BMO Nesbitt Burns

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Financial Insights

from Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

Estate Planning: Consider the Longevity of Your Wealth

While many of us work hard to prepare an estate plan that maximizes wealth upon death, we may not be doing a good job at looking beyond. In fact, recent statistics show that the longevity of our wealth is significantly at risk once it has been transferred: 70 percent of high-net-worth families lose their wealth by the second generation, and 90 percent by the third. Why? Many heirs often have no understanding of the value of the money that they have inherited or how to responsibly take control of it. Not surprisingly, it takes the average recipient of an inheritance only 19 days to purchase a new car.[1]

This may be a consequence of the reluctance to approach the topic of estate planning with heirs. Many individuals avoid these discussions for a variety of fears: children will become lazy and entitled, sensitive family information may be revealed or there may be a breakdown in a family relationship based on the particulars of an estate plan. Yet, avoiding any dialogue with heirs can limit their ability to successfully manage wealth for the long run.

Are Your Heirs Ready?

Experts suggest that preparing heirs can go a long way in ensuring the longevity of the wealth. Here are some ideas:

Consider sharing assets while alive — Sharing assets while you and your heirs are alive may help to understand whether they are able to manage your future wealth. This can also help to teach and instill responsible financial behaviours. It may include providing loans (with or without interest and/or capital repayment), which can provide the benefits of capital to the beneficiary but also protect assets if there is a relationship breakdown or the giver requires the assets at a later time.

Explore the use of a trust — A trust may help to protect funds until a time when a beneficiary may be more responsible, or a trustee can be appointed to manage the assets on the heir's behalf. Trusts can also be used to specify how certain assets will be used. By using a trust, assets may also be protected against creditors or in the event of separation or divorce.

Teach (grand)kids about money — Starting early and teaching the next generation(s) about financial literacy can go a long way. Conversations about saving and the value of compounding over time may become lifelong lessons that can not only help to preserve the longevity of inherited funds down the road, but also help your heirs to manage their own money.

Have a discussion about your intentions — Some experts suggest that having a discussion with heirs about your estate while you are alive is important. Others recommend providing a financial road map for expectant heirs or advocate discussing the details of an estate plan to help address future potential conflicts today. These are all personal decisions, and we can act as a resource as you plan any financial discussions.

Don't forget that effective estate planning remains a key component of successful wealth planning. These are only some of the ways to prepare your heirs and help to promote the longevity of your wealth. As every situation is unique, we can connect you with an estate planning specialist or legal advisor who can provide expertise as you develop or update your plan ahead.

Notes: 1. time.com/money/3925308/rich-families-lose-wealth/, 6/17/15.

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