



Intergenerational Wealth Transfers: Having the Conversation with Clients



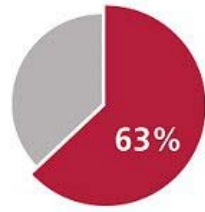
The Great Wealth Transfer

Safeguarding your estate for the next generation



\$750 billion

The amount set to be transferred to baby boomers in the next decade



The percentage of people who expect to receive an inheritance in the future



The Givers



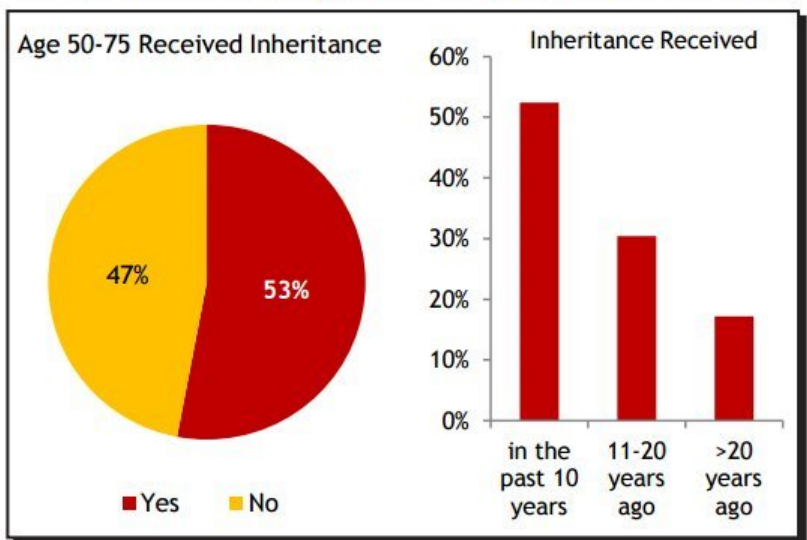
- approximately 2.5 million Canadians aged 75 and older
- 25% more people in this age group since the last decade
- this segment of the population will continue to grow in the 10 years to come
- roughly 45% of Canadians over age 75 are widowed
- not only is the new cohort of 75 plus the largest on record, it is also the wealthiest
- Benjamin Tal estimates this group has a net worth of over \$900 billion

The Receivers



- the group that stands to benefit from the Great Wealth Transfer are those from age 50 to age 75
- sharp increase in the number of Boomers over the past decade as individuals turn 50
- this growth rate will slow going forward
- the 50 – 75 years group has a greater accumulation of debt
- however, their overall financial position has improved in recent years based on their ratio of assets to debt

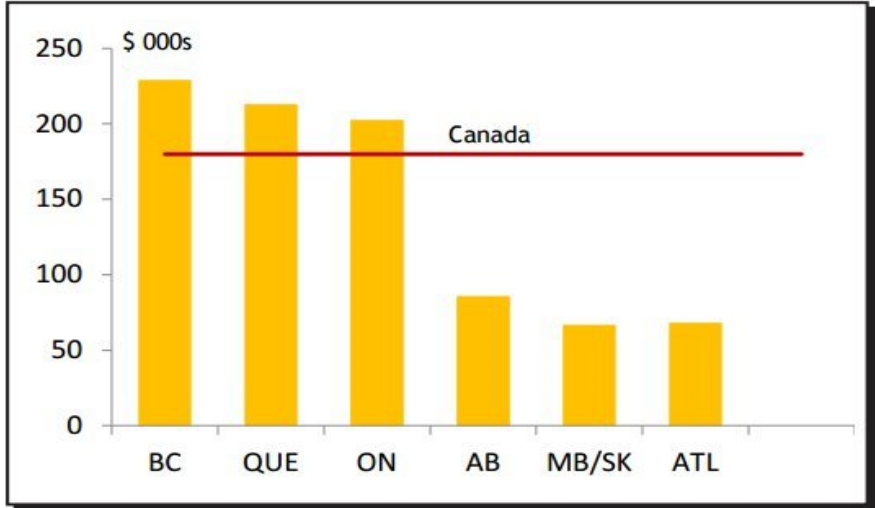
Half of Canadians Aged 50-75 Received Inheritance



Source: CIBC Inheritance Survey, 2016



Average Inheritance Received in the Past Decade



Source: CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs)

The Fallout of Inheritances



Wealth Inequality

- disparity exists based on wealth and education
- the average inheritance for an individual earning over \$100,000 is three times that of a lower income individual
- similarly, those with a higher education receive a notably higher inheritance—as much as four times that of the median
- **Benjamin Tal:** income inequality will be transformed into *wealth* inequality



The Fallout of Inheritances

Impact on Labour Market Participation

- there will be an increase in self-employment activity for Canadians over age 50 due to this wave of inheritances

Impact on Real Estate

- *inter vivos* inheritances may lead to increased home ownership among younger Canadians



The Fallout of Inheritances

Other Uses of Inheritances

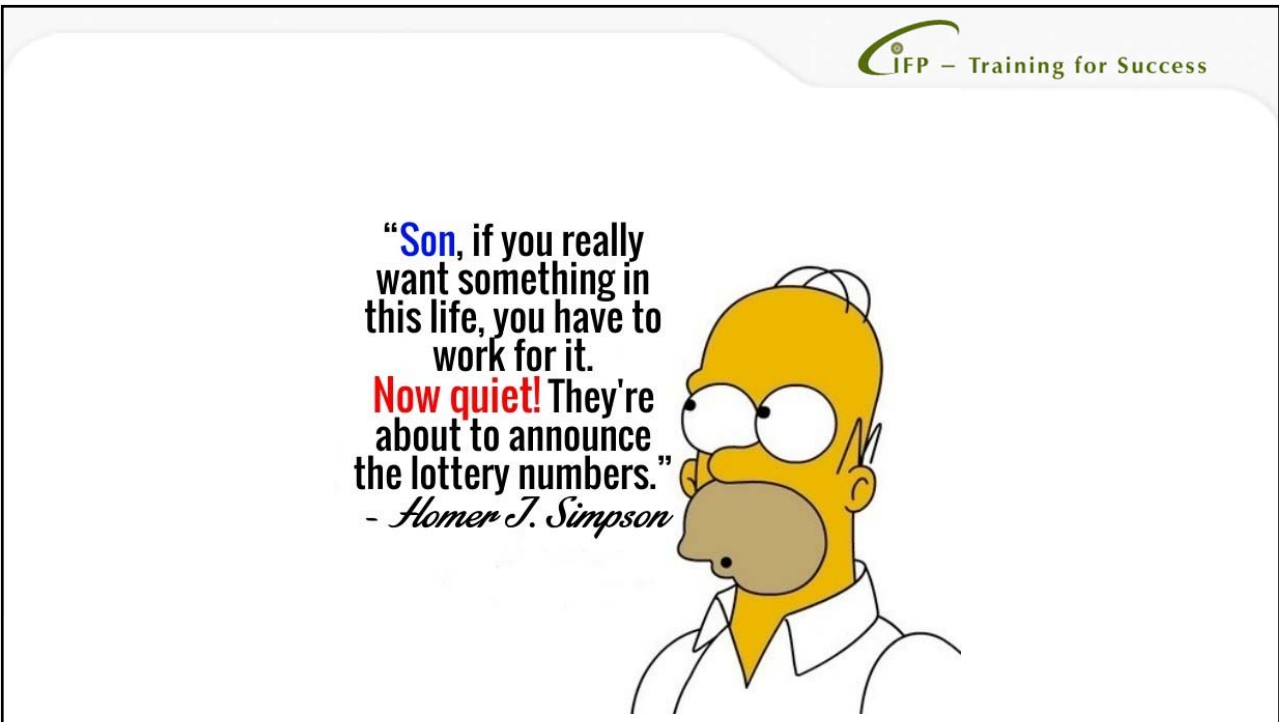
- increase current and future spending; decrease active saving
- increase leisure activities; decrease their labour market engagement
- use the funds to make *inter vivos* gifts to family members
- encourage retirement or at least make Canadians feel more secure and confident about their retirement
- reduce debt

Risks of Inheritances




Overstating Expectations for an Inheritance

- *The Canadian Inheritance Study*: approximately 1.5 million Canadians are counting on an inheritance to be their primary source of funding for retirement



IFP – Training for Success

“**Son**, if you really want something in this life, you have to work for it. **Now quiet!** They're about to announce the lottery numbers.”
- *Homer J. Simpson*



Risks of Inheritances



Overstating Expectations for an Inheritance

- *National Post*: 'Nation of Waiters'
- growing trend of younger people banking on receiving an inheritance and spending it before it arrives
- *David Foot*: the numbers are only averages and a relatively small group of extremely wealthy individuals can skew the numbers
- a number of estates that will be fairly modest
- Boomers often came from larger families; Boomers on average are only have 1.5 children

Risks of Inheritances



Lack of Dialogue Between Older and Younger Generations

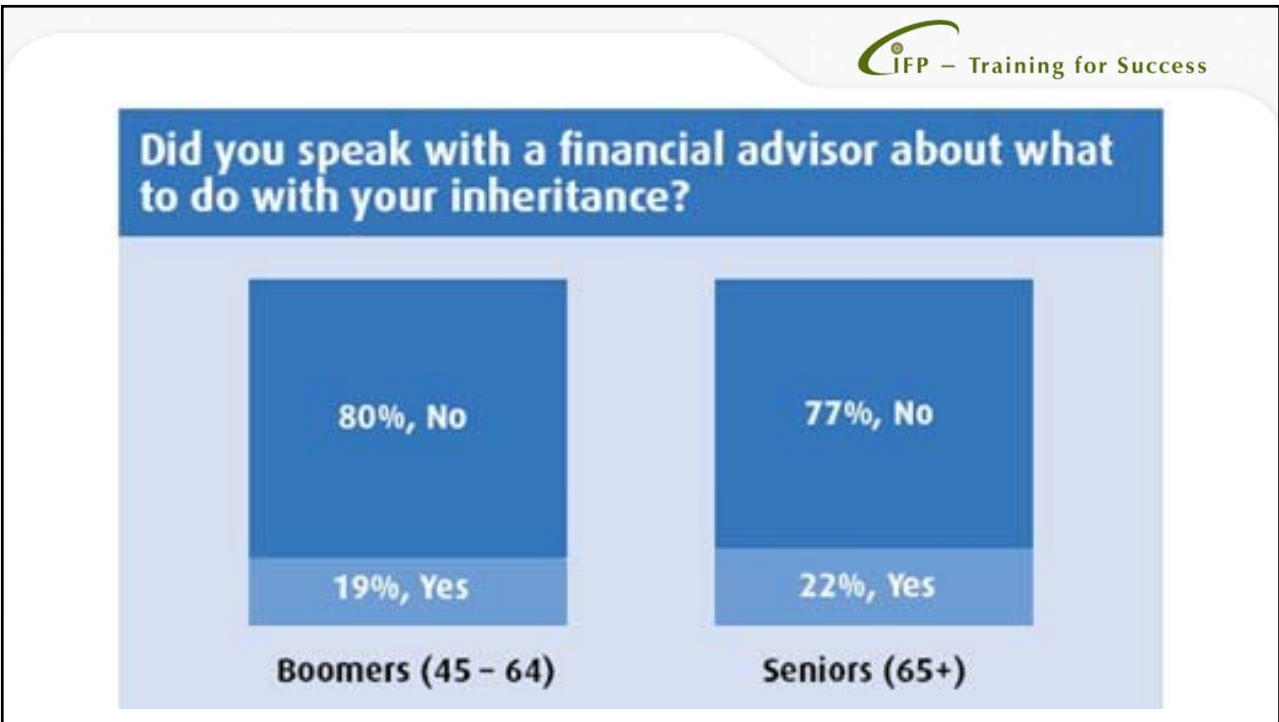
- regularly cited as a major contributing factor when it comes to poor retirement and estate planning
- most effective solution is to promote discussion to bridge the gap
- growing percentage of individuals plan to leave a bequest to charity as part of their legacy
- *Warren Buffet*: The perfect amount of money to leave children is enough money so they would feel they could do anything but, not so much that they could do nothing.

Risks of Inheritances



Lack of Dialogue Between Older and Younger Generations

- 2012 Investors Group survey: more than 60% of Canadians whose deceased parents had a will, never had 'the talk with their parents
- those whose living parents have a will, close to 40% said their parents have never discussed the terms of their will





The countries with the highest life expectancy

Countries with the highest life expectancy at birth (2015)

Japan	1	83.7
Switzerland	2	83.4
Singapore	3	83.1
Australia	4	82.8
Spain	5	82.8
Iceland	6	82.7
Italy	7	82.7
Israel	8	82.5
France	9	82.4
Sweden	10	82.4
Republic of Korea	11	82.3
Canada	12	82.2
Luxembourg	13	82.0
Netherlands	14	81.9
Norway	15	81.8
Malta	16	81.7
New Zealand	17	81.6
Austria	18	81.5
Ireland	19	81.4
United Kingdom	20	81.2



© StatistaCharts Source: World Health Organization



Factors Affecting the Size of an Inheritance



Being Single During Retirement

- *Census Canada*: 43% of Canadians aged 65 or older are single

Mid-life Divorce

- more than one-third of marriages will end in divorce before their 30th anniversary
- *Boomer entitlement* is a growing trend particularly for women

Factors Affecting the Size of an Inheritance

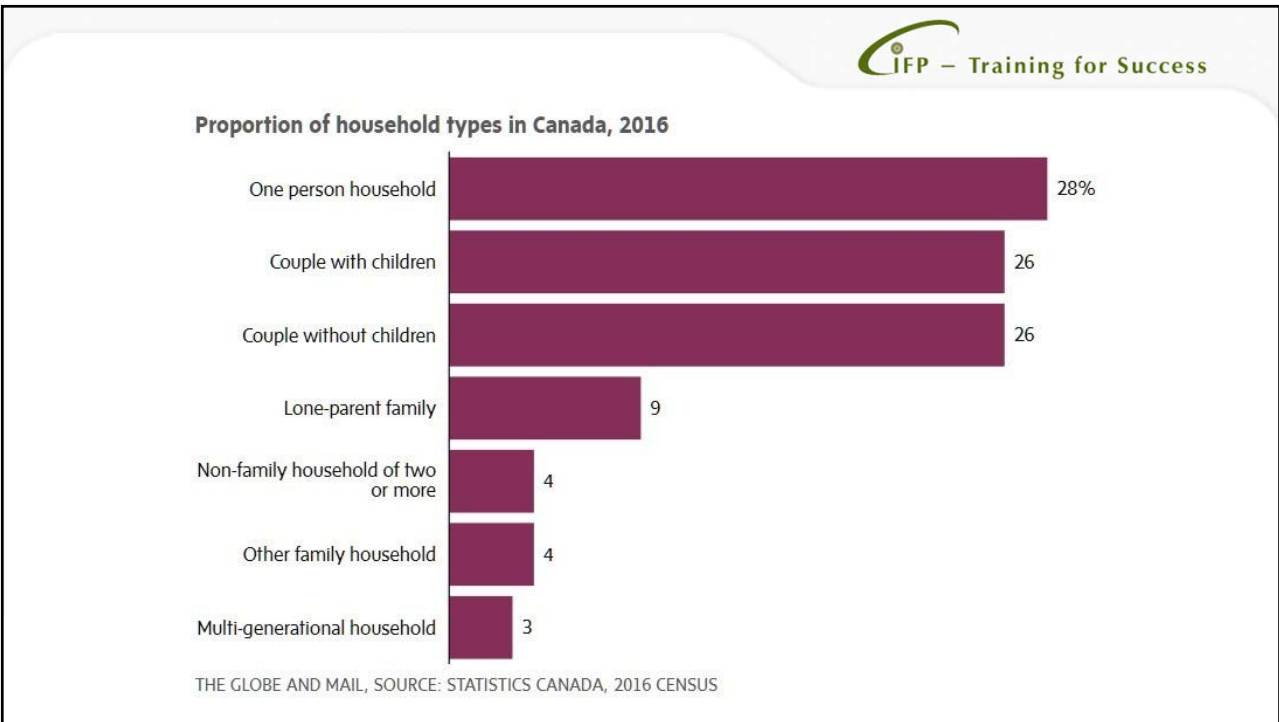


Outliving a Spouse

- there is a 50-50 chance one person in a couple will live to age 90
- a one-in-four chance, one person will make it to age 94
- married adults who become divorced or widowed between the ages of 67 and 80 are projected to have the largest decrease in wealth and the largest increase in poverty

Never Marrying in the First Place

- less people are married now than in previous generations
- women are now in a better position to handle household bills on their own



Factors Affecting the Size of an Inheritance



Market Conditions

- fluctuating markets, low interest rate environment and inflation

Taxes on Death

- death of an individual is a deemed disposition for tax purposes based on the fair market value of the asset (barring a tax-deferred rollover to a spouse or property that is exempt from taxation)
- not accounting for probate fees could also be a potential threat

Factors Affecting the Size of an Inheritance



Size of the Family

- legacy left by a senior is likely to be divided among multiple Boomer siblings
- *BMO Retirement Institute Inheritance Survey*: seniors are planning to leave an inheritance to someone other than a spouse or child
- 37% of seniors plan to include grandchildren in their legacy plans
- 28% want to allocate some of their wealth to charity
- Boomers are also the *Sandwich Generation*—providing care and financial assistance to parents, adult children and potentially even grandchildren

Planners & the Great Wealth Transfer



- *Investment News*: two-thirds of children will ultimately fire their parent's financial advisor once they receive their inheritance
- these are referred to as *fleeing heirs*
- Wall Street Journal broke reasons down into two categories:
 - issues with the financial advisor or his or her firm
 - issues relating to the heir

Planners & the Great Wealth Transfer



Issues with the Financial Advisor or the Firm

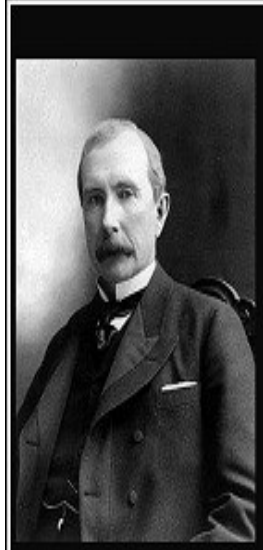
- advisor built the relationship a long time ago, based on traditional wealth management practices but, failed to move with the times to provide value above and beyond what clients can fairly easily do for themselves today
- advisor lacked empathy
- advisor and/or his firm is not setup to advise remotely
- advisor really never gained the trust of his client
- advisor was never a trusted member of the family
- advisor or firm provides one dimensional financial planning or investment management and has not yet embraced the idea of a holistic practice

Planners & the Great Wealth Transfer



Factors Relating to the Heir

- heir is already working with someone or, has someone that he or she knows and trusts
- heir is a DIY investor, financial planner and/or tax/estate planner
- heir does not feel that advisor acts as a fiduciary
- heir never had any intention of working with parents' advisor
- heir has been living as though he or she already had a windfall; not interested in having anyone keep tabs on their finances
- for whatever personality reason, the advisor and the heir just did not hit it off



God gave me my money. I believe the power to make money is a gift from God—to be developed and used to the best of our ability for the good of mankind. Having been endowed with the gift I possess, I believe it is my duty to make money and still more money and to use the money I make for the good of my fellow man according to the dictates of my conscience.

(John D. Rockefeller)

izquotes.com

Excellent.....



Shirtsleeves-to-Shirtsleeves in Three Generations



- *Williams Group*: 7 out of 10 families will lose their fortune during the lives of the second generation
- 90% will lose their wealth during the lives of the third generation
- 97% chance the wealth will not reach the fourth generation
- Japan: 'from rice paddies to rice paddies in three generations'
- China: 'wealth never survives three generations'
- Scotland: 'the father buys, the son builds, the grandchild sells, and his son begs'

ROOT PROBLEMS

Families have less than a 1 in 3 chance of maintaining wealth through multiple generations.



What are the core issues behind this phenomenon?



breakdowns in family communications and trust unpreparedness of heirs financial planning and tax errors

Shirtsleeves-to-Shirtsleeves in Three Generations



First Generation

- life of hardship and determined to make a better future for themselves
- willing to work hard, save diligently and make the sacrifices needed
- by their later years, their efforts have paid off and they are able to enjoy a more comfortable life, often with assets to pass on

Second Generation

- grow up as witnesses to their parents' struggle and thereby gain an understanding of the importance of hard work
- due to this awareness, make sound financial and educational choices
- the second generation acquires even greater wealth

Shirtsleeves-to-Shirtsleeves in Three Generations



Third Generation

- no personal experience of want or struggle
- lack an understanding and appreciation for the work that went into building the lifestyle they now enjoy
- worst case scenario, there is a sense of entitlement
- key to bucking the shirtsleeves-to-shirtsleeves trend: communication
- family discussions, family meetings and trying to be proactively engaging with the next generation, rather than reactive
- almost as much time and effort should be spent in preparing the heirs to receive the wealth as actually investing and managing it

Shirtsleeves-to-Shirtsleeves in Three Generations



- two-thirds of heirs will ultimately fire their parents' financial advisor
- estimated that 90% of heirs will not deal with their parents' financial advisor upon receiving an inheritance in the first place
- we know 90% of the children of fleeing heirs will lose their inherited wealth during their lifetimes
- the conclusion to be drawn?
 - most of the fleeing heirs are not receiving sound financial advice or
 - they are receiving advice but, it happens to be bad advice or
 - they are receiving advice but, choosing not to act upon it

Lack of an Inheritance Plan



- *RBC Wealth Management Study*: more than 75% of individuals do not have an inheritance plan in place
- Canadians are 'woefully unprepared for generational wealth transfer'
- when the actual wealth transfer takes place:
 - assets will not be distributed in the way your client envisioned
 - assets may not be distributed in the most efficient manner
 - assets may be severely reduced due to unnecessary taxes or litigation
- part of the problem lies with the parents—only 37% felt comfortable discussing their estate plan with their children

The Financial Advisor



- average age of advisors in Canada is 54—many advisors are approaching their own retirement'
- is there sufficient motivation for these advisors to put in the considerable effort to forge relationships with the children of their clients?



	Silent Generation	Baby Boomers	Generation X	Millennials
Born	1928 – 1945 (ages 73 – 90)	1946 – 1964 (ages 54 – 72)	1965 – 1980 (ages 38 – 53)	1981 – 2000 (ages 18 – 37)
Notables	Martin Luther King Jr. 14 th Dalai Lama Fidel Castro Warren Buffet David Suzuki Marilyn Monroe Muhammad Ali Gordie Howe Pele	Bill Clinton Barack Obama Bill Gates Steve Jobs Steven Spielberg Terry Fox Peter Mansbridge RUSH Michael Jordan O.J. Simpson	Justin Trudeau Larry Page & Sergey Brin (Google) Elon Musk Celine Dion Leonardo DiCaprio Tiger Woods Wayne Gretzky	Kim Jung Un Malala Yousafzai Kate & William Ivanka Trump & Jared Kushner Mark Zuckerberg Drake Sidney Crosby Lebron James Roger Federer



	Silent Generation	Baby Boomers	Generation X	Millennials
Environment & Social Influences	Great Depression World War II Korean War New Deal	Cold War Space travel Civil / women's rights Watergate Vietnam War October Crisis (FLQ)	Energy Crisis MTV Stock market crash First Gulf War Reaganomics Y2K	Internet & social media Terrorism / 9/11 Second Gulf War Great Global Recession
Core Values	Discipline Duty Family Patriotism Sacrifice	Equal rights Optimism Individualism Personal growth Experimental	Diversity Education Forward-thinking Life balance Strive for emotional security	Global community Self confidence Entrepreneurial Racially diverse & accepting Dependent on technology



	Silent Generation	Baby Boomers	Generation X	Millennials
Financial Attitude	Strive for financial security	Comfortable spending Support extended family	Planners, but need to save more	Risk-averse Leery of stock market
Defining Communication Medium	Telephone (interactive) Radio (passive)	Telephone (interactive) Television (passive)	Telephone (interactive) Desktop computer (interactive)	Smartphone/Social Media (highly interactive)



	Silent Generation	Baby Boomers	Generation X	Millennials
Work / Life Balance	<p>Strong work ethic & loyalty</p> <p>Measure success by timelines & productivity</p>	<p>Work hard & hope to enjoy it later</p> <p>Measure success by hours worked, relationships & teamwork</p>	<p>Work smarter, not more</p> <p>Value control of their time</p>	<p>Value flexibility in where, when & how they work</p>
Interaction Style	<p>Prefer a hierarchical model</p> <p>Strong interpersonal skills</p>	<p>Moderate collaboration / interaction</p> <p>Predominantly hierarchical; face-to-face</p>	<p>High collaboration / interaction</p> <p>Direct & adaptable</p>	<p>Very high collaboration / interaction</p> <p>Demand autonomy</p>



ADVISOR-OBSERVED BEHAVIORAL PATTERNS OF THE GENERATIONS

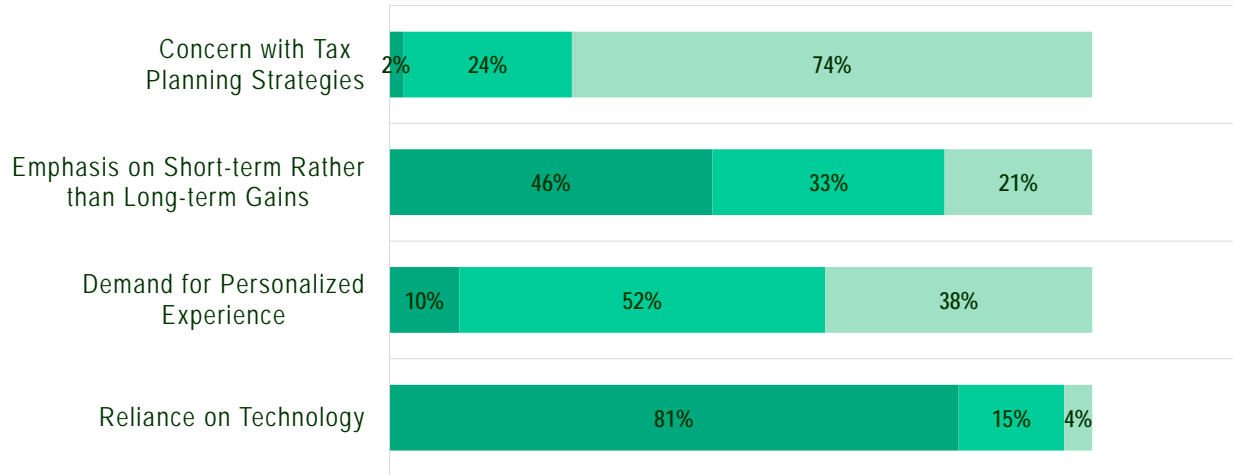
■ Millennials (1981 - 2000) ■ Generation X (1965 - 1980) ■ Baby Boomers (1946 - 1964)





ADVISOR-OBSERVED BEHAVIORAL PATTERNS OF THE GENERATIONS

■ Millennials (1981 - 2000) ■ Generation X (1965 - 1980) ■ Baby Boomers (1946 - 1964)



The Boomers



- Boomers turning 65 now can expect to live for another 18 years on average
- will generally retire at a later age than in previous generations
- Boomers will hang onto to their wealth longer and their heirs will be older when and if they get their inheritance
- both Seniors and Boomers agree on the importance of leaving an inheritance however, seniors are likely to feel more obligated than Boomers to do so
- Boomers may consider leaving a legacy as a bonus instead of a requirement

The Boomers



- seniors often take pride in living frugally to provide for their loved ones after they have passed on
- Boomers see a direct correlation between hard work and rich rewards—they may believe hard-earned rewards should be enjoyed
- BMO Wealth Institute Report: Boomers are concerned about outliving their retirement savings
- changes their priority from leaving a legacy for future generations to self-preservation
- Boomers have a greater propensity for philanthropy so, again, this will be felt by the next generation

Solutions



- communication and family estate planning: proactively initiate a family conversation on the transfer of wealth
- look at planning more holistically
- bring in a younger advisor
- increase the use of digital technology to meet the needs of the next generation
- overcoming avoidance behaviour