



# Sharing the Wealth: From Benefactor to Beneficiary

## At a glance

- More than 50% of Canadians have received or expect to receive an inheritance, and an unprecedented intergenerational wealth transfer is expected to occur within the next decade<sup>1</sup>
- Understanding the distinct characteristics that define generational cohorts can help with assessing their financial needs and future investment goals
- Is the advisory community prepared to harness the impending transfer of legacy assets and ready to help beneficiaries manage their financial futures?

Creating a comfortable atmosphere to discuss money and estate planning matters within the confines of a family setting is often a difficult undertaking. Death is an even harder topic to broach. Combine these subjects and you'll likely discover that many Canadians and their heirs are unprepared for the financial road ahead.

Nevertheless, appropriate planning needs to happen before a wealth transfer or inheritance occurs, as this can help improve the likelihood of a successful outcome. It is estimated that between now and 2026, Canadian Baby Boomers are set to transfer \$1 trillion in personal wealth to GenXers and Millennials.<sup>2</sup> This immense figure is expected to represent the largest

intergenerational wealth transfer in Canadian history. Of paramount concern is that of the 80% of investors who plan to transfer their wealth, only 45% have an actual plan in place.<sup>3</sup>

For the advisory community, overseeing the wealth planning needs of existing clients, while anticipating the requirements of future generations, has never been more critical. An astounding 70% of wealth transfers result in disputes or loss of assets<sup>4</sup>, which is not surprising given the current lack of planning. More than ever, advisors need to proactively work with Canadian families to implement strategies designed to help secure the wealth of current and future generations.

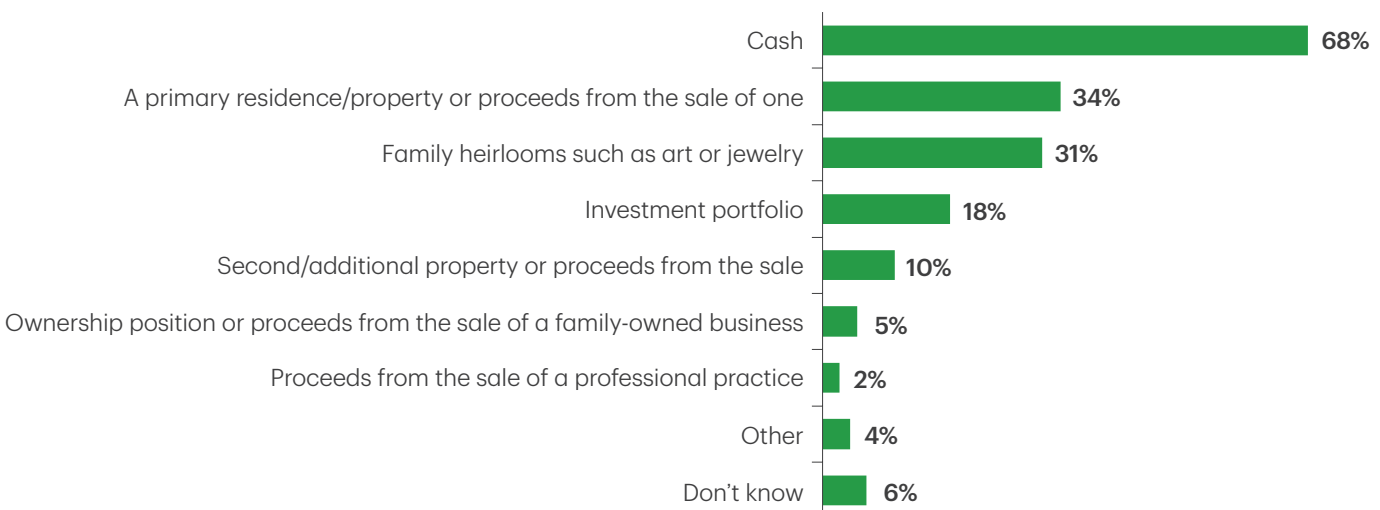
## Canadians were asked: Do you expect to receive an inheritance?

In March 2018, TD Bank Group commissioned Environics Research Group to conduct a survey of 6,021 Canadians aged 18 and older. The report included questions asked to 3,028 Canadians who have received or anticipate receiving an inheritance in the future. One-third of Canadians said they have received an inheritance, while just over 28% anticipate receiving one.<sup>5</sup>

The study concluded that a majority that received an inheritance, received more or as much as expected, however only a small portion of this group anticipated speaking to an advisor. With cash being the most common asset received or anticipated, Canadians

would likely benefit from including an advisor in their inheritance discussions as this can help minimize the risk of financial missteps down the road. Behaviour Finance research at TD found that without adequate planning, an unexpected windfall will often result in financial mismanagement as we tend to spend more of it and at a faster rate.<sup>6</sup> Whether beneficiaries deliberately avoid engaging an advisor, or simply haven't considered one, the advisory community needs to be proactive and make inroads with these individuals, before the opportunity is lost.

## Canadians who received or expect to receive an inheritance: asset breakdown<sup>5</sup>



# Preparing for the investment journey ahead

Generations are often shaped by the context in which they emerge. It is therefore critical to understand the historical and social backdrop which can give rise to generational differences in financial attitudes.





Of particular importance is understanding how the views of today's younger cohorts compare to that of preceding generations.

One notable shift that has materialized since the Baby Boomer era is the general moderating of behaviours toward consumption. Boomers grew up in an era characterized by rapid economic expansion and espoused a culture of consumption. Many dismissed ideals of frugality held by their parents (Silent Generation) and saved at a lower rate. In contrast, generations that followed have demonstrated higher levels of fiscal moderation and a greater emphasis on saving and growing capital. However, as Boomers aged they also needed to leave their free-spending days behind and

focus on funding for retirement and passing on a legacy. Generation X and Millennials now comprise 43% of Canada's total population<sup>7</sup> and stand to inherit the largest proportion of the impending wealth transfer from Boomers. For advisors, understanding the investment attitudes and perspectives of GenXers and Millennials will be instrumental in helping them navigate through the next phase of their financial journey.

As highlighted in the graphic below, several important distinctions can be made between generations related to financial mindset, investment approach, technological savviness, and whether they are confident in managing finances on their own. Of note, GenXers and Millennials tend to be more cost-conscious and question advisor value propositions more than their predecessors. Millennials, however, are less likely to seek the advice of a financial advisor compared to GenXers and Boomers.

## The Canadian intergenerational paradigm

Generation*	Financial Mindset**	Investment Approach**
<p><b>Silent Generation (born 1928-1945)</b> Present age range: 74-91 Est. Population size 2,836,515</p> 	<p>Likely more concerned with saving, funding the remainder of their lives and leaving a legacy.</p>	<ul style="list-style-type: none"> <li>Tend to be more confident in their advisors and more relaxed than younger investors</li> <li>May need advisors who can provide extra help with online tools</li> </ul>
<p><b>Baby Boomers (born 1946-1964)</b> Present age range: 55-73 Est. Population size 8,322,515</p> 	<p>Likely more concerned with preserving wealth, leaving a legacy, minimizing tax exposure.</p>	<ul style="list-style-type: none"> <li>Tend to have higher financial literacy and more comfortable with an advisor-led model</li> </ul>
<p><b>Generation X (born 1965-1980)</b> Present age range: 39-54 Est. Population size 7,656,555</p> 	<p>Considered more technologically inclined, open to risk, and like to keep an eye on the growth of their investments. Saving for retirement.</p>	<ul style="list-style-type: none"> <li>Tend to be financially literate, but may question traditional value propositions</li> <li>May need advisor to help navigate market dips and avoid knee-jerk reactions</li> </ul>
<p><b>Millennials (born 1981-1996)</b> Present age range: 23-38 Est. Population size 7,357,255</p> 	<p>More likely to invest according to their values. They are socially conscious and invest in causes that are both fruitful and support the 'greater good'. Saving for the future.</p>	<ul style="list-style-type: none"> <li>May express less confidence in advisors</li> <li>Data-driven in decision making</li> <li>Tend to want advisors who are transparent and make them feel heard</li> <li>More open to self-service options</li> </ul>

\* Census Profile, 2016 Census". November 2017. Statistics Canada

\*\* From baby boomers to millennials: Which generation speaks to you?" (Katie Dangerfield). July 2017.

Global News "Five-Generation Study: Millennials Face Increased Retirement, Financial Challenges". October 2018. Society of Actuaries

# Millennials: The new skeptics

In 2017, TD Wealth conducted an online quantitative study with the aim of collecting market data to better understand the financial behaviours of affluent Canadians. The study found that within the emerging affluent segment (25- 34 year-old Millennials that earn \$100K+ in household income), only 19% had a financial plan with an advisor, compared to 49% of those 55 and up. However younger investors are considered to be less disciplined, less financially literate and more likely to react to market fluctuations.<sup>6</sup>


In another study, Deloitte's annual Global Millennial Survey 2019 sought the views of 13,416 Millennials across 42 nations (including 500 Canadian participants) on everything from the economy, politics, environmental issues and personal finance. A key takeaway from the report highlighted the pessimistic outlook that many Millennials have about the economy. The report found that positive economic sentiment among Millennials is at its lowest in the six-year history of the survey. Only 26% of respondents said they expect the economic situations in their countries to improve in the coming year. This figure has never been lower than 40% and stood at 45% the past two years.<sup>9</sup>

This generation not only maintains a gloomy view of the investment climate but may be hesitant to work with advisors for other reasons. Millennials appear to have less faith in those who act on their financial behalf and can be skeptical of the products advisors recommend. They also question fees closely and demand a solid understanding of the value they're receiving from their advisor.<sup>6</sup> What's more, they tend to believe that advisors don't reflect their views on issues related to environmental responsibility or ethical investing.

For example, 42% of Millennials say they began or deepened a financial relationship because they perceive an advisor's products or services to have a positive impact on society or the environment. Further, 37% said they have stopped or lessened a business relationship because of unethical behavior; conversely, 36% started or deepened a relationship because they believed the relationship was ethical.<sup>9</sup> Undoubtedly trust and ethics rank high for all investors, but if up-and-coming Millennials don't feel that they can establish a personal connection with an advisor, then the option of 'going it alone' may continue to prevail for this group.

In addition, Millennials typically rely more on fintech solutions (technology driven financial services) to manage their finances, compared to earlier generations. Commonly referred to as the 'disruptive innovators' and known as 'digital natives,' Millennials depend heavily on the internet and technology to do almost everything—including shopping, listening to music, communicating via social media, and of course investing. When it comes to managing money, Millennials (and GenXers to an extent) prefer to avoid face-to-face business interactions, when in their view, there's a more efficient way to get what they need accomplished.

This means that younger generations expect and prefer instant, real-time access to information about their money, as well as predictive, forward-looking features and recommendations that advise them towards incremental adjustments.<sup>8</sup> From the Millennial perspective, managing personal finances can be achieved predominately through the use of technology, versus other outmoded methods, and therefore are less likely to seek advisor guidance.



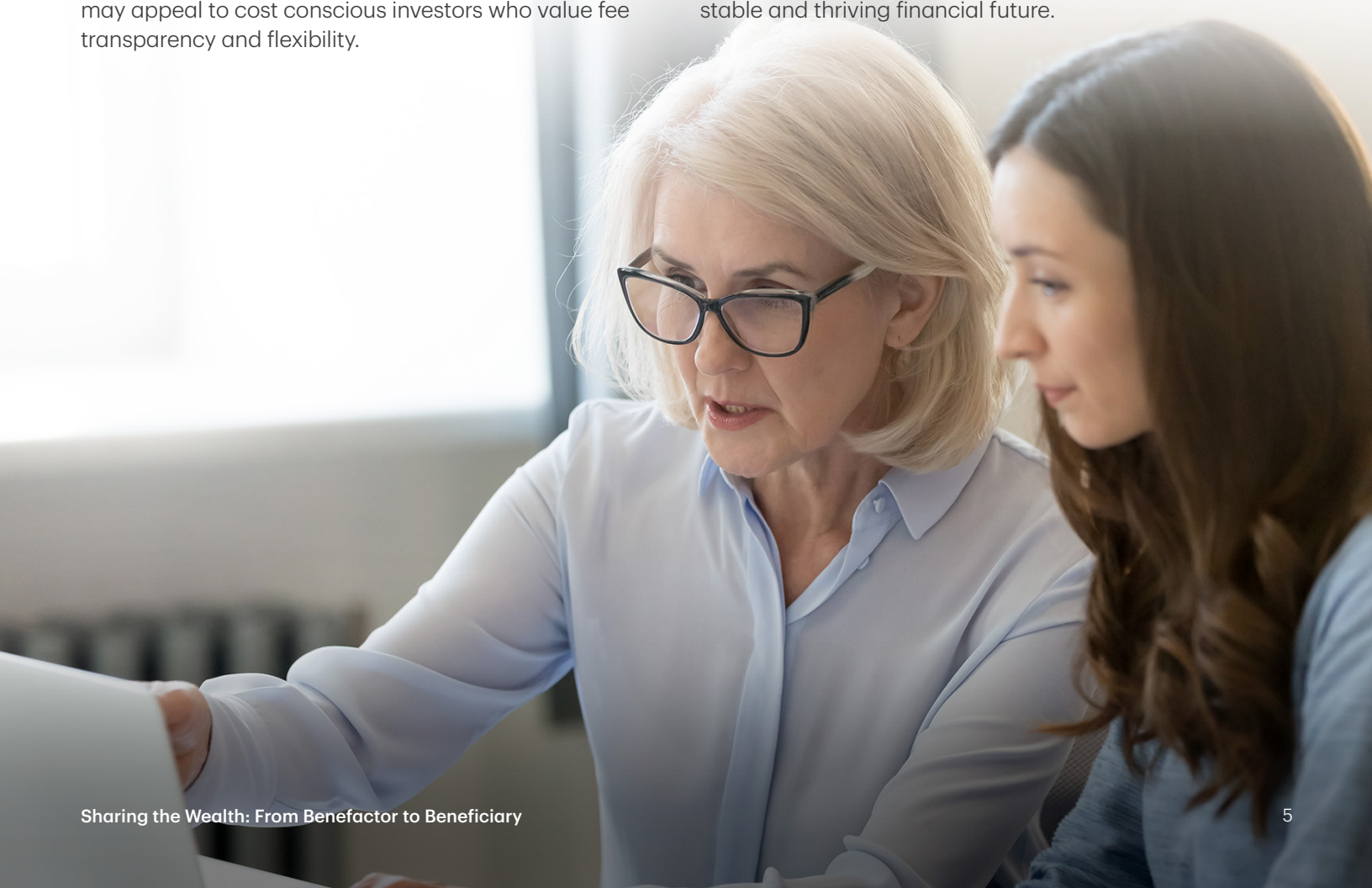
**Generation X and Millennials now comprise 43% of Canada's total population** and stand to inherit the largest proportion of the impending wealth transfer from the Baby Boomer generation.

## Potential implications for advisors

Given that 66% of children leave their parent's financial advisor after receiving their inheritance,<sup>10</sup> making early inroads with succeeding generations is vital if advisors expect to retain these assets. There's never a bad time to discuss what's in the best interest of Canadian families and their future financial goals, but waiting too long could mean missing an important window of opportunity.

The surveys cited in this report provide important insights for advisors to consider. For example, Millennials appear to show deeper loyalty to businesses and advisors that tackle issues which resonate with them most, such as societal and environmental concerns. The foundation of any advisor guided relationship should be based on trustworthiness, and while identifying opportunities, priority should be given to investment themes most important to investors. If there is distrust of the advisory community or broader social, economic and political environment, who will younger investors turn to for financial direction? One key consideration for advisors is to offer environmentally or socially responsible investment solutions. For example, Exchange Traded Funds, including passive investment strategies like thematic funds, can help achieve this purpose. Also offering effective investment options within a fee-based relationship model, may appeal to cost conscious investors who value fee transparency and flexibility.

Indeed, trust and value in investing are interconnected for younger investors. It may not always be about advisors being able to outperform benchmarks, as these do not always represent relevant expectations for younger generations. Value and trust are developed by an individual or an organization by building credibility and demonstrating professionalism.<sup>11</sup> It has also become apparent that advisors need to focus on modernizing their relationship models when interacting with clients. Younger investors are heavily dependent on technology and use a tech-first approach to help manage their everyday lives. Many expect to use digital technology for a wide range of activities including connecting with advisors, receiving personalized advice, using analytics, getting a consolidated view of their financial situation and tracking performance.<sup>12</sup> As outlined in this article, initiating conversations about managing legacy assets with families and succeeding generations can pose several challenges. However, most obstacles can be overcome provided advisors establish a tailored approach that addresses the individual and unique investment requirements of each generation. Now is the time for advisors to invest in deepening relationships with established clients and building rapport with heirs, with the ultimate goal of helping all Canadians secure a stable and thriving financial future.



For more information please contact  
your Regional Sales Team or visit [www.tdadvisor.com](http://www.tdadvisor.com).



<sup>1</sup> IPC Private Wealth. (2017). "Wealth Transfer 101: How to talk to your heirs about their inheritance". [Online] [ipcprivatewealth.ca](http://ipcprivatewealth.ca).

<sup>2</sup> Strategic Insight. (2019). "Investor Economics Insight, January 2019". [Online] [investoreconomics.com](http://investoreconomics.com).

<sup>3</sup> Roadmap for a New Landscape". March 2016. State Street Global Advisors.

<sup>4</sup> "The Future of Estate Planning" (Vic Preisser & Roy Williams). June 2010. NAEPC Journal of Estate & Tax Planning.

<sup>5</sup> TD Bank CAPA Research Poll 2018, Wealth 'windfall'.

<sup>6</sup> Exploring Wealth Personality: TD Wealth Behavioural Finance Industry Report" 2019. TD Wealth.

<sup>7</sup> Census Profile, 2016 Census". November 2017. Statistics Canada.

<sup>8</sup> White Paper: Ness Digital Engineering ([ness.com](http://ness.com)): How technology will make intergenerational wealth transfer more efficient.

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<sup>9</sup> The Deloitte Global Millennial Survey 2019: Societal discord and technological transformation create a "generation disrupted".

<sup>10</sup> The great wealth transfer is coming, putting advisers at risk" (Liz Skinner). July 2015. Investment News.

<sup>11</sup> CFA Institute: Future State of The Investment Profession: Pursuing Better outcomes – For The End Investor, The Industry, and Society. April 2017.

<sup>12</sup> 'Targeting the Digital Generation' (Broadridge 2016).

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