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How to spend the \$750 billion Canadians are about to pass to the next generation

By Garry Marr

It's a 50 per cent jump from the \$500 billion passed on during the previous decade, even after being adjusted for inflation

It will be the largest transfer of wealth in our history, but what will Canadians do with the \$750 billion that's about to fall into their laps over the next decade?

The first bit of advice, according to Niagara-on-the-Lake planner Lise Andreanna, is not to count too heavily on any of that money coming your way - it might not materialize in your individual case.

Still, it's hard not to make financial plans based on inheritance in the wake of reports like the one from Canadian Imperial Bank of Commerce, released Monday¹, which predicts up to \$750 billion will be transferred from one generation to the next over the next 10 years. It's a 50 per cent jump from the \$500 billion passed on during the previous decade, even after being adjusted for inflation.

"I think you need to be really careful about that. When we speak to clients, we ask them do they have a really good handle on what they're getting and not just guessing," Andreanna says.

But Benjamin Tal, deputy chief economist at CIBC says not only will this be the largest inter-generational wealth transfer in Canadian history for the time considered, but the amount will grow even larger in subsequent decades.



"The parents will be able to give (children) even more over the next 10 years," said Tal, in an interview with the Financial Post. "A lot of the debt problem, we think, will not be debt because it will be paid by inheritance, even the debt problem taken on by baby boomers."

The wealth transfer will have important economic consequences, Tal says, adding that it will impact wealth distribution, startup activity, labour participation, savings and the real estate market.

In his paper, Tal suggests the impact on real estate markets will be gradual and, in cities like Vancouver and Toronto, might increase the supply of low-rise properties as elderly people vacate their homes.

"Given elevated real estate values, it's reasonable to expect that a large proportion of projected inheritance will be transferred as inter-vivos gifts - a factor that might have a positive impact on home ownership rates among younger Canadians and would probably increase overall spending on renovations," Tal notes.

One of the key considerations for older, wealthier Canadians, then, is whether to give the money now or upon death.

"I believe in giving money with a warm hand instead of a cold hand as much as possible," says wills and estate lawyer Les Kotzer, adding that, with gifts, you have to consider the tax implications.

Canadians have already started spending based on inheritance, so much so that Kotzer says we are a nation of "waiters" - as in, we are waiting for parents and grandparents to expire to get our windfall.

"You have kids who are waiters who will fight for every nickel in the estate," he says. "They want to get what they can get."

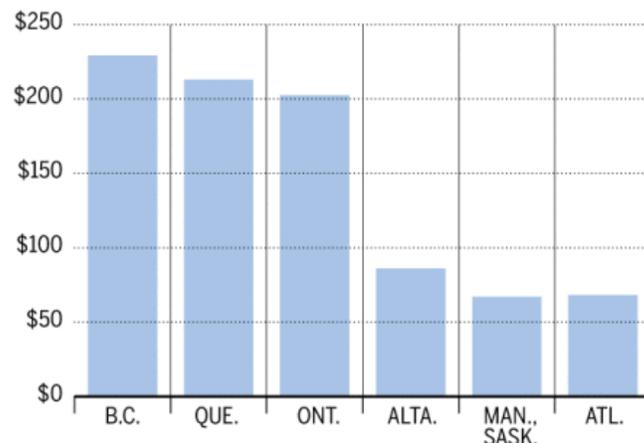
With so much at stake, a will has never become more important - from the choosing an executor, to setting up trusts to deciding if you are going to split up your estate equally among your heirs.

"When you have money like this you have to decide, for instance, will you give more money to the kid who cared for you," Kotzer says, adding you might want clauses set up to make sure spouses of your children or grandchildren can't access the largess. You also might want to set up trusts, knowing that in some provinces children can start spending their inheritances when they turn 18.

INHERITANCE BY PROVINCE

AVERAGE INHERITANCE RECEIVED IN PAST DECADE

IN THOUSANDS OF DOLLARS



SOURCE: CIBC ECONOMICS

NATIONAL POST

Tal estimates there about 2.5 million Canadians over age 75, close to 45 per cent of them widowed. The number of Canadians 75 and older has jumped 25 per cent from a decade ago and the figure is expected to continue increasing.

The new cohort is not only the largest on record, but also the wealthiest, with their net worth rising 30 per cent between 2005 and 2012, after being adjusted for inflation. He estimates their current net worth at \$900 billion.

For the CIBC study, Tal looked at inheritances people had already received to forecast the future and found that just over half of Canadians aged 50 to 75 had received an inheritance averaging \$180,000, with the largest in British Columbia - which he credited to elevated real estate prices in the province.

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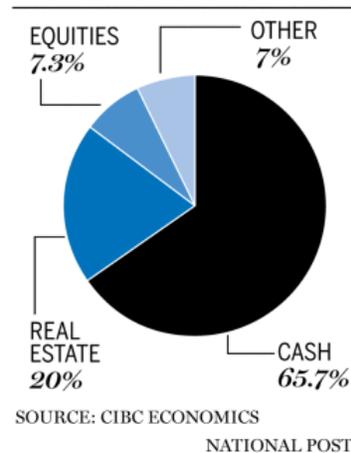
Once you get past B.C., Ontario and Quebec, the average inheritance during the last decade was less than \$100,000 for those aged 50 to 75.

(Those numbers were pulled from an online Angus Reid survey conducted April 26-27 of 1,003 panelists ages 50 to 75 who have received an inheritance. The survey is considered accurate to within 3.1 percentage points, 19 times out of 20.)

Running out of money is one thing you don't want to happen and Andreanna cautions against making generous gifts without knowing where you stand financially. "This is not for people who are borderline getting by in retirement," says the certified financial planner.

The CIBC study found the distribution of wealth will be highly "abnormal" " with the average inheritance for those making \$100,000 or more almost three times higher than lower-income Canadians. The average inheritance for Canadians has been almost four times higher than the median income over the last 10 years.

INHERITANCE BY ASSET



Tony Maiorino, vice-president and head of RBC Wealth Management Services, RBC Wealth Management, says what he calls "transliquification" has been part of wealth management for almost a decade.

"Every individual that has money - and this is not reserved to the wealthy - each generation just wants to see that next generation do better," Maiorino says. "The numbers are larger among affluent Canadians, but it's not uncommon to see one generation helping the next."

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