Wealth Transfer 101:

How to talk to your heirs about their inheritance

The biggest inter-generational wealth transfer in Canadian history is taking place right now. But a lack of communication between parents and children means that many inheritors are in the dark about their financial future and many benefactors risk not having their wishes carried out as planned.

Canadians in general can be very private about their finances, but that can cause damage within families when dividing assets. Many of us know of families that have been torn apart over the division of a business, real estate or investments, particularly when more than one child is involved.

According to a new IPC Private Wealth poll of Canadians with at least $500,000 in investible assets, 58% have not discussed instructions for their estate with their heirs. Of those, 46% said they intended to have a discussion at some point in the future, but 12% said they had no intention of ever discussing inheritance plans with their beneficiaries.

The fact that 46% of respondents said they intended to have a financial discussion with their family is a positive sign. But too often, inertia prevents these discussions from occurring before it's too late.

An unexpected illness, which puts stress on the family, or an untimely death, can accelerate estate plans with an absence of level-headed discussion.

The 12% of people who said they never intend to talk to their heirs about their future simply represent a missed opportunity to explain the reasons behind an estate plan – minimizing taxes, supporting grandchildren or giving to charities – and foster future family harmony.

Jump-Starting the **Wealth Transfer Conversation**

One key way to jump-start the wealth-transfer discussion is for parents to invite their children, whether they're in their 20s or their 60s, to meet with their financial advisor.

According to the IPC Private Wealth poll, only one in five respondents had introduced their children to their own financial planner or an alternate one. This is another missed opportunity, which can create a significant knowledge gap when it comes to finances related to the next generation's own situation and money matters in general.

> " **80%** of those polled have not introduced their heirs to their advisor - a missed opportunity in helping ensure a frictionless transition.

Anyone who has a financial advisor should make sure that person has met their children, or at least been in communication with them. Families nowadays are scattered all over the world, not necessarily living in the same city or country as their parents. But having the introduction and having children's names on file, and contact information on hand, is very helpful And, for children, knowing who their parents' advisor is, is a crucial matter.

When someone passes away, settling an estate can take months or years. The more wealth, in terms of investments, businesses, and properties, a person had, the more complicated the process can be. So, with research firm Strategic Insight predicting that approximately $1 trillion will be passed from one generation to the next in Canada between 2016 and 2026, it's easy to imagine how much more smoothly the process will be with more up-front communication.

One very effective way for family members to know what makes up an estate is to fill out what we call an estate directory. This document would list all the assets and liabilities, where all important documents are kept, and the names and contact numbers of lawyers, accountants and financial advisors associated with those documents.

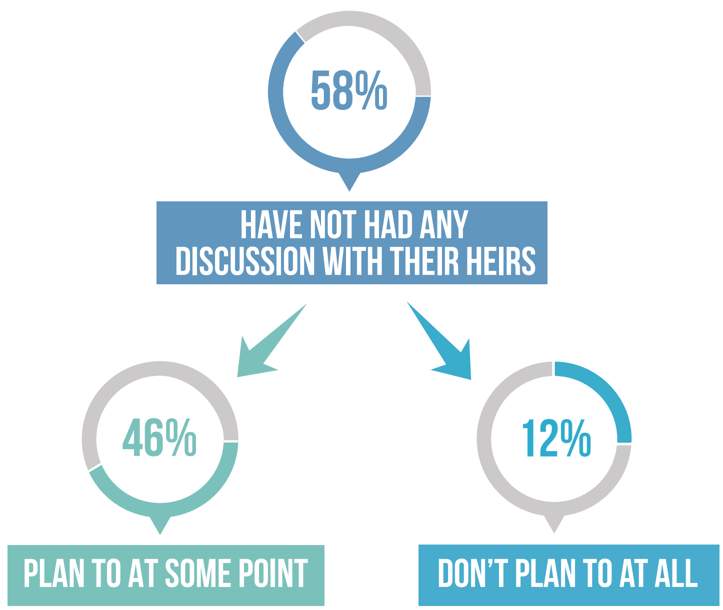
This massive wealth transfer, at an individual level, tends to make many people nervous. Our poll revealed that one-third of those surveyed worry about their heirs' ability to manage the money they'll receive, and 28% don't trust their children's spouses to manage the money that will be bequeathed to them as a couple. However, the poll also shows that people who have discussed their plans with their children are much less likely to be worried than those who have not.

Good, up-front communication, which includes sharing family values about money, discussing intent, and explaining why a portfolio is set up the way it is, can help alleviate uncertainty, reduce angst among family members and ensure assets move more smoothly from one generation to the next.

Key Poll Findings
Among Affluent Canadians:

80%

HAVE **NOT INTRODUCED**
HEIRS TO THEIR ADVISOR



Benefactors worry about sustainability of wealth left to heirs

Top 3 Fears

When asked what their main concerns were:

32%	28%	20%
WORRY ABOUT HOW THEIR HEIRS WILL HANDLE THEIR INHERITANCE	**DON'T TRUST** THEIR CHILDREN'S SPOUSE TO MANAGE THEIR INHERITANCE	WORRY HEIRS WILL HAVE **NOTHING LEFT** TO PASS ON

Top 4 Barriers

When asked what the key barriers to their heirs' ability to maintain their wealth were, respondents cited:

external factors, including high cost of living	24%
lack of financial knowledge	21%
heirs will splurge their inheritance on short-term 'indulgences'	18%
heirs will lose inheritance due to divorce	14%

Unique Challenges for **Blended Families**

Another issue that can complicate estate planning is having a blended family. According to our poll, among the 20% of Canadian blended families – those that include children from a previous union of one or both spouses – additional concerns include uncertainty over how to divide assets among children, and spouses not openly sharing their plans with one another.

For instance, if a person has children from a first marriage, which ended in divorce, and children from a second marriage, which is still intact, that has to be factored into their estate plan, even if the current spouse isn't related to some of the children. As with the other family issues, clear communication between spouses and children is key to avoiding future problems.

The bottom line is that most people work very hard to accumulate inheritable wealth during their lifetime. If family members can understand the benefactor's wishes with their assets after their passing, the estate settlement process will be quicker, easier and result in stronger family ties.

Blended Families

Close to 20% of those in our survey were part of blended, non-traditional family units, with unique planning challenges and concerns.

30% WORRY HOW THEIR LEGACY WILL BE MANAGED

15% DON'T KNOW WHO TO APPOINT AS PRIMARY BENEFICIARY

13% DON'T KNOW HOW TO DIVIDE ASSETS FAIRLY

13% HAVE NOT SPOKEN OPENLY TO THEIR SPOUSE ABOUT THEIR PLANS

> "Communicating early, discussing intent, and sharing family values about money helps ensure wealth moves more smoothly between generations.

Your Guide for a Successful Wealth Transfer Conversation

For many Canadians, engaging in conversations about inheritance may be difficult, primarily because of anxiety over upsetting other family members. It gets tougher when blended families are involved. Not addressing plans, however, can lead to misunderstandings, unpleasant surprises, possible legal complications and, in turn, family conflict down the road.

This guide can help you start that estate-planning conversation with your family.

01	**Introduce your family.** Set up a meeting between your children, your financial advisor and yourself. Even if your adult children have their own financial advisors, it's beneficial for them to meet yours and vice versa.
02	**Make decisions in a low-stress environment.** Hold a family meeting with your heirs, ideally with a financial professional, when you are healthy and the pressure is low.
03	**Explain your objectives.** Share your reasons for the decisions you are making, your objectives, how it aligns with your values and how you would like your legacy to be managed.
04	**Create an estate directory.** This master directory details where your essential items are – such as bank accounts, investments, insurance policies, wills and powers of attorney – and how to access them when needed.
05	**Include your executors.** Your executors are integral to ensuring your wealth transitions successfully. Introduce your executor to your financial advisor. Your advisor can help inform and educate your executor and ensure they understand your intent and wishes.
06	**Educate your heirs.** Educate and prepare your heirs to take over and steward your wealth. Share knowledge on the value of financial planning, budgeting, tax minimization strategies or your business - if it is part of your wealth transfer. Your advisor can play a big part in helping to educate your heirs.

Survey method: A total of 400 well qualified respondents across Canada were interviewed using an online methodology during the period October 17 - 22, 2017. Survey conducted by Environics Research.

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