



Great Expectations: Wealth Transfers between Generations in British Columbia

Highlights

- A Vancity 2016 survey of B.C. adult children aged 18-34 and their parents aged 65 or older found:
 - 39% of Metro Vancouver millennials are anticipating an inheritance of more than \$300,000.
 - Only 12% of Metro Vancouver parents anticipate leaving each child \$300,000 or more.
 - The majority of B.C. parents – 66% – expect to leave \$100,000 or less to each child.
 - 44% of parents have discussed wealth transfer arrangements with a financial planner.
 - 47% of parents have spoken with their kids about a potential inheritance.
 - 8% of B.C. parents have not drafted a will, consulted a wealth planner about inheritance or talked to their children about financial issues or inheritance.
 - 60% of parents are passing money to their kids before death, helping them with down payments for a house, down payments for a car, helping to pay down debts or helping to pay off student loans.
- The average inheritance in B.C. in 2012 was \$137,800, while the median was a mere \$50,200, suggesting that the vast majority of inheritances were less than \$100,000.
- The median asset value of British Columbia households 65 years and older is approximately \$594,400.
- Between 1999 and 2012, the percentage of senior households in British Columbia carrying debt increased to 42.5% from 27.4%; the median debt level also increased to \$18,000 from \$8,500.
- The average resident of the province who reaches 65 can look forward to living an additional 21.55 years.
- The participation rate of seniors in the workforce has increased to 12.7% in 2015 from 5.2% in 2001.
- There were 13,142 active probate cases in B.C. in 2013; many of these concerned the estates of people who died without a will.
- This report offers recommendations to address the disconnect between parents and children in regards to wealth transfers to ensure a stable financial future for both.
 - Parents should develop a financial plan with the help of a wealth planner or investment advisor, involve their children in estate planning discussions and prepare a will that may limit delays and estate conflicts.
 - Children should not assume they are in-line for an inheritance and should plan for their own financial future.
 - Employers should consider helping employees achieve their retirement goals by offering a retirement program, such as a pension plan or contributions to a group RRSP.
 - Financial institutions should create savings programs that provide members/customers with consistent feedback, such as updates on their progress and how close they are to their goals.

Introduction

British Columbia consistently ranks among the best places in the world to live, with a high quality of life that attracts retirees from across Canada and around the world. Yet the rapid rise in house prices in Metro Vancouver, and shifting economic prospects in many other parts of the province, have left Millennials – the generation now aged 18 to 34 – in a cash crunch. While many have good jobs that express their personal values, many still struggle to afford a home let alone save for retirement.

Often, it's their parents – the Baby Boomer generation, now entering retirement – that are tipped as being their financial saviours. The so-called “Bank of Mom and Dad” is sitting on \$157 billion worth of clear-title real estate in the Lower Mainland alone, and many have also accumulated significant nest eggs.¹

But will they really bankroll the younger generation? Or are other priorities attracting their attention?

A 2016 Vancity survey, conducted by Insights West, found that British Columbia residents aged 65 years and older aren't planning to provide the windfall their children will need to afford a comfortable retirement. And it found Millennials are greatly overestimating the financial capacity their parents will have at the end of life.

Worse, no one's talking about it.

Concerned parents, confident kids

The Vancity survey found that 73% of children are confident that their parents have the financial resources to support themselves the rest of their lives. This is far more confident than parents are regarding their kids' financial

security, with just 60% of parents confident in their children's financial future.

Coincidentally, 60% of parents surveyed reported having assisted children in paying off debts (including student loans) or providing assistance towards a down payment for a home or vehicle. Just 25% of children in B.C. reported receiving no support.

Counterintuitively, parents in areas other than Metro Vancouver and Vancouver Island were more likely to assist their children, although there wasn't a significant difference in the percentage of children who reported having received assistance. This possibly reflects the greater concern parents in the rest of B.C. have for the financial future of their children, with half voicing a lack of confidence in their kids having sufficient income and assets to last the rest of their lives. This compares to 38% in Metro Vancouver.

Resolving debts was the key reason that parents reported providing assistance, followed by a down payment on a house – save in Metro Vancouver, where parents typically helped with vehicle down payments more often than down payments for property. Curiously, children reported that debts, followed by student loans in the rest of B.C., then housing in Vancouver and on Vancouver Island, were the biggest reasons for receiving assistance – a possible indication of the financial concerns that loom largest for them as they try to make ends meet.

The assistance is something children may well continue to benefit from.

About 92% of parents expect to leave something for their children, although most haven't discussed it with their future heirs. Just 47% of parents have had “the talk” and even fewer kids – 31% – report having discussed inheritances and wealth transfer with their parents.

Pay-outs: parents provide key financial support to children

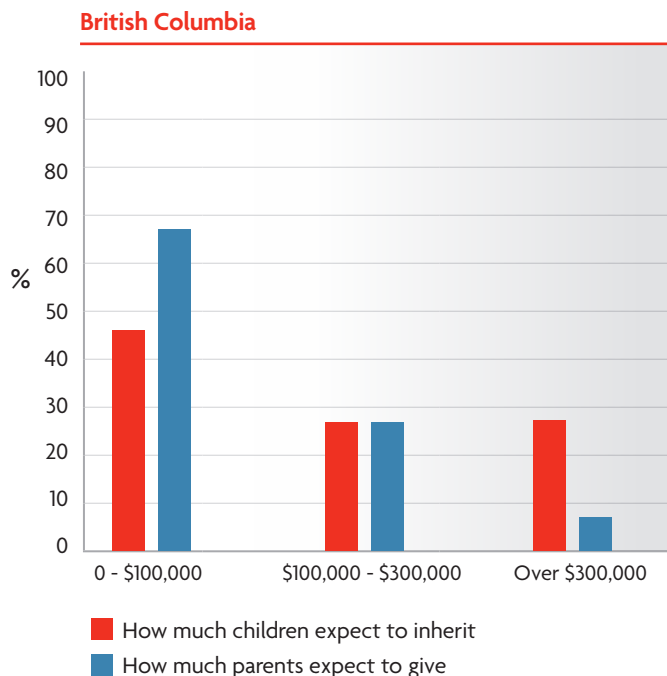
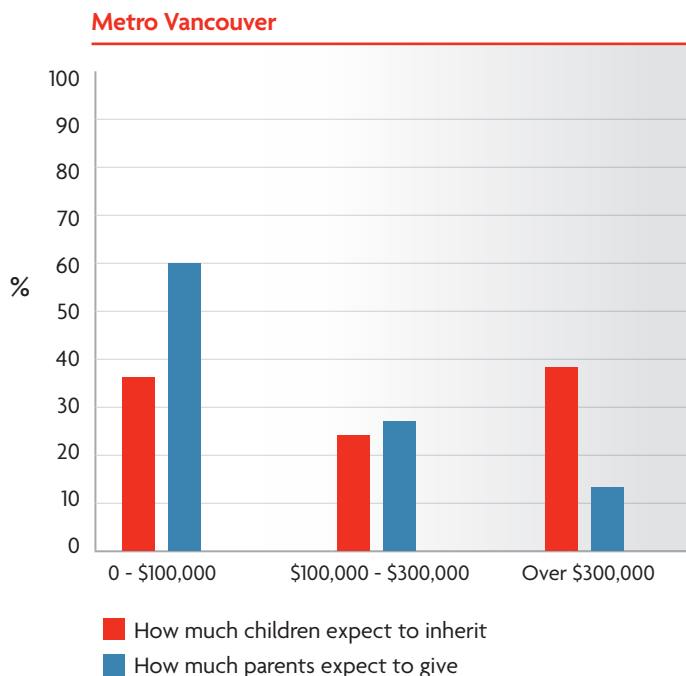
	Parents (BC)	Region		
		Metro Vancouver	Vancouver Island	Rest of BC
Providing money for a down payment on a home	25%	20%	27%	46%
Providing money for a down payment on a car	22%	24%	24%	15%
Helping out with your debts	34%	32%	31%	54%
Paying off student loans	20%	18%	20%	23%
None of these	40%	40%	39%	31%

Source: Vancity survey conducted by Insights West.

Pay-outs: children benefit from key financial support from parents

	Kids (BC)	Gender		Region		
		Female	Male	Metro Vancouver	Vancouver Island	Rest of BC
Providing money for a down payment on a home	25%	19%	39%	22%	25%	27%
Providing money for a down payment on a car	19%	9%	39%	21%	12%	25%
Helping out with your debts	39%	28%	58%	38%	47%	31%
Paying off student loans	28%	30%	26%	14%	20%	30%
None of these	25%	26%	23%	31%	25%	30%

Willing, but rich? Expectations split on how much will be inherited



Source: Vancity survey conducted by Insights West.

But oh, they can dream: 78% of children anticipate a legacy from their parents, and 28% anticipate inheriting more than \$300,000. Hopes are even higher in Metro Vancouver, where 39% of children anticipate receiving \$300,000 or more after their parents pass away.

Small wonder children are so confident in their parents' future.

Parents, perhaps bearing in mind their own inheritances as well as the cost of their golden years, have more modest expectations. Just 8% of parents anticipate leaving each child a legacy of \$300,000 or more, while the majority – 66% – expect to leave \$100,000 or less to each child. Even parents in Metro Vancouver, sitting on all that clear-title real estate, aren't anticipating massive legacies: 12% expect to leave \$300,000 or more, while 60% expect to leave \$100,000 or less.

Children who are banking on a legacy might find a different future bequeathed to them.

Wealth is fleeting

The survey's findings mesh with the latest available statistics regarding household finances.

According to Statistics Canada, the median asset value of British Columbia households 65 years and older is approximately \$594,400.² Complementing this is a median annual income of \$25,000 to \$30,000 per senior (or \$50,000 to \$60,000 per household).³

Those numbers provide a broad picture of the finances of seniors, but no indication of distribution by age group – something that would be helpful given that BC Stats estimates the average resident of the province who reaches 65 can look forward to living an additional 21.55 years. By sex, this works out to 20.14 years for men and 22.86 years for women.⁴ While little data exist regarding how people spend their money in retirement, the Statistics Canada *Survey of Financial Security* suggests that assets held by households diminish in retirement, perhaps most significantly as seniors downsize into a smaller property.

True, the assets of those 65 years and older have generally increased. In 1999, for example, senior households in B.C. held \$356,000 worth of assets each. However, it's less than those of working-age households. The split is most apparent when the assets of seniors are compared to those of the 55 to 64 age group, those in the decade just before retirement. That group reported \$671,800 in the 2005 survey and \$958,000 in 2012, a sharp contrast to the \$594,000 worth of assets that seniors – some of whom would have been in the younger age group in 2005 – held.

And what of the seniors whose assets passed to their children in 2012?

Statistics Canada indicates that the average inheritance in B.C. that year was \$137,800, while the median was a mere \$50,200, suggesting that the vast majority of inheritances were less than \$100,000.⁵

That's no ticket to riches. As the Canadian Centre for Policy Alternatives observes in a recent report: "Inheritance seems to make for a poor explanation of the wealth increase for those in their twenties and thirties since 1999."⁶

Assets under pressure

What does this mean for the future of inheritances?

While some have asked if inheritances could become a thing of the past, that seems unlikely.⁷ The skyrocketing value of property holdings in British Columbia, particularly in Metro Vancouver, promises to buoy estate values in the province, and the need for residents to make plans for their disposition. Increased property values could lead to potentially larger inheritances for children. However, as parents live longer and the cost of living continues to increase, some may look to utilize the high value of their homes and pull equity out of their properties to fund retirement. As a result, heirs need to be aware that any legacy they receive is likely to be the result of property rather than financial assets, and could fluctuate substantially as a result of real estate market conditions. Heirs need to plan accordingly.

Statistics suggest that financial assets could come under pressure and may well be the least likely to be passed on. On the one hand, broad analyses suggest that one can withdraw 4% annually from one's nest egg without running out of cash; that is, a two-person household should have stashed away \$1.5 million (or \$750,000 per person), if they're living off savings alone. Most people have accumulated about half that amount, however, and many people anticipate some kind of employment income after they reach 65 (In 2012, the federal government also increased the mandatory retirement age to 67.). Statistics Canada reports that the participation rate of seniors in the workforce has increased to 12.7% in 2015 from 5.2% in 2001.⁸

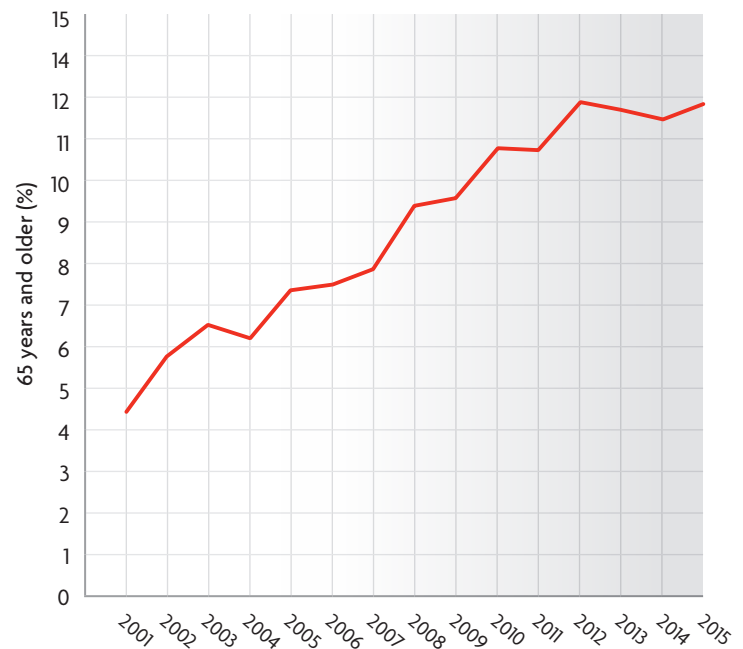
Moreover, the current generation of seniors is used to enjoying life and shows no signs of stinting on the good things.

"Today, Boomer households, aged 50 to 69, account for about 40% of total consumer expenditures, and even a decade from now, they'll still account for about 25% of total expenditures," observes Dave Norris of Environics Analytics, explaining that the emerging generation of seniors manage their wealth very differently from those of their parents, who were typically more frugal and value-oriented.

"As the wealthiest generation in history, they're more in control of the direction of their future and will be more demanding of products and services targeted to their needs," Norris says. "They have less of a sense of duty to others and are more focused on their own interests as they live out their older years, many in relatively good health."⁹

B.C. seniors in the workforce

Labour force participation after 65 continues to increase



Source: Statistics Canada. Table 282-0002 - Labour force survey estimates (LFS), by sex and detailed age group, annual (percentage unless otherwise noted) (accessed: February 01, 2016)

To meet their needs, Boomers are more willing than any previous generation of seniors to use credit to maintain their accustomed lifestyle.

Between 1999 and 2012, the percentage of senior households in British Columbia carrying debt increased to 42.5% from 27.4%; the median debt level also increased to \$18,000 from \$8,500.¹⁰

On the plus side, household net worth has increased thanks to the growth in assets, which has outstripped debt accumulation. This is good news for there being an estate to pass to heirs.

However, what living doesn't take, the tax collector might.

B.C. charges a probate fee of 0.6% on the first \$25,000 of value of estates assessed at \$25,000 and greater, and 1.4% of any value in excess of \$50,000. In addition, capital gains taxes are payable on the deemed disposition of assets, such as investment properties, stocks and mutual funds held in non-registered accounts. Registered investments such as Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) are accounted as income unless designated for a tax-preferred beneficiary, typically a spouse; this can easily push the deceased's income into the highest possible tax bracket. Combined, these charges can significantly reduce an estate's value without skilled financial planning, which, even then, can only mitigate their impact.

The old adage that death and taxes are the two certainties of life ring true, and with so many variables in play, seniors and their children both need to be aware of what's at stake.

A will, and a way forward

The results of the survey suggest that all generations need to talk more about wealth transfer and succession planning. Simply writing a will that provides for survivors isn't enough to guarantee their future; and children need to be more engaged in the process, both as potential executors of their parents' estates, and to dispel any unreasonable expectations they might have. Being prepared for an inheritance, and knowing what it entails, is also a first step towards managing it wisely, and preparing to leave a legacy for their own children.

Preparation and transparency also reduces the potential for delays in distributing and challenges regarding estates. Statistics Canada reports that there were 13,142 active probate cases in B.C. in 2013.¹¹ Many of these concerned the estates of people who died intestate – that is, without a will. A will by itself doesn't avoid trouble; however, challenges of a will's provisions rank as the fifth most common kind of claim in Canada, and the fourth most expensive cause to launch, consuming \$35,000 a case.¹² With the majority of inheritances totalling less than \$35,000, drafting a will that clearly and unequivocally states one's intentions can help reduce the risk of conflict and makes good financial sense.

Willing, and able

Nearly 80% of seniors in B.C. have drafted a will

	Parents (BC)	Region		
		Metro Vancouver	Vancouver Island	Rest of BC
Drafted a last will and testament	78%	76%	74%	85%

Source: Vancity survey conducted by Insights West.

The majority of seniors in B.C. have wills, with the Vancity commissioned poll finding that 78% of those aged 65 years and more have one drafted. Yet only 47% have talked to their children about wealth transfer, and even fewer, 44%, have discussed arrangements with a financial planner. Yet planning for the divestment or transfer of assets is just as important as the preparation for acquiring them. While governments encourage people to save for retirement, less has been said about transferring whatever's left over. Similarly, the financial institutions that support people in achieving their financial goals have an opportunity to encourage people

to look beyond acquiring assets to possible exit strategies, including both the divestment and transfer of assets – not only in the case of death, but marital breakdown and other critical events. This encouragement would make the transfer of wealth a natural aspect of personal financial planning, whether people are developing an RRSP, purchasing property or seeking financing for their business.

Recommendations

Plan, Talk and Save

The transfer of wealth from the Baby Boomer generation to the millennial generation is expected to be the biggest transfer of wealth in history, with trillions of dollars of assets set to be shifted worldwide. With such large dollar amounts and enumerations being quoted, it's not hard to develop exaggerated expectations of one's own. Vancity's survey found that there is a significant disconnect between parents and children in regards to the expectations and realities of potential inheritances. While children can expect to receive an inheritance in most cases, they significantly overestimate the financial capacity that their parents will have at the end of their life.

Developing a clear dialogue and understanding between parents and children is an important step in planning for a successful financial future. Yet, the responsibility does not solely fall on parents and children, financial institutions and employers can do a better job to ensure that both parents and children are prepared for their financial futures.

Parents

- **Talk to a wealth planner or investment advisor.** Develop a financial plan with the assistance of a financial planner or other trusted advisor and review it regularly. Starting a conversation with a trusted advisor and understanding your current financial reality is the first step in preparing for a wealth transfer.
- **Review your finances to gauge your future financial needs.** Planning for a transfer of wealth begins with an expectation of having wealth to transfer. Regularly reviewing your finances will help fine-tuning your understanding of how much you may have available for retirement and wealth transfers in the future.
- **Involve your children in estate planning discussions.** It is important to start a dialogue about inheritances with your children, as delaying “the talk” can have a detrimental effect on your children's own financial planning. A clear line of communication with your children can also help reduce the risk of delays and estate conflicts in the future.

- **If you haven't already, draft a will.** Developing a will requires a time commitment and being familiar with one's legal obligations to a spouse, estranged spouse, children, and other dependents. But it is well worth the time and effort. A will is the most effective way to tell others how you want your estate distributed. Drafting a will can limit delays and potential conflict when an estate is distributed.

Children

- **Don't take a chance, plan for your own financial future.** Don't assume that you are in-line for an inheritance. With parents living longer and fluctuating real estate market conditions, there is no guarantee that you will receive a windfall or even a more modest inheritance. Consult a wealth planner or an investment advisor who can help you develop your own financial plan.

Employers

- **Offer an employee retirement program.** Consider helping your employees achieve their retirement goals by offering a retirement program, such as a pension plan or contributions to a group RRSP.
- **Facilitate retirement savings.** Create a simple process for employees to set up automatic contributions to a savings account directly from their paycheque and provide an incentive such as matching a certain portion.

Financial Institutions

- **Run a savings campaign.** Develop and run a campaign that encourages members/customers to set up automatic transfers to a savings account, even if just for a small amount.
- **Provide nudges.** Create a savings program that provides members/customers with consistent feedback, such as updates on their progress and how close they are to their goals.

Methodology

Vancity contracted an independent researcher to undertake secondary research for this report from January 25 to February 5, 2016.

Insights West conducted an online survey for Vancity from January 22 to January 27, 2016. The survey polled 403 adult British Columbians who are "older than 65 and parents of at least one child" and 401 adult British Columbians who are "aged 18-34 and have at least one parent aged 65 and over".

The data has been statistically weighted according to Canadian census figures for age, gender and region in British Columbia. The margin of error – which measures sample variability – is +/- 4.9 percentage points for each sample, 19 out of 20.

Disclaimer: While Vancity commissioned this report, neither it nor the desk researcher, who conducted the research at Vancity's request, are responsible for the accuracy of the secondary data or information.

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