Inheritance Dynamics: Preparing for the Wealth Handover

Managing Your Money

LYNN MacNEIL

There is an enormous amount of wealth that will be passed down to the next generations over the coming years. Current estimates put it over a trillion dollars! It's predicted to be the largest generational transfer of wealth in Canadian history; fast-tracked in part by the increasingly popular philosophy of "giving while living". This massive amount of wealth brings with it complex issues which weren't often considered by previous generations.

Numerous surveys over the years have shown that most Canadians are "expecting" an inheritance. While this may be realistic for Baby Boomers and Gen Xers, it may be a little optimistic for younger generations considering how the retirement landscape is changing – people are living longer, there are fewer pension plans to fund retirement, health costs increase with age, etc. Younger generations may have to adjust their expectations of what they will ultimately inherit.

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In the past, "estate planning" basically meant having a will. Today, it means so much more. A new term to describe it has become popular over the years: Intergenerational Transfer of Wealth. Basically, it's a fancy way of saying passing money from one generation to the next. The more elaborate term actually fits better with the more in-depth planning that has become necessary for many families – and I'm not only talking about the "wealthy" ones.

Planning how to transfer money to your beneficiaries (often your kids), has become complex. Legal issues, blended families, taxes, fairness protocol, psychological issues, etc., all play into the planning process. While it may feel like a heavy topic to broach with family initially, a competent professional can make it feel very easy and smooth. Having a family discussion about it can put everyone's mind at ease and can also open more doors to planning opportunities. In my practice, I often have family meetings involving parents and children, along with other professionals, to work out specific details of the planning process.

Photo: gorodonkoff

In some cases, parents (or people bestowing money) don't want the beneficiaries to have details about what is being left to them. The beneficiaries may or may not even be related or could be a charity. Not all cases require communication between the parties involved, but still need to be planned properly with the right professionals.

Let's be clear, inheritance can be a "double edged sword. I've seen the disturbing side of wealth transfer as well as the positive side. I've witnessed irreparable damage done to relationships, especially (but not exclusively) between siblings and/or parents. Resentment can be a burden that lives on long after death.

I've also observed adult children neglecting to save and plan for their own future, because they assume their inheritance will be enough. Receiving an inheritance can have a huge, positive impact on one's prospects. But planning and depending on it can be detrimental if it falls through. Not to mention it's important psychologically for people to take responsibility for their own future.

This reminds me of a client I had early in my career. She was a nurse, in her mid to late 30's at the time - a very kind and pleasant woman whose relationship I enjoyed. However, she took absolutely no responsibility for her financial future. Aside from the account I was managing for her, a transfer from a previous employer, she was convinced that she did not have to worry about money because her parents would always look after her. I lost touch with her soon after her life went into a tailspin. At that time, she was on leave from her job, blowing through the little savings that she had, her parents were in the middle of a messy divorce, and her dad's business was struggling. Life has a way of throwing curveballs into even the best laid plans.

The topic of Intergenerational Wealth Transfer is vast, and my intention here is simply to touch on a few of the issues involved. Whether you're the next generation to leave an inheritance, or the next generation to receive an inheritance, you should be considering the issues at hand. Even though in Canada we don't pay inheritance tax as they do in the US, the tax owing on an estate can be enormous – in some cases, up to 50% of the estate! Obviously, tax is a BIG issue when it comes to the intergenerational transfer of wealth.

Other biggies are relationship issues (as I mentioned above), and legal issues. All of these issues can be dealt with to some extent using proper planning. There are insurance-related options that can significantly reduce the tax bite, equalize, and preserve wealth; different types of trusts can protect, provide, and manage assets for loved ones; estate freezes can potentially freeze the current tax liability; and then there are gifting and other planning tools available as well.

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A comprehensive Intergenerational Transfer of Wealth plan will rarely be done by only one professional. A good starting point is with your Financial Planner who can quarterback the team required to put everything in place. Involving a professional advisor can facilitate the conversation and point you in the right direction. As with so many other things in life, having a plan reduces uncertainty and gives you peace of mind…. something we can all appreciate.

Note: For more tips and insights on managing your wealth, follow me on my Facebook page **Richardson Wealth - Ephtimios MacNeil Wealth Management.**

Lynn MacNeil, F.PL., CIM®, is a Portfolio Manager and Investment Advisor with Richardson Wealth Limited in Montreal, with over 28 years of experience working with retirees and pre-retirees. For a second opinion, private financial consultation, or more information on this topic or on any other investment or financial matter, please contact Lynn MacNeil at 514.981.5796 or Lynn.MacNeil@RichardsonWealth.com. Or visit our website at www.EphtimiosMacNeil.com.