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Most high net worth individuals lack inheritance plan despite largest transfer of wealth coming: study

By Armina Ligaya

New survey suggests more than three-quarters do not have an inheritance plan - an oversight that may cut into the amount of money transferred to the...

Canadians are poised for the largest transfer of wealth in the country's history, but a new survey suggests that more than three-quarters do not have an inheritance plan - an oversight that may cut into the amount of money transferred to the next generation.

Some \$400 billion is going to change hands within a generation, but just 22 per cent of high net worth Canadians say they have a detailed plan to pass on their assets, according to a survey by RBC Wealth Management released on Tuesday.

"The implications of not having a full estate plan potentially could be that when you die, things aren't going to be distributed the way you want or in an inefficient manner," said Tony Maiorino, head of RBC wealth planning services, in an interview. "That's, I think, very serious and could lead to Canadians actually having less money go to heirs and maybe more money being spent on taxes or fees or litigation."

The research, conducted between June and August of last year, involved 3,105 high-net-worth individuals from Canada, the United States and the United Kingdom. The average amount of wealth was US\$4.5-million, but in Canada it was \$3.8 million.

The survey also found that nearly 60 per cent of Canadian parents were not confident in their children's ability to preserve or grow their inheritance (while 70 per cent listed their children as their top inheritors).

As well, only 37 per cent of Canadian respondents said they felt comfortable discussing the details of their inheritance plans with their kids, the survey showed.

Families don't create an inheritance plan for many reasons, including not wanting to face their own mortality, said Maiorino. Family dynamics - such as some relatives getting preferential treatment - can also make these discussions very awkward, said Leanne Kaufman, head of RBC estate and trust services, in an interview.

Even if these Canadians have a will in place, that is often not enough to deal with the complexities of passing on wealth to its intended beneficiaries, said Maiorino. That includes setting up your assets so they are tax-effective, but also making sure that all your accounts and beneficiaries are up to date.

"You can have a great will that completely deals with all of your things on the day that you die, but you've got your assets set up in such a way that can actually hinder your will's ability to reach its goals," he said.

Canadians appear to be less prepared than their counterparts south of the border and across the pond. While 22 per cent of high net worth Canadians have an inheritance plan, 24 per cent and 30 per cent in the U.K. and the U.S., respectively, have one, said Kaufman.

There are many potential reasons for this lag, but one factor is Canadian modesty, said Maiorino. Research that RBC conducted in 2010 showed that many Canadians who fit the definition of high net worth did not view themselves as wealthy, he added.

"It could just be a modesty thing where we don't think we're as wealthy, and we don't think that we need it," he said.

The impact of this generational wealth transfer goes beyond each individual family, and has important economic consequences.

CIBC deputy chief economist Benjamin Tal said in a report released in June that the transfer will impact startup activity, savings and the real estate market, potentially boosting home-ownership rates among younger Canadians.

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References

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