Proper Planning for the Trillion Dollar Inter-Generational Wealth Transfer

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We are at the beginning of the largest inter-generational wealth transfer that we have ever seen. Over a trillion (yes, with a "t") dollars will be changing hands in many Canadian families over the next twenty-five years. Thanks largely in part to this 10-year equity bull market, the Baby-Boomer generation holds the largest chunk of this wealth being transferred - and over the next few decades, these wealthy families will need to decide how and when to efficiently pass down their financial legacies.

Proper planning for the transfer of an estate is critical to ensuring that it all goes smoothly. In addition, appointing a proper executor to manage your Will and estate plans is also very important. Recent studies have shown that only 30% of Canadian estate transfers are considered successful[1]. On top of that, more than half of Canadians don't have a signed Will in place and three quarters don't have an up-to-date Will either [2,3]. Fortunately, if you're reading this article you still have time to plan for your estate transfer, if you haven't done so already.

For many, talking about a wealth transfer can be awkward, stressful, or daunting. Perhaps it's because many find it difficult to discuss death and ultimately plan for it, that so few estate transfers end up being successful. Or, maybe it's because we've all heard stories of conflicts arising among family members.

Regardless, failing to properly plan for what happens to your assets can end up doing exactly what you are trying to avoid – increasing fees/taxes and creating conflict.

Depending on your wishes and unique family circumstances, you'll want to have a structured estate plan in place that fulfills your intentions effectively. Whether it's gifting to charity or your heirs inter-vivos (while alive) or bequeathing to charity or your heirs (at death), you'll want to consider the options available in either scenario, choosing a plan that best addresses the goals of your estate transfer. Some common estate goals include minimizing taxes and probate fees, maintaining some control of your assets (using a trust) or seeing your loved ones benefit by being generous while you are still alive.

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If part of your estate will be passed down to the younger generation, consider getting your younger heirs accustomed to professional wealth management early on. Odds are, your beneficiaries will be comfortable with technology, so a digital platform for investing might resonate more than traditional means – and Cumberland's Portfolio Advisor Tool (PAT) could be the right solution.

A few strategies and associated benefits of different estate transfer plans include the following:

Passing Down Wealth during Your Lifetime

- See the benefits of your gifts while you are alive
- Decrease the value of your estate – which will reduce probate or estate administration fees (~1.5% of estate in Ontario)
- Take advantage of no gift tax in Canada
- Capitalize on potential tax advantages for changing ownership of investment assets to your child (assuming they are in a lower tax bracket and have no debt)
- Improve the financial literacy of your heirs

Using a Will

- Most common way to handle one's estate
- Ensures you don't die "intestate" (where provincial laws determine how your estate will be settled)
- Allows for the ability to plan how your estate is distributed (which can minimize taxes)
- Documents your wishes exactly but needs to be kept current over time

Joint Ownership (with right of survivorship)

- Simplifies administration of the estate when assets roll over to surviving spouse (typically without tax implications)
- Avoids probate until the death of the last surviving spouse
- Requires advice to be sure to fully understand the implications and tax filing requirements

Trusts – Transferring assets (investments, real property etc.) to a trustee, who is responsible for administering the assets on behalf of the beneficiaries.

Inter-vivos Trust – Established during one's lifetime

- Can allow for the control and flexibility over timing and amount of assets distributed to the beneficiaries (which can be your children or spouse)
- Potential for creditor protection
- Probate fees may be avoided

Testamentary Trust – established at one's death

- Can provide control over timing for distribution of assets to beneficiaries
- Advice is required to be certain that this is appropriate.
- May be useful in situations concerning beneficiaries who have tendencies for reckless spending

Planning for your family: The importance of open communication

A well-thought out and constructed estate plan will have a much better chance at being successful if it is properly communicated to the parties involved. Communication leads to better understanding behind the choices made, eliminates any surprises in the reading of a Will and allows children to express their interests and concerns, which may improve decision making or provide perspectives that you might otherwise be unaware of.

Communication also leads to improved financial literacy for your heirs, the younger generation. Discussing topics such as trusts, investments, deemed dispositions and taxes will strengthen your heirs' financial knowledge and will improve their confidence and ability to manage their wealth prudently.

We can help educate and start investing early: Consider Cumberland's innovative PAT solution

As mentioned above, another effective way to expand the financial knowledge/experience of your heirs is to get them used to saving for the future and managing their own money by setting up their own investment account. This is especially applicable if your intention is to gift some of your estate while you are alive. Getting the younger generation accustomed to professional investment management early on will further their understanding of what it takes to protect and build wealth. This should improve the chances of being responsible with money.

As referenced earlier, if part of your estate is being transferred to a tech-savvy individual,or if your heirs have been diligently saving their earned income, introducing them to a digital investment platform, such as Cumberland's Portfolio Advisor Tool (PAT), enables them to manage their investment account in a similar fashion to online banking tools they already use. When your heirs have an opportunity to invest in an environment where they are already comfortable, it will likely increase their engagement, boost their understanding of wealth management, and could also ultimately increase the odds of a successful estate transfer.

If you'd like to learn more about Cumberland's Portfolio Advisor Tool, please call me (416-413-4214) or visit our website www.cumberlandpat.com

1. https://www.advisor.ca/sun-life-retirement/practice-advice/how-intergenerational-wealth-planning-is-critical-to-your-clients-success-and-yours/
2. https://retirehappy.ca/too-many-canadians-have-no-will/
3. https://www.legalwills.ca/blog/canadians-without-wills/