



BY LIZA AGRBA

A massive amount of money is beginning to change hands—and cross generations. This transfer of wealth will have a profound impact on both the haves and have-nots

DOWN

A seismic quantity of wealth to the tune of \$1 trillion is set to move from Canadian baby boomers to their Gen X and millennial heirs between now and 2026. It's predicted to be the largest generational transfer of wealth in Canadian history—accelerated in part by the increasing popularity of “giving while living”—with potentially significant downstream effects on the country's economic landscape. But the transfer's broader impact may be a mixed bag—we're passing the torch to a generation armed with exceptional social consciousness, but risk exacerbating Canada's widening wealth gap. And, even for fortunate beneficiaries, being prepared to receive a windfall can mean the difference between a financial leg up and the chaos that can befall families without clear-cut estate plans.

PHOTO ILLUSTRATIONS BY ADAM CHOLEWA

“This is top of mind for financial advisors and our clients alike,” says Sabrina Fitzgerald, PwC's national leader for private clients and family businesses. “Not a day goes by without this wave of wealth transfer coming up.”

And while the windfall was long coming, the pandemic seems to have nudged it higher on Canadians' priority lists. A recent Manulife Investment Management survey found that the pandemic spurred around one in five respondents to review their estate plans and/or update their will, and of those who already have a will or estate plan, 28 per cent are increasingly discussing it with an advisor or their inheritors. “Conversations about death and money are taboo for many Canadians. Families generally didn't want to talk about this before, partly because people don't love discussing their own

demise,” says Alana Riley, head of mortgage, insurance, and banking for IG Wealth Management. “In recent years, this has really evolved. People are looking more closely at their estate plans, and older adults increasingly express a desire to pass on their wealth before they die so they can see their families enjoy it.”

But available data and anecdotal reports suggest Canadians are largely not prepared to manage the money they inherit. An Ipsos poll conducted on behalf of RBC Insurance found that 61 per cent of Canadians don’t feel knowledgeable about (or haven’t even heard of) the probate process—the process of establishing the validity of a will—and 57 per cent don’t know that certain insurance policies can mitigate estate tax burden. “There’s not enough open dialogue between families about how wealth will be passed down, and what’s to be done with it,” says Allison Marshall, RBC’s vice-president, high net worth planning services and financial advisory support. “Planning conversations are not happening early enough.”

When it comes to proper estate planning, the stakes for families are enormous, and one would be hard-pressed to find a financial advisor without a few horror stories to tell. “I can count way too many times where families are destroyed following an inheritance—they’re no longer speaking to each other, they’re fighting over the estate, and what the bequeather intended for the inheritance simply does not occur,” says Riley.

In some cases, the problem isn’t the absence of a good accountant or estate lawyer, but a lack of synergy between them. Marshall recalls a recent case in which a client updated their estate plan and will, meaning to split their assets between their two children. A new life insurance policy was purchased with the intent to have the death benefit go to one child. Meanwhile, for good tax-planning reasons, the family accountant recommended placing the policy inside a family-owned corporation and naming the corporation as beneficiary. However, the shares of the corporation were to be inherited by just one of the children. “There was an assumption that the policy was to be owned personally by the client, but instead it was owned by the corporation, whose shares were to be inherited by just one sibling,” says Riley. “I’ve seen this before, especially with clients with complex wealth structures.” The message? Have someone look at the whole picture, and make sure the left hand knows what the right hand is doing.

To the layperson, the term “wealth transfer” may bring to mind billionaires bequeathing enormous sums and setting up prodigious family trusts. When it comes to preparedness, that misconception may be part of the problem. “Planning is needed regardless of the size of wealth being transferred,” says Marshall. “There are so many things you can do from a tax and probate planning perspective, and the consequences of not doing so can

quickly erode an inheritance. It’s almost more important that families that aren’t necessarily high net worth have a clear-cut plan in place, because you don’t want to squander the amount that is there.”

And yet, it’s true that the majority of wealth in Canada is held by a relatively small number of families, and a massive wave of wealth transfer could exacerbate that problem by fortifying existing imbalances. At the end of 2022, the wealthiest families in Canada (the top 20 per cent) accounted for two-thirds of the country’s net worth—the bottom 40 per cent accounted for just 2.6 per cent. Meanwhile, recent economic pressures, including the skyrocketing cost of living, mortgages, and credit card debt, decreased the net worth of Canada’s least wealthy households by 16.3 per cent—nearly triple the rate of decrease for the wealthiest households. And the problem is worsening—in a 2023 Angus Reid survey, 34 per cent of Canadians said

that due largely to rising costs of living, they were in “bad” or “terrible” financial shape—up six percentage points from last July.

“In my view, from a socioeconomic standpoint, increasing inequality is the biggest concern when it comes to the impending wealth transfer,” says David-Alexandre Brassard, CPA Canada’s chief economist. “We want to avoid turning into the United States, where generational wealth plays a very significant role in how well you do financially. That’s already partially the case in Canada, and we want to avoid it getting worse.”

But doing so, according to Brassard, is not nearly as simple as taxing windfalls, though tax reform could be part of the picture. In his view, the government has centred too much focus on tax-advantaged accounts like TFSAs or the new tax-free First Home Savings Account. “To reap the rewards of these accounts, you need to have generated the necessary income to contribute to them in the first place,” he says. “I feel that we are creating incentives that primarily benefit people with high income or high wealth, which is not necessarily where we want to go as a country.”

Canada’s tax system primarily focuses on income rather than wealth, and while this approach has its advantages, it can become problematic during retirement when individuals can leverage tools to manipulate their finances and remain in lower tax brackets—even when they have significant wealth. “Let’s be honest. A normal person who is not that wealthy will not be able to structure their wealth such that they end up in a tax-advantaged position in a given fiscal year,” says Brassard. “You have to have a certain level of wealth to play that game.”

Linking benefits and taxation to wealth, rather than only taking income into account, is more of a logistical burden from a government perspective, but could help level the playing field between Canada’s haves and have-nots.

34

Percentage of Canadians who say they’re in bad financial shape

16

Percentage reduction of the net worth of Canada’s least wealthy households, due to high cost of living

“Older adults increasingly express a desire to pass on their wealth before they die so they can see their families enjoy it”



Likewise, Brassard thinks we should consider taxing a higher percentage of capital gains, but adjusting for inflationary loss of value. “Investment income as realized through capital gains is not treated like regular income,” he says. “And that’s really beneficial for people who can get into capital gains, but to get there you need to invest, for which you need to have made significant income—or inherited it. Could we tax capital gains like income and just retract the gain of value that comes from inflation? I think we should look into that.”

Beyond tax reform, Brassard suggested levelling inequalities could mean enhancing financial literacy, addressing housing issues, and increasing access to education by lowering the cost of post-secondary studies.

It’s no secret that a renewed focus on environmental, social, and corporate governance (ESG) has rocked the business world in recent years. ESG considerations are increasingly influencing investment decisions, and investment funds aligned with these values are gaining popularity. Canada’s proverbial pot of gold moving into the hands of millennials—a generation with a level of environmental and social justice consciousness that many studies suggest dwarfs that of their parents and grandparents—could spell an even larger trend towards corporate social responsibility.

According to a 2021 Harris Poll study conducted in the United States, approximately one-third of millennials primarily or exclusively use investment vehicles that take ESG into account, as compared to 16 per cent of Gen X and 2 per cent of baby boomers. It’s likely that this marked disparity is only partly due to curiosity—nearly three quarters of the U.S. population indicated some interest in sustainable investing, but younger generations generally have more nimble portfolios and thus greater access to the increasing preponderance of ESG-focused investment options.

Fitzgerald says, “The inheriting generations seem more apt to get involved in a business’s social impact. What’s our ESG strategy? How are we minimizing our carbon footprint? I’m generalizing, but the next generation seems to want to talk about this much more than the leading one. I think that’s a really positive direction for the business world overall.”

There’s another pandemic-related silver lining here: when it comes to younger generations inheriting businesses and steering them towards ESG, Fitzgerald and many other accounting professionals have noticed owners handing over the reins earlier than they expected to before the COVID-19 pandemic. “Even the first six weeks of the pandemic were a big eye-opener for people, and since then we’ve been in a polycrisis environment between war, inflationary pressures,

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persistent supply chain issues, and so on.” Fitzgerald says that for many business owners, this put a spotlight on the future of their business—and their legacy.

“Many owners are recognizing that the world has shifted in significant ways, and their business has to transform to survive. And so they’re transferring ownership sooner rather than later,” Fitzgerald says. It will be a gradual transition, but she thinks there’s ample room for optimism. Younger generations transforming businesses to thrive in today’s landscape—from adopting novel technologies to sharpening focus on social responsibility—may not only help fortify the future of Canadian SMEs but yield positive social impacts for society at large.

For one thing, the wealth transfer means good news in the realm of gender equity. Canadian women are expected to inherit \$900 billion in assets by 2026, putting them in a position to control nearly half of all accumulated wealth in the country for the first time. Some inheritors belong to younger generations, but this wave is partly driven by life expectancy—women tend to outlive their spouses and thus often become the first beneficiaries of an estate.

80

Percentage of women who change their wealth advisor following the death of a spouse

Meanwhile, in a statistic that tends to alarm financial advisors, up to 80 per cent of women will change their wealth advisor following the death of a spouse, suggesting advisors tend to not have an equal relationship with both parties. “That means there’s an incredible opportunity in the advising industry to make sure you’re developing relationships and having complex discussions with everyone who stands to inherit,” says Riley of IG Wealth Management.

In general, advisors agree that the impending movement of wealth means an incredible chance for their industry—along with accountants, estate lawyers, and other professionals—to play crucial roles in Canada’s emerging economic landscape. “I think one thing we can all collectively agree upon is that the opportunity here is massive, for Canadians in general and for financial professionals,” says Riley. “Not only do a lot of people stand to inherit money, but between blended families and other factors, there’s a great deal of complexity to account for. All these threads are coming together and, as an industry, we must leverage our best financial planning and wealth management advice. It’s needed now more than ever.” ♦