Intergenerational wealth transfer is a family affair

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SPECIAL TO THE GLOBE AND MAIL
PUBLISHED OCTOBER 22, 2019UPDATED OCTOBER 24, 2019
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When families talk about estates, advisors can help raise the key issues in a way that achieves goals and harmony.

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Parents should be having “the talk” with their kids. This discussion has nothing to do with the birds and the bees. Rather, it’s about dollars and sense – financial sense, that is.

The need for that conversation is becoming even more urgent given the massive intergenerational wealth transfer that has begun to take place. But while it can be difficult for many families to have full and frank discussions about money-related matters, financial advisors can help spur and steer these conversations.

“It’s part of our responsibility when meeting with a client – whether about the investment portfolio or a life insurance review – that we have this topic on the agenda too,” says Patrick O’Connor, founder and president of Blackwood Family Enterprise Services in Winnipeg.

He points to RBC Wealth Management’s Wealth Transfer Report 2017, which states that US$4 trillion will be passed down to inheritors in North America and Britain within a generation. In addition, a CIBC Capital Markets report published a year prior to that states that baby boomers themselves stood to inherit $750 billion within the next decade.

“We’ve been talking about it for 20 years, and now this transfer is happening,” says Mr. Blackwood.

Long before any conversation with the family, as a whole, takes place, advisors and clients should be working on a comprehensive estate plan, says Tom McCullough, chairman and chief executive of Northwood Family Office in Toronto.

Don’t assume that clients even have a will, or that it has remained suitable for their changing needs. Mr. McCullough cites a recent Angus Reid Institute poll, which found that only 25 per cent of Canadians have an up-to-date will.

But it’s not just a matter of ensuring clients have a good estate plan. Advisors must encourage clients to discuss the plan with their adult children. In fact, that often doesn’t happen without prompting from a financial professional.

“Money isn’t a topic that is easily talked about in families,” says Mr. McCullough, co-author of Wealth of Wisdom: The Top 50 Questions Wealthy Families Ask.

Given the sums involved, he says managing the wealth transfer is a major opportunity for advisors to demonstrate their value to clients.

When should these family discussions occur? Generally, once clients’ children reach adulthood, more in-depth discussions about the family’s wealth can begin. “The next generation should be at least 30 and have earned their way into adulthood” before they get a clear picture of the family fortune and their potential inheritance, Mr. McCullough says.

By then, the adult children are likely to have achieved certain milestones: completing a postsecondary degree, working full-time or starting a family.

When that time comes, an advisor can play a critical role facilitating the meetings.

“Wealth turns the volume up,” Mr. O’Connor says. Open communication about the estate helps to avoid future discord when parents do pass away and children inherit the wealth.

The issues arising with wealth succession aren’t only about the financials, says Dr. Moira Somers, a psychologist and executive coach at Money, Mind & Meaning in Winnipeg who works with high-net-worth families to reduce strife around money.

“It's about the legacy, too, including the hopes that one generation has for the next, and the family stories that should be shared,” Dr. Somers says.

Although advisors can bring about the conversation, they may need to lean on other experts, including tax and estate planners, lawyers and people like her, she says. Some advisors may find they also need to improve their abilities around financial psychology.

“Given the expected boom in wealth transfers, there has never been a better time for [advisors] to develop these skills,” says Dr. Somers, author of Advice that Sticks: How to Give Financial Advice that People Will Follow.

Although advisors may feel like they’re stepping out of their comfort zone delving into family affairs, Mr. O’Connor says that by failing to do so they may be underserving their clients.

Helping clients pass on wealth to their children efficiently is certainly the principal motivator, but you don’t want to miss other opportunities.

“There are all kinds of stories about advisors managing huge pools of assets for mom and dad who have never met the adult kids. Then, those clients pass, the kids inherit a few million bucks and they take it all to their broker friend,” Mr. O’Connor says.

“You should want to facilitate these meetings to get to know the next generation and build that relationship with them so that there’s continuity from one generation to the next,” he says.