

May 16, 2017

## Only 40 per cent of business owners have transition plan in place, says new report

By Jonathan Chevreau

*Jonathan Chevreau: Not surprisingly, the wealthier the business owner, the more attention is paid to wealth transfer planning, says the report*

While more than a third of business owners have a full formal plan in place to pass their wealth on to their heirs, one in five have not even started to plan, says a global survey by RBC Wealth Management and Scorpio Partnership.

Not surprisingly, the wealthier the business owner, the more attention is paid to wealth transfer planning, says the *Wealth Transfer Report: Business Owners*. It surveyed 384 high-net-worth and ultra-high-net-worth individuals in Canada, the U.S. and the U.K. Average investible wealth was a hefty US\$6.4 million.

While 51 per cent of business owners have a will in place, a startling 22 per cent have not yet started any sort of wealth transfer preparations; that means "the majority of business owners are relatively unprepared to pass on their financial legacy," the report says.

Business owners with more than US\$10 million are three times more likely to have a full wealth transfer plan in place (58 per cent) than those with under US\$1 million (19 per cent). And as you also might expect, business owners are more likely to have a plan in place than employed professionals: 39 per cent versus just 26 per cent.

In an interview, Tony Maiorino, head of RBC Wealth Management Services said the biggest surprise was "simply the overall numbers. The 39 per cent of business owners with a transition plan in place is "still very small, when you consider business owners are planning every day, whether for business, sales, or marketing. We would have expected to see a large number there when you consider that in many cases the business is the largest asset they have."

Curiously, salaried employees also have a higher tendency to wait until death before transferring assets: only 32 per cent of employed professionals intend to make transfers to heirs while they're still alive, compared to 40 per cent of business owners.

This "Giving while Living" strategy (epitomized by the old saw that it's better to give with a warm hand than a cold one) has numerous benefits. The report says 20 per cent are motivated by the desire to mentor their heirs on responsible wealth management while they're still around to help them; they "do not want their children to grow up feeling entitled and dependent on the promise of a healthy inheritance." There is often "an unarticulated hope or assumption that one of their children will follow in their footsteps," says RBC Wealth (US) Wealth Strategist Bill Ringham.

Indeed, 32 per cent believe it's critical to educate their kids about the family business. And 45 per cent intend to give their children more guidance on inheriting wealth than they received themselves. The trend is to prepare heirs about wealth education earlier: before age 18 in 20 per cent of cases.

Business transition<sup>1</sup> and valuation expert Ian R. Campbell says the statistics show "business owners urgently need to address business transition." Multiple external factors beyond their control can negatively impact their future value and viability. These include globalization, central bank policies, government debt, trade policies, regulation and technological advances.

Tom Deans, author of *Willing Wisdom*, saw nothing surprising in the report but said that with \$205 million inherited every day in Canada, a new financial subdiscipline of "inheritance planning" is emerging as the last step of retirement planning for Baby Boomers. "The Banks are all over this; you can see from the study that preparing heirs is the new holy grail for financial advisors."

The report is the third in a series of RBC/Scorpio reports that began with a broader report on inheritance plans of the wealthy, released in January. It will next look at Millennials, then blended families, all based on research conducted late last summer.

*Jonathan Chevreau is founder of the Financial Independence Hub<sup>2</sup> and co-author of Victory Lap Retirement. He can be reached at [jonathan@findependencehub.com](mailto:jonathan@findependencehub.com)<sup>3</sup>*

## References

1. <https://goo.gl/qn9e5o>
2. [findependencehub.com](http://findependencehub.com)
3. [jonathan@findependencehub.com](mailto:jonathan@findependencehub.com)