CIBC

Smart Advice virtual event: Family wealth – Making the transition from one generation to the next

Carissa Lucreziano: Hello, I'm delighted to welcome you to our virtual event, Family wealth: Making the transition from one generation to the next. My name is Carissa Lucreziano and I'm the Vice President of Financial and Investment Advice at CIBC.

Today, we're going to dive into a topic that is incredibly important to many families, how to transition wealth for the next generation. Whether it's a family home, a cash sum, or a precious heirloom, passing it on from one generation to the next can be a complex and emotional process. With the right knowledge and preparation, it can also be a transformative experience for both the person providing the gift and the person receiving it.

During our event, we're going to cover topics on wealth transfer, from deciding how much to give and when, to how to think about different types of assets, and something very important in the process, navigating family dynamics for a smooth transition. Our expert speakers will provide valuable insights and practical tips to help you make informed decisions about your own wealth transfer plans and gain insights into what concepts are important when approaching your parents, your grandparents about their wishes for the future.

Now let's start off by talking about the environment around us. Canada is in the midst of one of the largest intergenerational wealth transfers in history. Over the next two decades, an estimated $1 trillion in assets is going to change hands as the Baby Boomer generation passes on their wealth to their children, their grandchildren and other beneficiaries. The nature of wealth transfer in general is changing rapidly. More Canadians are choosing to give gifts to their loved ones while they're still alive. And with more blended families and changing cultural norms, the dynamics are becoming more and more complex and diverse than ever before. Which brings us to our conversation for today.

Let me introduce you to the experts who will be sharing their knowledge and expertise with us. Richard Voss, Director of Wealth Strategies and Marilyn Andrade, Senior Trust and Estate Consultant.

Richard is one of our resident experts in crafting long-lasting wealth strategies for families. He is all about the big picture. He takes the time to understand family's past and present circumstances and uses that knowledge to design a financial roadmap to lead them confidently into the future.

And when it comes to estate and trust matters, Marilyn is a seasoned professional. Managing an estate or trust, or acting as a property attorney can be a tough and complex task. That's where Marilyn's expertise shines. She helps to make sure her clients wishes are respected, including how their wealth will be passed down to future generations.

Richard, Marilyn, thank you so much for joining me today. I know this topic is near and dear to your hearts and it's what you do each and every day for real families. Thank you for being with us.

Marilyn Andrade: It's a pleasure to be here and especially on such an important topic, such as wealth transfer, so thank you for having me.

Richard Voss: I agree. Thank you so much for having us. I find that these types of questions and decisions are some of the most important decisions that individuals and even families will make over their lifetimes. So I'm so thrilled to be a part of that.

Carissa Lucreziano: Well, thanks. And there's so much to unpack today and there's so many great concepts. So we're going to dive right in.

So there are a lot of growing trends regarding wealth transfer. And more and more Canadians really want to help their families during their lifetimes. And there's a few reasons for that. They want to see their children, their grandchildren, enjoy their gift. And also there's a real need to help that next generation. You know, property ownership is one of the great examples. One in three individuals receive a gift from their parents, their grandparents to help them purchase a property. But there's also many considerations to this if you want to give a gift, like you know, you have to think about your own lifestyle, your cash flow needs as you go into the future. It takes years to accumulate wealth. So what are some of the considerations here, Richard, and when should you think about this?

Richard Voss: For sure. So I would say that, you know, one of the first things you want to think about is really assessing your own situation first. So understand your own financial position. If you have a strong financial position, chances are you're in a good position to be able to make a gift during your lifetime.

If on the other hand, though things are tight, you're having a difficult time making ends meet. You don't have substantial savings, then maybe gifting at this juncture is not the right thing for you at this point in time.

Also, when you gift, you have to think about all of the different implications that may arise through that gift. The first one we can explore very briefly right now is taxation. If you're giving away an asset that's appreciated in value and you're giving it to the next generation, there could be tax consequences for you to consider when it comes to actually making that gift.

Another thing you may want to think about is, you know, what is the actual gift itself? Am I giving away cash or am I giving away something like a car that I'm not using anymore? Those will have very different implications in terms of your overall financial position.

Also, certain assets and certain gifts that you give may actually have family law implications as well in certain jurisdictions. So many parents today want to help their kids with establishing and getting their first home. And what we have to recognize is sometimes that gift is acquiring a matrimonial property which can have family law implications down the road should the relationship come to an end. So something definitely worth considering.

But if I were to step back a minute and sort of say, “what is the overriding thing that can that you can do to help you decide when and how much to gift,” that would be a comprehensive financial plan. So I would say doing a full financial plan, understanding all the different aspects of your financial position, seeing your wealth over time, your net worth growing and your cash flow, how it's evolving over time will help you identify how much you can give at a particular point in time.

I think that that's an incredible thing to do to make sure that you have enough.

Carissa Lucreziano: Yeah, I think that's fundamental and also a really good sense of comfort as well, as you make that big decision.

So when we think about transferring wealth, we often think about a cash amount, but we know that that's not the only asset that gets transferred. Let's talk about other types of assets like real estate. And, you know, Canadians own a lot of real estate within their portfolios. RE/MAX actually did a study and 42% of cottage owners are holding onto their properties in the hopes of transitioning it over to their beneficiaries. But it's not just as simple as transitioning over a key. You know, whether you have a principal residence, a cottage, you know, investment properties. So let's talk a little bit about this. How do Canadians need to think about their real estate assets when they're thinking about that transition to the next generation?

Marilyn Andrade: Great question.

So the primary form to allow for that is through a will. So a testator, the one that's actually drafting their documents, preparing their last will and testament, would have to give some thought as to how they would like that asset to be transferred.

So there's many ways. You can be very creative as to how that asset, in specific, a property, to be transferred to your beneficiaries. It could be in-kind, so the property could be transferred as is. Or you can transfer the property to your beneficiary in terms of the cash value at such time, or you just leave the option available to your beneficiary as to which form they choose to receive that property.

When you sit down with the lawyer and you speak with regards to the different options and the various scenarios, a lawyer would draft the ins-and-outs of what that transfer would look like, what are the implications? There's pros and cons to every situation, but knowing the family dynamics and knowing what the ultimate wish is of the testator, it would be followed through in your will and it would be applied through to the executor accordingly.

Carissa Lucreziano: Yeah. Yeah. I mean, there's a lot to consider and these are questions that Canadians have and a lot of things to consider. And speaking with a lawyer, a professional is really going to help you understand what your options are.

And also you mentioned before the taxation. So, Richard, are Canadians planning for this now? I know you spend a lot of time with families. Tell us what you're seeing.

Richard Voss: Well, I'm seeing a little bit all over the map. I see a lot of different things.

I guess I'll focus in on the type of real estate first. I would say, generally speaking, we don't see too many primary residences being transferred to the next generation. And many times that's simply because the next generations may be living somewhere else already and/or potentially the asset might need to be shared with a number of beneficiaries on a continuous basis. And that just might not work, having multiple households in one residence.

Where we do see a lot of planning though, is in the recreational property space. So the recreational property could potentially be a condominium in another jurisdiction, it could be a cottage property and it could also just simply be another type of recreational property, maybe a chalet or some of that nature.

But, you know, we've heard the word ‘family dynamics’ a couple of times today. And, I think, when it comes to recreational property, because there's so much emotional history in many of these properties, I think family dynamics becomes a huge factor. So I think the first thing that people need to think about when it comes to their recreational properties and what the future of those properties look like across generations is, can our children work together and make good decisions together regarding this property?

So that's the first thing. Not only can they make good decisions, but can they actually manage the property, manage the upkeep, cover the cash flow with their own resources? You know, these are some of the factors that they definitely need to give some thought.

And if there are spouses in the picture or if there are life partners in the picture, what is the impact potentially of those individuals on the overall decision? Those are some definite considerations. If it can all work, you definitely want to make sure that you have good conversations with your beneficiaries so they have an understanding as to what you believe the vision could be and see if their vision is aligned with yours.

And finally, I would also strongly recommend that they have an ownership agreement. An ownership agreement can really lay out, you know, who has what responsibilities and, you know, what are the different benefits that users or I guess, beneficiaries could get out of the property.

Carissa Lucreziano: Yeah, and you mentioned that and it's so important. And you know, I have friends that actually have done that and you know, it stipulates what months of the year, what holidays. And it just allows for a seamless use for everybody that's involved. And you know some children you mentioned in the example may not even be interested in using the property.

So let's talk about assets that form a very emotional and important part of wealth transfer. And this is probably a topic we could talk about for a few hours, but tangible personal property. So this is family heirlooms like jewelry, furniture, vehicles, art, collectibles, all of that. And more than monetary value, these items have such a great sentimental value.

Marilyn, in your experience here, is planning often overlooked? I mean, you can think about just a simple example grandparents leaving, you know, their assets to, call it, six grandkids. Who is going to get Grandpa's 1965 Mustang and who's going to get Grandma's tennis bracelet? So a lot to consider here and a lot of really big decisions. So, is this often overlooked?

Marilyn Andrade: Absolutely. In my discussions with clients, they don't even think about personal contents. And it could be books, artwork, jewelry, just items that they have that are sentimental to them, or they may have some value to them. When I have discussions with clients, they do overlook that piece because they just think of investments, property, the cash equivalent. They don't think about those contents.

So when I sit with clients, I do let them know that there are options for incorporating those contents in your documents. So you can be very specific in your will as to whom is to be the recipient of which item.

Or you can attach a memorandum. Have it be that there is a memorandum clause written in your will that allows for that specific document to be attached, and that document can be amended at your leisure whenever you feel that it's fit.

Relationships change, dynamics change. So you may not want a certain individual to receive a said item five years from now because things have fallen through. You can be very creative as to how that personal content, that personal heirloom is to be transferred.

Again, you can have that content be transferred in-kind, again, as is, or if the recipient has the option of receiving it in a cash form, whatever, it's been sold at date of death value, they would be the recipient of that.

I've also seen as well, in wills, where, you know, there's pros and cons to this approach where they would leave, there would be specific instructions for the beneficiaries to decide which heirloom they would like. Well, we know when somebody passes away, especially a loved one, usually a parent, everybody wants to hold true near and dear to themselves of a specific item. Well, what happens if they all three children want that same item?

Carissa Lucreziano: And that happens.

Marilyn Andrade: It happens quite often.

So normally when CIBC Trust is named as the executor, we always give them a cooling off period. 72 hours. Let's think about this. Let's see what we can come up with in terms of who should receive that item. And if there's a decision that's not made, then sometimes there's a direction in the will to sell it. So if there's no agreement, then that item is to be sold. So you can be very creative as to how you would like your wishes to be met.

Again, sitting with the lawyer would help you with those options. Go through the different scenarios with you and see what makes sense.

Carissa Lucreziano: Yeah, and what you really said was interesting about that memorandum that I think is really important for Canadians to know in general. In that option, you can change it in real time because there could be a delay. Whether you go back to your lawyer, time lapses. But you mentioned something very important. Dynamics change, relationships change in an instant, so if you are able to change that in real time, what a difference that could make.

Marilyn Andrade: And the benefit of that having that memorandum is that if there is changes to be made in a year from now, or even months from now, you don't have to go back to a lawyer to amend your will document, because it's a memorandum. So it's an attachment. So you can actually change that document as you see fit. You just make sure that the executor or whoever is holding your original document has the most current list of assets to be bequeathed to in terms of a beneficiary.

Carissa Lucreziano: Wonderful. Thank you. Thank you for those insights.

Now, Richard, I know you have something to add here for sure based on all the conversations you have with families on this topic.

Richard Voss: Sure. Absolutely.

Marilyn really covered it off really well. But I think, you know, in terms of this topic, we also need to think about the perspective of the actual testator, the person who wrote the will, as well as the perspective of the beneficiaries. And we also need to think about what is the makeup of this personal property. For some people, it just might be a picture or two on the wall. It might be a piece of jewelry, but for others, they can have massive collections. They could have thousands of records, vinyls that they've collected. They could have a watch collection. They could have taxidermy. They could even collect firearms. There's all kinds of different things that could make up your personal property. And so that actually can create quite a bit of complexity when it comes to those particular situations.

So know your beneficiaries first. Get an understanding, you know, talk to them and find out what do they like, what don't they like about what you have. You might think you're leaving something for somebody that they will prize, but it's not until you have that conversation that you will know for sure.

The other thing is, know your estate and know your assets and understand is this going to create a burden for my beneficiaries, even for my representatives? And I think it's so important to recognize that you may want to consider purging some of your personal property where you find out that there may not be any takers for it.

And then finally, also understand the potential legal implications that might exist with some of the properties that you have right now. There are some tax considerations if a lot of your personal property has appreciated in value, but there also are some other potential legal issues that might arise.

So I use the example of taxidermy and I use the example of firearms. There are specific laws on how those particular assets should be handled.

So there's a lot moving on on personal property. And it's kind of funny that it's often not dealt with in such a thorough manner, but there are many things to consider.

Marilyn Andrade: I wanted to add as well, when we speak of beneficiaries, beneficiaries is not just the surviving spouse or children, grandchildren, cousins. It can actually be charities, churches, temples, local bookstore or library. It's not necessarily set in stone that beneficiaries have to be individuals.

So even family heirlooms or even the assets, the investments, whatever an individual holds at the time of death can be sent to a beneficiary other than the actual individual. So beneficiaries is a large term of who the recipient is to be, and that recipient can be somebody other than an individual.

Carissa Lucreziano: And that's really a good point because today, like many people are thinking about how to do both. So even if they have children or grandchildren and they're leaving them something, they are also thinking, well, what about the legacy that I want to leave to something like a charity or you mentioned a few. So I think that's very important. Really, really important.

And Richard, what I heard from you is the communication. Know your beneficiaries because then you will know what you should be or could be leaving. And what to your point, I've never heard that before, purging. You know what maybe is not going to be used or what the beneficiary might want and then getting maybe, you know, selling that or getting rid of it.

So, great, great insights. Great conversation.

Well, communication is a theme that we've talked about a lot today. And we conducted a poll, just a recent poll that found that 51% of Canadians expect to transfer wealth, but 47% haven’t discussed the inheritance plan with their beneficiaries. We know that having the conversation is not always easy. Where do you start and how do you start? Is there a right time?

Marilyn Andrade: It really depends. Every family dynamic is different. Every client situation is different. It really is you know, getting to know or know your beneficiaries. So there are clients that love to have that open transparency with their loved ones, and there are others that just don't want to share that information. They just feel when the time is right, they will know, especially if it's on their passing.

Again, it comes down to know your beneficiaries. The ones that are transparent, they know it won't be a detriment to the beneficiaries, so they are quite comfortable in having that open dialog.

And again, the opposite is said to be true as well, some people that know in advance they're going to be inheriting a certain amount of funds, they may kind of run amuck while they're here and just thinking that, you know, I'll have this inheritance in the future, what's the point of worrying about money today?

Carissa Lucreziano: It's kind of like, almost like a balancing act. Like you want to ensure that your beneficiaries would have some knowledge so they don't, like, you know, inherit a sum that they had no idea or assets they had no idea.

But also, you mentioned something really important not to get distracted by the wealth that they're going to inherit.

Richard Voss: Absolutely. I agree with everything that's been said here, and it's so important to realize you don't have to do this as an all or none in one shot. You want to take a gradual approach when it comes to sharing this type of information and assess your beneficiaries as to how they're receiving that information and what are they doing with it.

And remember, dollar signs, or disclosing the actual numbers, is optional. And I would actually encourage that in the beginning, you don't start by saying what the numbers are. You work conceptually.

And in fact, Marilyn and I had an experience, actually, with a client, where the client wanted to speak with their older teenagers about their estate plan. And so what we did is we helped arrange a meeting. We helped actually facilitate this meeting. And in this case, the parent went through their will, identified who the executors were, as well as all the other beneficiaries other than the teenage children. And then also explained the distribution of the estate and how it was done, the timing of it, but not a single dollar amount was ever mentioned.

The beauty of this strategy or this approach was that the children had the opportunity to ask questions. So all of a sudden the kids were becoming informed of how intentional the parent was with regards to the distribution of the wealth and the transmission of values actually occurred because the parent actually had the ability to sort of say, “Well, this is why I'm distributing it this way, because I believe that you need to get familiar with the wealth before you can make full decisions on the full amount.” And so that whole back and forth really facilitated a good understanding, gave a chance for the beneficiaries to be heard as well, and I think really helped improve the chances of success when the wealth does eventually transition to them.

Carissa Lucreziano: Yeah, that's a really - thank you for sharing that. That's a really interesting approach, is keeping the dollar amount out of it. And then also the beneficiaries will have more of an appreciation to why those decisions were made.

But just quickly on this, this is another topic that is really interesting. We could go on for a while, but if for a child or beneficiary, a child/grandchild, if they how do they broach the conversation with their parents or grandparents, if they're wondering, if they want to start to help or support a wealth plan. How can somebody that's maybe going to be the beneficiary broach this topic with their parents? Because that's a tough one too.

Richard Voss: You know, there's a responsibility for all parties involved in this type of a situation. So if you are a potential beneficiary of your parent's estate, I would demonstrate your financial maturity. So I would make sure you start by demonstrating that you can make good financial decisions. That you take ownership and accountability for those financial decisions that you make.

And then you even become serious by even getting your own will in place, if you happen to be the age of majority. And your own Powers of Attorney in place, likewise.

And that you also do your own financial planning. By demonstrating your financial maturity, you're basically showing them that you're ready to have discussions like this.

Carissa Lucreziano: Mm hmm. Yeah, that's really good advice. And for our viewers that may be interested, we do have some really great resources and content at cibc.com/SmartAdvice,

Three articles that I want to highlight, “How to speak to your children”, “How to speak to your parents”, and “Five money talks to have with your partners”, all around these topics that we're talking about.

So lastly, again, like I said, this conversation has been so fabulous, but this is a very important topic and a really good way to kind of end our conversation is, around money. And we know it's a very emotional subject. We talked about a lot of examples. We're talking about people, we're talking about close relationships, emotions and human nature.

It's not all about the money at the end of the day. But, you know, your wealth transfer decisions will impact the beneficiary. They may interpret it a different way than you intended. And you just mentioned how powerful a conversation and that transparency can be.

And I know, Richard, you spend a lot of time with families, especially talking about, you know, navigating these types of relationships. So can you share a little bit about this?

Richard Voss: Yeah. So I would say that when it comes to family dynamics, a lot of times people don't realize it, but values, the values that we exhibit with regards to finance and with regards to money actually happens at a very early age for our children.

And many times it happens in a retail or a store type environment where a decision has to be made about whether something is going to be purchased or it won't. And the actual actions that we make, the words that we say, the emotions that we feel, these all get transferred to our children in that particular example. Now, those are potentially random, and if we're not careful, we might send mixed messages or incorrect messages.

But we also have an opportunity to be very intentional with one area in terms of our planning. And that area is having to do with your Registered Education Savings Plans. And what I would say is, is that you have the opportunity to be intentional in terms of the transmission of your values to your children. When you open such a plan, you have the ability to speak with your children about it and say, “look, I believe that education is important and your future is important to me. I value the opportunity to help you get started and to be able to find your own way later on in life.” So I think that's a huge opportunity that we need to remember.

When we actually engage in a transaction, think about the opportunity that exists in that transaction and talk about it. Share your thoughts, share your feelings, and allow your children to potentially take on some of the values that you have and then you can share them.

Carissa Lucreziano: Yeah, that's a great example. I love the retail example, I think we can all identify with that at some point in our life and it puts the whole perspective of like the piggy bank for the kids. You know, there's, there's a lot to be said about attaching a value to that monetary value or that savings.

So let's end off here. You know, we talked a lot about the importance of, you know, really attaching a value to an asset or savings. But also, Marilyn, when you think about passing on wealth, people, beneficiaries can interpret this in many different ways. They may interpret it in a way that you didn't intend to. Are there ways you can set up your estate when you're no longer here to keep the peace and harmony between families?

Marilyn Andrade: Absolutely. Clients have the option of naming CIBC Trust in their will, and in our role, we would take away the administrative burden, the stress, the onerous tasks that are involved in administering estate, where the family can be left to grieve, deal with the passing of a loved one, and not have to think about the tasks that need to be performed when someone passes away.

We've been in this space for over 100 years. Clients love the thought of peace of mind for them, knowing that their estate would be administered professionally. And also it keeps the family harmony knowing that there is that neutral third party that can handle the tasks that need to be performed. And obviously the professionalism that knowing that these items and the tasks that need to be performed upon one's passing will be addressed and adhered to accordingly.

Carissa Lucreziano: Yeah, thank you for taking us through that. A very supportive process and an option to consider. And an option that may not be thought of by some people, just not knowing that that that opportunity is there.

And you said something really important is, a lot of times the beneficiaries are the executors. And you've said this to me before too is you know, you want to be able to let those beneficiaries, the children or the grandchildren, let them grieve. It is very heavy to administer an estate. It’s very heavy. There could be so many things involved. You're looking at maybe, you know, taking contents out of a home, selling a property, all these things. It's... it's a lot.

Marilyn Andrade: Absolutely.

Carissa Lucreziano: So thank you for going through that. We've had such a great conversation today, Richard, Marilyn, all on such a great topic as wealth transfer.

So much to consider, but at the end of the day, a few big things here is setting yourself up for success, having the conversation with your family. The planning doesn't have to happen overnight. This is a journey. We all know that. But having the opportunity to speak to your professionals, your advisor, your Trust advisor, your wealth strategist to all of these different advisors that we have available at CIBC, can help you on this path and can help you on this journey for your wishes to be administered.

Yeah, so thank you so much and sharing your wealth of knowledge and all of your great stories with us today.

Marilyn Andrade: Oh my pleasure.

Richard Voss: Thank you Carissa.

Carissa Lucreziano: It's been a pleasure.

We hope that this event has given you the tools and knowledge to start thinking about your own wealth transfer plan and that you feel empowered to have these conversations with your loved ones and your professional advisors.

If you aren't already working with an advisor, you can visit cibc.com to book a conversation.

If you're looking for more great advice, you can visit CIBC Smart Advice on cibc.com.

And don't forget to check out our new Smart Advice podcast that brings you financial advice investment strategies and economic trends.

Thank you for joining us today and we hope to see you at our next virtual event.