHAT IS THE GENERATIONAL WEALTH GAP?

From a legal standpoint, Black Americans and other minorities gained equality decades ago; however, that legal equality did not make up for the centuries of inequality that led to the generational wealth gap. Moreover, that gap has not narrowed in the intervening decades. Today, the income gap between Black American families and Whites remains as large as it was five decades ago.

The reasons for the inequality of wealth between Whites and other ethnic groups are numerous and complex. Income inequality is one factor. In 2019, the per capita average Black American income, was 53 percent less than White Americans. What makes this so significant is that the percent differential has remained largely unchanged for over 20 years¹. Consequently, the median White household has about 13 times the wealth of the median Black household and White families are, on average, seven times wealthier than their Black counterparts. That wealth is then passed down from one generation to the next, adding to the generational wealth gap. In fact, Whites are ten times more likely to receive a family inheritance than Black Americans.

Another important factor that contributes to the generational wealth gap is home ownership. Black Americans purchase a home eight years later on average, than Whites do. One reason Whites are able to purchase a home at an earlier age as compared to minorities is that, they can rely on family wealth to help with the purchase. In turn, Whites establish a credit history earlier, start building equity earlier, and reap the tax benefits of home ownership earlier than Black Americans and other minorities. All those benefits perpetuate the generational wealth gap because it allows Whites to continue to add to the family wealth that is eventually passed down to the next generation. Black Americans, on the

other hand, are often forced to accept high risk mortgages that increase the risk of losing the home if they cannot pay the mortgage².

Finally, gentrification often plays a role in the generational wealth gap. Gentrification is a process that aims to bring new amenities to older, urban areas to improve those neighborhoods and make them more desirable. In recent years, numerous metropolitan cities have initiated gentrification projects in the hope of attracting higher income homeowners to previously undesirable urban – and typically minority occupied -- neighborhoods. Gentrification plans can cause longtime homeowners to give in to pressure to sell their homes, only to see that same home increase significantly in value over the next few years. Losing out on the increase in equality that typically follows gentrification is yet another way that the generational wealth gap expands.

ESTATE PLANNING TOOLS TO HELP YOU CLOSE THE GENERATIONAL WEALTH GAP

Of course, doing what you can to build wealth over the course of your lifetime is the first step in closing the wealth gap; however, the true key to closing the generational wealth gap is to *protect* and *preserve* that wealth, to ensure that it is passed down to future generations. That is where proper estate planning becomes crucial, particularly because Black Americans, Hispanics, and other minority groups are less likely to have an estate plan in place as compared to their White counterparts. So not only do White families have a head start on building wealth, but they are also more likely to avail themselves of tools that help keep that wealth in the family.

WHY ESTATE PLANNING IS CRUCIAL

The most important step you can take toward closing the generational wealth gap is to create an estate plan. An estate plan can help you protect and increase your wealth while you are alive and ensure that it is passed down to the next generation when you are gone. Without an estate plan, a significant percentage of your acquired wealth could be lost after your death or in the event of your incapacity.

WHY AVOIDING PROBATE IS IMPORTANT

One way estate planning can help your family retain the wealth you amass during your lifetime is by planning to avoid probate after your death. Probate is the legal process that identifies, values, and eventually distributes many of your estate assets after your death. Probate can be a time consuming and expensive process that often drains an estate of its value. Incorporating probate avoidance strategies into your estate plan can significantly

decrease, or even avoid, the need for formal probate. Converting assets to “non-probate” assets is one of those strategies. For example, titling your home with a spouse or adult child as co-owners with rights of survivorship allows your ownership interest in the home to pass directly to your co-owner(s) after your death without the need to go through probate.

HOW CAN A LIVING TRUST HELP?

Although a Last Will and Testament can distribute your entire estate, a better option may be a Living Trust because it offers several benefits that a Will does not. First among those benefits, is that Trust assets bypass probate. As such, assets held in a Living Trust can be distributed to beneficiaries immediately after your death if you wish. A Living Trust can also be used to protect and grow an inheritance you designate for your minor children or grandchildren. Because minor children cannot inherit directly from your estate, someone must manage those assets until they reach the age of majority. A Trust lets you choose who that person will be. The terms of a Living Trust can further be used to stagger the distribution of an inheritance and even provide incentives for future generations to use the assets wisely. Finally, a Living Trust can also protect assets from creditors and plan for the possibility of your own incapacity by ensuring that your assets are safe even if you cannot manage them yourself.

References:

¹ Wilson, V. (2020, September 16). Racial disparities in income and poverty remain largely unchanged amid strong income growth in 2019. Retrieved from <https://www.epi.org/blog/racial-disparities-in-income-and-poverty-remain-largely-unchanged-amid-strong-income-growth-in-2019/>

²White, G. (2016, February 25). Why blacks and Hispanics have such expensive mortgages. Retrieved from <https://www.theatlantic.com/business/archive/2016/02/blacks-hispanics-mortgages/471024/>

ABOUT THE ACADEMY

This report reflects the opinion of the American Academy of Estate Planning Attorneys. It is based on our understanding of national trends and procedures, and is intended only as a simple overview of the basic estate planning issues. We recommend you do not base your own estate planning on the contents of this Academy Report alone. Review your estate planning goals with a qualified estate planning attorney.

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The Academy expects Members to have at least 36 hours of legal education each year specifically in estate, tax, probate and/or elder law subjects. To ensure this goal is met, the Academy provides over 40 hours of continuing legal education each year. The Academy has also been recognized as a consumer legal source by *Money Magazine*, *Consumer Reports Money Adviser* and Suze Orman in her book, *9 Steps to Financial Freedom*.

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