Inheritance Planning: Silence Can Be Costly

In Canada, it has been estimated that Boomers stand to receive an inheritance worth approximately $1 trillion over the next twenty years.[1] While the biggest wealth transfer in history is set to take place, the size of the Boomer generation's inheritance has been the subject of much publicity around the world over the past decade. How well have you planned for this event and what are the factors impacting future legacies?

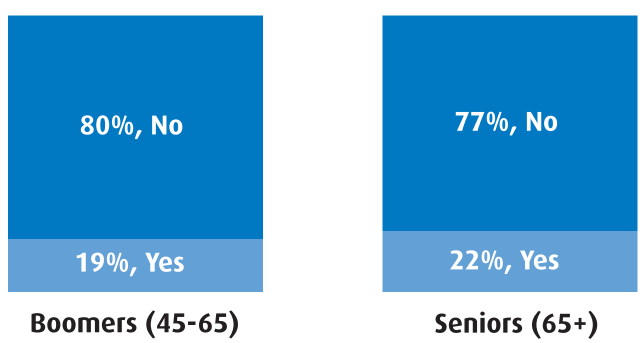
There are often uncertainties involved in the transfer of wealth but some of them can be solved through discussion between family members. For some cultures and particularly for the older generation, discussions around their death and the transfer of their estate including writing a Will may be considered "taboo". This lack of candid conversation between generations can be a major contributing factor to poor inheritance and estate planning. It may even lead to misgivings and financial insecurity in retirement for Boomers and their parents.

Starting a family conversation about inheritance:

1. Initiate the conversation at the right time. Avoid bringing up the topic when things are not going well.
2. Proceed slowly and respect everyone's right to privacy. You may want to start by sharing reading materials that may be pertinent to this topic.
3. Position your questions carefully. Avoid appearing too aggressive. Instead, ask if there is anything you should know with respect to the person's estate plans.
4. Share your story. Talk about some of the things that you or others have done to inform beneficiaries about their inheritance.

Discussion is not only deficient between generations but also between clients and advisors. There are risks to incorporating an expected inheritance into a retirement plan without considering all possible scenarios (i.e. a smaller inheritance than expected). A recent BMO Wealth Institute survey found that Boomers and seniors had not consulted with your BMO financial professional about their inheritance and/or their legacy plan.[2] Managing your investments effectively is the key to building your inheritance so you or your children can benefit from it in the future. If you receive an inheritance, decisions such as whether to pay down a mortgage, make a contribution to an RRSP or Tax-Free Savings Account (TFSA) can have long term financial implications for you. On the other hand, balancing your and your spouse's needs with those of your children will be challenging but keeping your intentions a mystery until death could have negative consequences. For instance, you may want to leave the family cottage equally to your three children but if only one of them has any intention of using it while the others would rather have the cash from it, this can cause financial hardship for the child who wishes to keep the cottage and may result in strained relationships among the children.

Did you speak with a financial professional about what to do with your inheritance?



Source: BMO Retirement Institute Inheritance Survey, 2009
Please note that due to rounding percentages may not add up to 100% (±1%)

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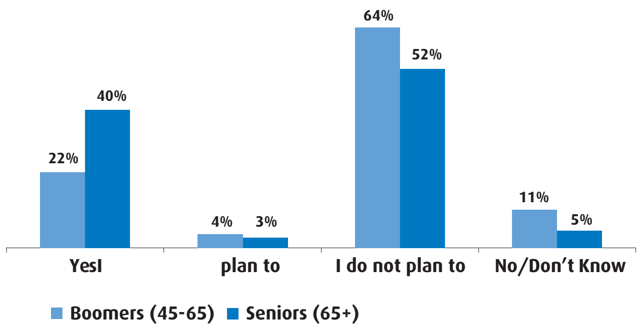
Have you talked to a financial professional about your plan to leave an inheritance?



Source: BMO Retirement Institute Inheritance Survey, 2009
Please note that due to rounding percentages may not add up to 100% (±1%)

Proper planning and discussions with family can result in a distribution that suits everyone's objectives. Moreover, without consulting your BMO financial professional, you may not have properly assessed your total wealth – including stocks, bonds, mutual funds, property, businesses, and other important assets that would be available for distribution or given adequate consideration to minimizing taxes due upon death. As a result, heirs may find themselves responsible for settling a hefty tax bill on the death of a loved one, with much less left over for them in the end. For instance, an inheritance of an RRSP worth $250,000 could result in taxes owing by the estate of up to $115,000 (assuming top marginal rate of 46%) which will be further reduced by probate, executor, trustee and legal fees. In addition, there are other factors that can reduce the value of an inheritance such as:

- **Life expectancy and retirement age.** Healthier lifestyles and medical advances are prolonging our life-span, putting greater demand on retirement savings.
- **Unanticipated events and health care expenses.** A longer life means an increased risk of needing costly medical care or daily assistance within one's lifetime.
- **Family size.** Any legacy that boomers' parents leave behind may be split between multiple siblings, grandchildren and others recipients such as a favorite charity.
- **Probate fees and taxes.** A significant proportion of an inheritance could be consumed by probate fees and taxes due upon death as well as executor, legal and trustee fees. Not having sufficient financial resources to cover these costs could force the sale of assets that were intended to be kept within the family such as a family cottage.
- **Challenging markets, interest rates, and inflation.** The volatility of markets and the low interest rate environment coupled with rising inflation costs could shrink future inheritances.
- **"The Sandwich Generation".** It is not uncommon today for Boomers to be simultaneously providing financial assistance to their grown children, aging parents, and even their grandchildren. These added responsibilities not only diminish Boomers' inheritance and their existing retirement nesteggs, it may also reduce or eliminate any hopes of an inheritance for subsequent generations.

Give inheritance planning the attention it deserves. There are strategies that Canadian families can take to help achieve their inheritance vision and maximize the intergenerational transfer of wealth. Communication between family members and advance planning is key. Now more than ever before, you are encouraged to speak to your BMO financial professional who can help you create a financial plan to reach your retirement goals and provide advice on ways to maximize the inheritance you wish to leave behind. For those who are expecting to receive an inheritance, your BMO financial professional can help you make prudent planning decisions on how to best use the money based on various financial scenarios.

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For more information, speak with your BMO financial professional.

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We're here to help.™

[1] The Canadian Inheritance Study, Decima Research, 2006

[2] BMO Retirement Institute Inheritance Survey, May 2009

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