

Wealth Transfer Report

2017



Lasting legacy

*Insights into giving and inheriting wealth
across generations*



**Wealth
Management**

It's estimated that within a generation, US\$4 trillion will be passed down to inheritors in Canada, the United Kingdom and the United States. Yet wealth rarely endures long enough to create a legacy that lasts for multiple generations.

With that in mind, we undertook a study to find out how prepared families are to give and receive inheritances. We surveyed 3,105 individuals in Canada, the UK and the US, and supplemented our data with in-depth interviews. Our respondents—worth US\$4.5 million on average—included wealthy professionals and entrepreneurs, business owners and retirees, givers and inheritors of wealth.

What we found was a remarkable gap between intention and action, resulting in a general lack of preparedness. Our research shows that individuals have every intention of transferring their knowledge to the next generation. However, it turns out that many families are repeating the cycle of inadequate financial guidance, delivering too little too late. We found that on average, structured financial education is only beginning at age 27.

We also observed that people are uncomfortable talking about inheritance, and when they do, their conversations are limited in scope: almost three-quarters of high net worth inheritors who have had advance conversations with benefactors know the monetary value of what they will receive, yet only one-third of them know how their benefactors want them to use that wealth. Additionally, only one-fifth of inheritors who talked to their benefactors received guidance on the various options used to transfer wealth.

How people pass on their wealth to the next generation impacts whether a family legacy will last for a single generation or well beyond. It also has broader economic and societal implications. If the current generation is able to transfer its knowledge as well as its wealth effectively, it could increase the likelihood that future generations will be better prepared to preserve wealth, drive economic growth and give back to their communities.

The act of passing on one's wealth is about much more than wealth preservation; it's about creating meaningful legacies that reflect one's values. We hope this report provides valuable insights into the very real challenges and significant opportunities of wealth transfer across the generations.

A handwritten signature in black ink, appearing to read "Douglas A. Guzman".

Douglas A. Guzman
Group Head
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Executive summary

People are generally unprepared to give or inherit wealth. Only 26% of respondents have a full strategy in place to transfer their wealth to the next generation, and only 35% of inheritors report they were prepared by their benefactors before receiving wealth.

Many benefactors have taken only initial steps to prepare for wealth transfer. 54% of respondents have a will in place, but a will is just the first step. 1 in 3 indicate they have done nothing at all to prepare for passing on wealth to the next generation.

People are more likely to have a wealth transfer strategy if they have received an inheritance. 32% of previous inheritors have a full wealth transfer strategy, compared to only 15% of those who have yet to inherit.

There is a direct correlation between preparedness and confidence in wealth preservation. For those with a full wealth transfer plan, 58% are confident the next generation will sustain their wealth, compared to 33% of those who have done no preparation.

The key to raising financial literacy and building financial confidence is to start early. On average, structured financial education begins at age 27. Yet starting earlier leads to higher confidence, with 66% of those who began before 18 rating themselves as confident.

Financial education is largely informal and guided by family. Informal family knowledge is foundational, yet fewer respondents consider it effective. 3 out of 5 believe family conversations are effective, whereas 4 out of 5 say that structured financial literacy programs are effective.

The intention to educate children on financial matters does not necessarily translate into action. 35% have yet to begin educating their children about wealth and money topics, but are planning to in the future.

Many plan to pass on their wealth through their estate. 57% of respondents intend to pass on all their wealth upon death or illness, compared to 29% who plan to gift gradually during their lifetime.



Personal journeys of learning

Knowledge. It's the most important investment anyone can make in their financial future, regardless of net worth or socio-economic status. Those with a solid financial education are better positioned to make more informed decisions to build, preserve and grow their wealth across the generations. For individuals like our average respondent with US\$4.5 million in investable assets, the stakes are higher, and the imperative to be well-informed about wealth matters is stronger.

By its very nature, wealth is a wide-ranging subject that includes everything from household finances to wealth transfer, investment management to charitable giving, retirement planning to business succession planning, and more. Acquiring the broad financial knowledge to ensure that wealth endures for themselves and the next generation is a significant undertaking.

Individuals are well aware of the challenge—yet our research reveals that their approach to acquiring financial knowledge (defined as lessons handed down by family, received from outside advisors, or gleaned through financial literacy programs) tends to be disorganized and somewhat inconsistent. Education from trusted individuals—usually family members—typically happens late and is largely informal and unstructured. More often than not, individuals find themselves seeking out information on their own, as the need arises.

Guidance happens too late

The word 'education' usually conjures up memories of childhood. Yet our research subjects reveal that their education in wealth happens much later in life. And when it does, it's often delivered informally by family members—not financial professionals.

The average age for starting to receive structured financial education is 27, meaning that most are well into adulthood before they begin preparing to inherit and manage wealth. By that age, individuals have already made numerous financial decisions—and maybe even missed opportunities to supplement their post-secondary education.

This delayed education is consistent across the three markets we researched: Canada, the UK and the US. There are slight differences, however: it starts marginally earlier in Canada, at 26, and slightly later in the UK and US, at 27 and 28, respectively. Why so late?

The reasons vary. For instance, more than a third of parents we surveyed, 35% overall, intend to educate their children about wealth, but have yet to start. Another reason is that there are numerous barriers preventing parents from speaking to children about their wishes: 31% cite their own lack of preparedness as the main conversation barrier; 27% of respondents “don't believe inheritors are old enough”; 15% “don't believe they're ready”; and 13% are “not comfortable talking about their own death.”

Perhaps their reasons are more complex, though these fall outside the scope of our research. Some parents consciously choose not to reveal the full extent of family wealth in an effort to motivate children to create their own, rather than relying on inherited wealth. Whatever the rationale, the late age at which heirs start learning about financial literacy undoubtedly impacts their ability to manage and preserve a lasting legacy.

27

is the average age respondents started their structured education on wealth and money, whether male or female



Alexandra, an IT professional turned entrepreneur, believes that earlier engagement on the topic of money management is critical for equipping younger adults with the knowledge to make good financial choices.

“I did not know how to manage my money when I started working. No one ever told me to start saving, as simple as that was. When you’re young, you think ‘I should buy that new car,’ simply because ‘I want it and I can afford it.’ But that’s not always the best thing to do.”

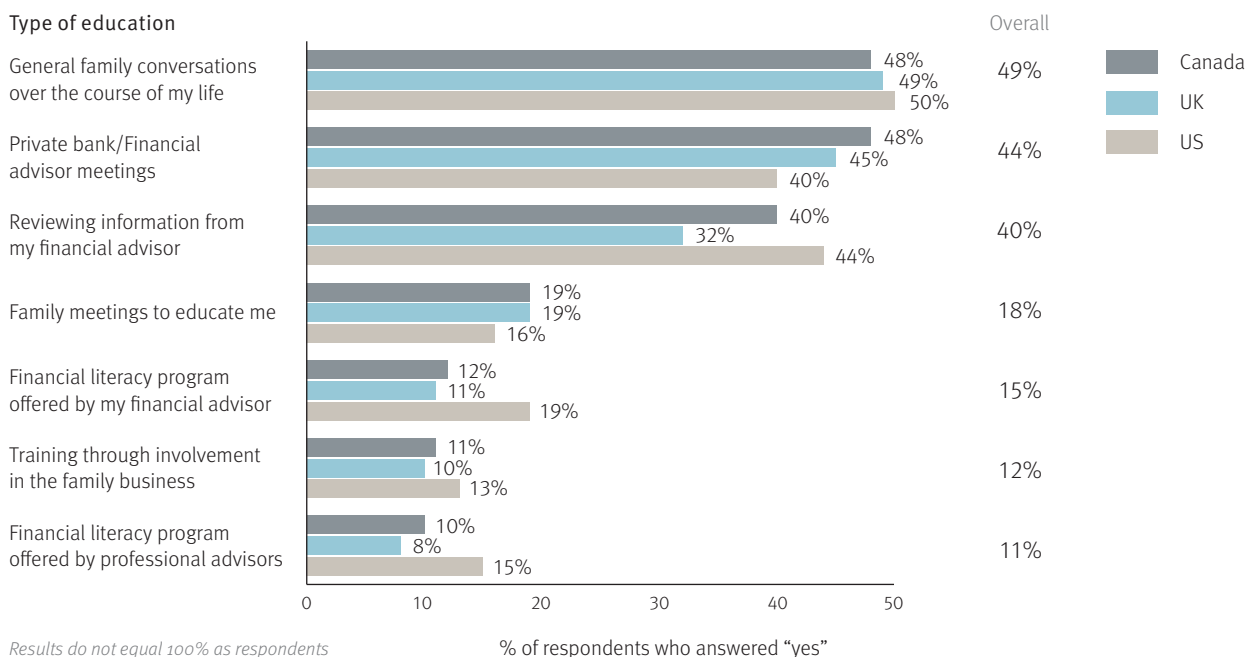
All in the family

Most people receive their financial knowledge through informal means. In fact, almost half of survey respondents report that the formal education they received on money matters was actually “general family conversations over

the course of my life” [Figure 1]. Even when individuals do accept professional input, it’s highly fluid. They build their financial knowledge through conversations and meetings with advisors, rather than through seminars or courses.

How did you learn about wealth and money?

FIG. 1 | *Have you ever received any formal education/guidance to improve your understanding of wealth and money?*



On the whole, structured forms of learning are far less pervasive. Even in the US, where such educational offerings are more prevalent, only one in five individuals has taken advantage of financial literacy programs offered by financial advisors. In Canada, individuals learn equally from talking to advisors and talking to family members, at 48% for each method. In the UK, 45% learn from advisor meetings, but reviewing information from financial advisors decreases to 32%, compared to 40% in Canada and 44% in the US.

Notably, women are more likely to learn through informal means: 52% learn from family, compared to 45% of males. Men also learn through unstructured ways, but they appear to be more targeted: 46% learn from meetings with their financial advisor or private bank, and 20% learn from “family meetings to educate me”—3% more than women. The other notable difference: 14% of male respondents learn through involvement in the family

business, versus 10% of women, which may be a reflection of succession planning in family-owned enterprises.

It's a lonely road

Left to their own devices, individuals pursue their own paths. A majority of them actively educate themselves on wealth and money [Figure 2, next page]. Without structured guidance until adulthood, they inevitably adopt a go-it-alone strategy: “conducting my own research” is the most popular method of self-education, at 56%. Women also have a more collaborative learning style, with over half of them seeking out others to supplement their knowledge. By contrast, 64% of men choose to complement their own research, often with experiential learning: 49% of male respondents “manage their own investments to improve their understanding,” versus 36% of females.



A higher appetite for self-education in the UK

According to our survey findings, the British appear to be the most proactive in terms of their financial self-education: 64% of respondents in this market are conducting their own research to improve their financial literacy, compared to 55% in the US and 52% in Canada [Figure 2, next page]. They are also more likely to read the financial press and manage their own investments to improve their financial understanding. Indeed, 41% of UK respondents read business publications to enhance their knowledge, while the percentage drops to 35% and 27% in the US and Canada, respectively.

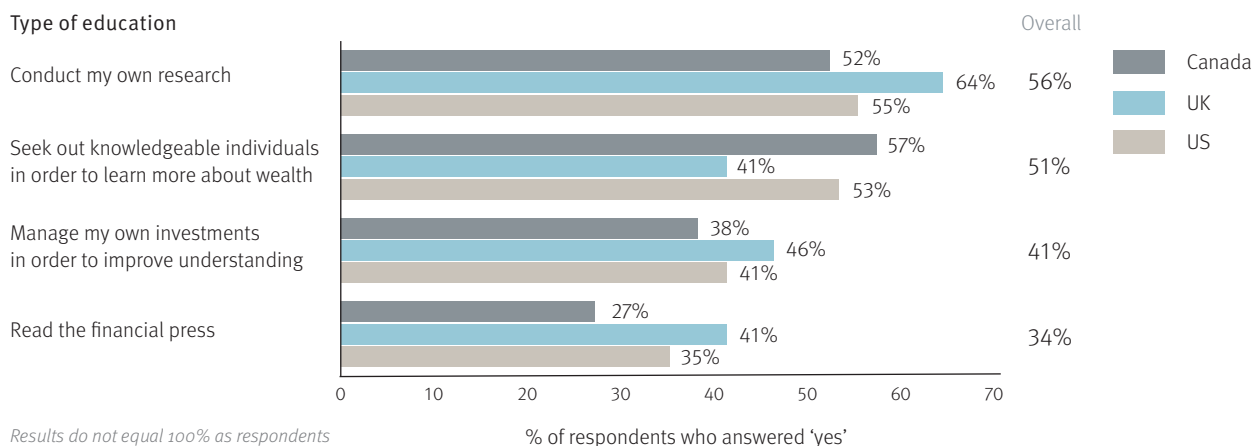
This independent approach to learning reflects respondents' deep sense of responsibility over wealth. Almost three-quarters say they feel a personal accountability for understanding the details of their financial affairs. As such, our UK respondents value knowledge over a broader range of financial subjects than their counterparts in other markets. Budgeting and investment strategy are the most widely referenced topics across all markets. However, a quarter of UK respondents also cite family governance and wealth transfer as important areas of financial learning, compared to just one in five American and Canadian respondents.

Despite their proactive approach, UK respondents rate their confidence in financial matters at 6.6 out of 10 for both their self-directed and formal education, meaning there is room for improvement. They could build their financial literacy, as well as their confidence levels, by integrating more structured education from financial professionals with their self-directed learning.



How do you educate yourself?

FIG. 2 | *Wealth and money can be complex areas and are sometimes difficult to understand. Which of the following do you personally undertake to improve your knowledge of wealth and money?*



Start with the basics

Overall, the individuals we surveyed exhibit a thirst for greater financial knowledge, which highlights their deep sense of responsibility to themselves and the next generation. A large majority, 72%, perceive themselves to be independently responsible for understanding their financial affairs in full.

This independent education starts with learning the basics: 51% of respondents say that budgeting is the most valuable tool in their financial toolkit. Investment strategy is the second most valued subject, at 46%. The question is: how confident are people in their knowledge of the basics?

The confidence gap

Upon reflection, people clearly recognize the value of starting early. Typically, those with the greatest confidence in their financial literacy have been educated since childhood: 66% of those who received structured education before age 18 are confident in their grasp of financial matters [Figure 3, next page]. This figure drops to 58% among those educated between the ages of 18 and 35, and 41% among late starters. Evidently, the earlier they start, the more confident they are in later life.

As they pursue their personal journeys of financial knowledge, individuals begin to realize that the current approach to education only goes so far. In fact, its effectiveness—or lack of effectiveness—is clearly revealed when we ask individuals to rate their confidence levels in their own initiatives and the learning they receive from others.

On a scale of 0 to 10, our respondents give themselves a 6.5 for their self-directed learning, and a slightly higher 6.7 for learning they receive from others. While they are achieving a certain degree of financial literacy, their knowledge is ultimately lacking.

The result? A relatively low confidence level.

It pays to start early

Building confidence in financial matters is no small task. Our study of 3,105 individuals, each worth about US\$4.5 million, reveals a notable lack of confidence in financial literacy levels. When asked to rate their financial confidence, respondents disclose that they feel more 'neutral' than 'confident,' rating themselves just below the 7-point threshold needed to be considered confident. How can they build confidence in their financial knowledge?

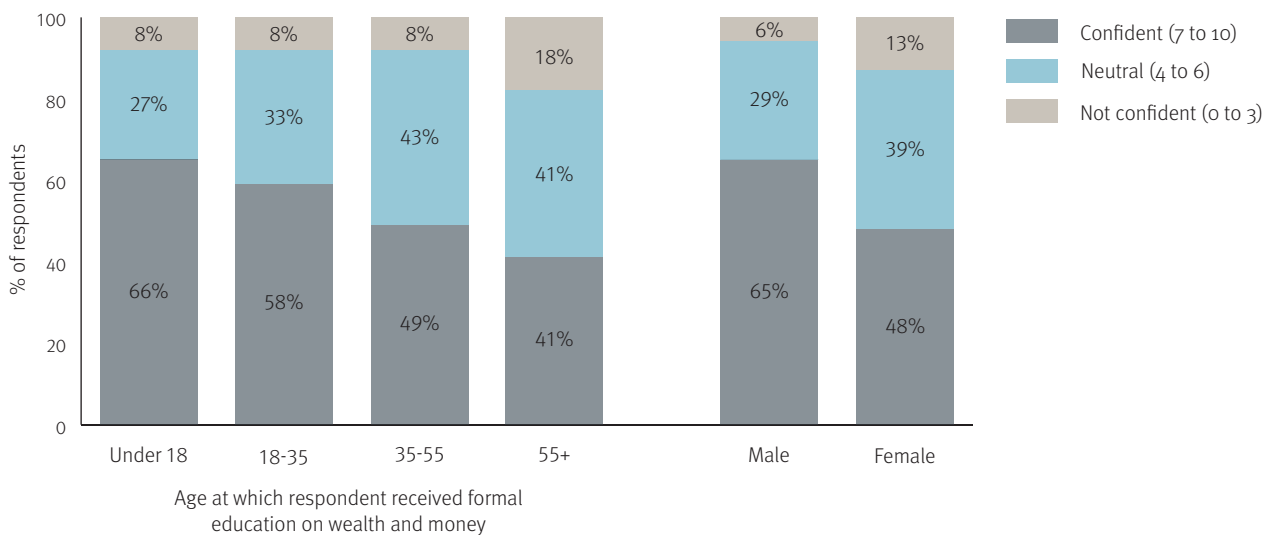
The key, it seems, is to start early, particularly with external sources of learning. Respondents who started at a younger age are more confident than those who started later: 66% of those who began their structured financial education before age 18 are confident in their financial literacy.

As age brackets rise, financial confidence declines, from 58% for those educated between 18 and 35, down to 41% for those who began their structured financial learning at 55 or older. There is a clear correlation between starting your financial education early and building confidence, suggesting that it pays to start early.



How confident are you?

FIG. 3 | How confident do you feel in your knowledge of wealth and money? And, at what age did your formal education/guidance on wealth and money begin?



Individuals who give themselves 7 or higher for their self-directed education are more likely to read the financial press or manage their own investments than to conduct ad hoc research. However effective these self-directed methods, respondents acknowledge that more structured learning produces better results, particularly if that learning begins at an earlier age.

As it turns out, the less pervasive forms of financial education are actually the most effective [Figure 4]. Despite the widespread lack of formal training, over three-quarters of individuals who completed a wealth curriculum from a financial or professional advisor deem the learning effective, compared to just 60% of those who learned from more general family conversations about wealth.

Perhaps the pressure to preserve family wealth for future generations translates into a conscious choice to acquire knowledge within the private family context. However, these informal ‘all in the family’ methods are not necessarily translating into the robust confidence

that individuals need to preserve their wealth across generations.

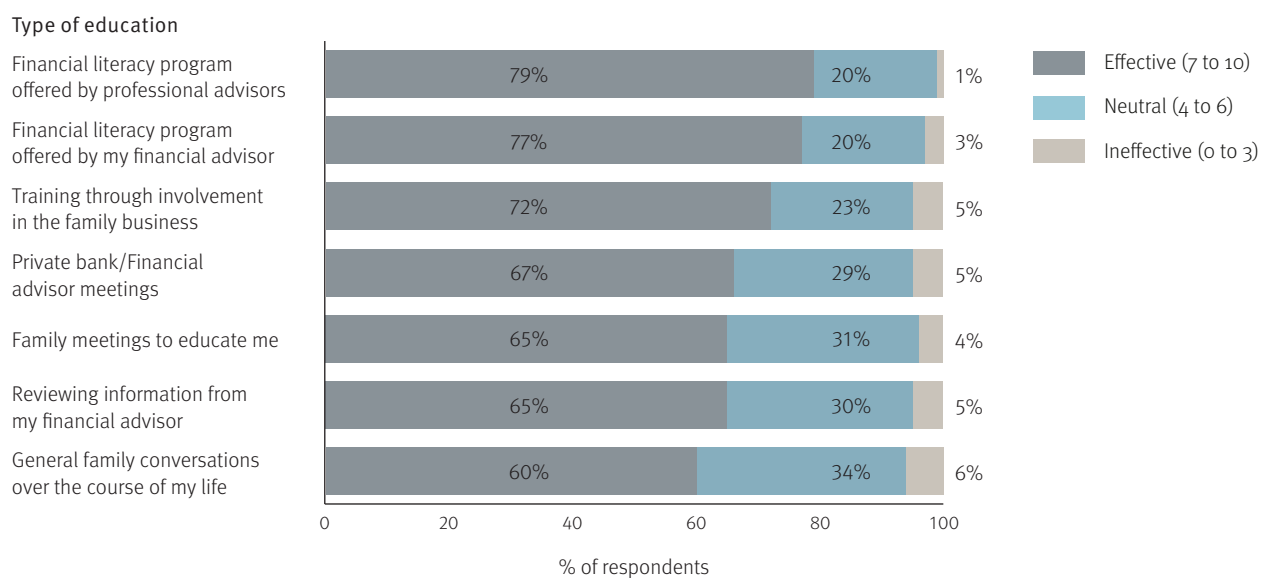
A new direction

By acknowledging the effectiveness of financial literacy programs offered by advisors, respondents recognize the benefits of a more structured curriculum. These more formal methods of imparting knowledge are an important supplement to less formal methods, such as family meetings and family conversations, not only for respondents, but also their benefactors.

To maximize their chances of leaving a lasting legacy, individuals should confront the challenge of financial education sooner. They should take advantage of the many options to build their heirs’ financial knowledge, from financial literacy programs offered by professionals to more active involvement in the family business. Informal knowledge transfer remains important, but supplementing it with more structured learning will help better preserve their wealth for future generations.

How effective was your education?

FIG. 4 | *On a scale of 0-10, how effective was the education you received in enhancing your knowledge on wealth?*





Canadians get a head start on learning

According to our study, Canadians are beginning their education in wealth and money marginally earlier than Americans and the British. Respondents began acquiring formal financial knowledge at an average age of 26.2—versus 26.6 for UK respondents, and 28.1 for Americans.

Although Canadians are starting earlier, however, this head start is not translating into higher confidence levels for themselves or their inheritors. Canadian respondents rate their self-education effectiveness at 6.3 out of 10—slightly lower than their US and UK counterparts, both at 6.6. When asked about their confidence in the next generation, almost 60% of Canadians report that they don't feel confident their children will preserve or grow their inheritance.

Yet Canadians are more likely than Americans and the British to seek out other knowledgeable individuals to help build their knowledge. They are also taking steps to better prepare the next generation by starting earlier: Canadian respondents are exposing their children to lessons about budgeting and investment strategy approximately a year before their UK and US counterparts.

Canadians have an opportunity to further their own knowledge by building on their head start and enlisting help from external parties. Though they lag behind other regions in their preparedness to transfer wealth—over a third of Canadian respondents have no wealth transfer strategy in place—their willingness to learn and openness to knowledgeable individuals puts them in a strong position to accelerate their financial learning.

Colin, who runs the family office that manages his family's holdings, started learning about wealth early on. When he was 8, his grandmother gifted him a summer house, which she used to impart lessons about financial decision-making.

“Learning about money is really about learning through experience. When my grandmother gave me our summer house as a piece of real estate, my parents went crazy, but her thought process was to package the lesson into a real-life experience. She told me someone wanted to buy the house and asked what I wanted to do. She walked me through the best decisions and downloaded all of her knowledge into my little mind.”



The inheritance experience

For most individuals, their first exposure to any significant transfer of wealth is as inheritors. Unfortunately, respondents describe receiving an inheritance as an emotionally challenging time characterized by inadequate information and low levels of support. The unsettling nature of the experience, combined with their relatively low confidence levels, weakens their ability to build a lasting legacy.

Through inheritance alone, the total wealth of high net worth individuals in the UK and North America is expected to increase by US\$4 trillion over the next generation [Methodology, page 26]. Yet despite the volume of money in motion, inheritors are being left in the dark. Most have little to no advance preparation. Without prior instruction or guidance during the process, individuals find themselves making monetary decisions in a vacuum.

The reality of inheriting

Among respondents, inheritance begins at age 29, on average, with the death of a grandparent and an estimated windfall of US\$400,000. For many, this occurs two years after the start of their structured financial education at 27, meaning they have had limited time to build their financial

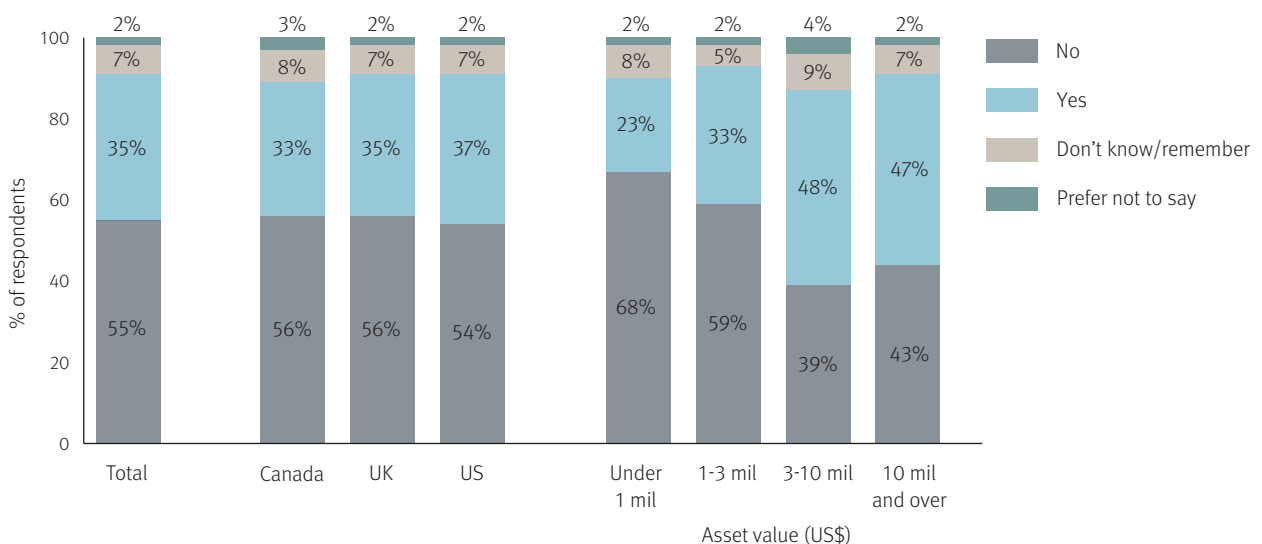
literacy. For those inheriting from parents, the age is 44.

More often than not, inheritors report that their benefactor provided no specific preparation. In fact, only 35% were made aware before receiving any assets [Figure 5]. This lack of advance preparation is consistent across regions. Discussions are marginally more pervasive in the US, and slightly less so in Canada. Overall, however, the proportion of inheritors who have been prepared for a transfer of wealth hovers at just over one in three.

Even at the top end of the wealth curve, inheritance conversations are far from the norm. Indeed, among those with asset levels greater than US\$10 million, only 47% of individuals had been prepared for inheritance in advance.

Did you know?

FIG. 5 | *Before you received the inheritance from your benefactor, did they discuss the reasons behind the specific wealth transfer plans with you?*



Uncertainty abounds

Even when pre-inheritance discussions do take place, preparation is superficial. For 73% of those who received some guidance, it came in the form of being told the monetary value of the inheritance [Figure 6]. While no doubt important, knowing the value does little to prepare inheritors for managing the considerable responsibilities of wealth. And only 33% knew how their benefactor intended them to use their inheritance.

In North America, prepared inheritors are more likely to have learned about wealth transfer structures: 35% of US inheritors, and 28% of Canadians, received this form of guidance. Meanwhile, in the UK, fewer than one in four had such guidance.

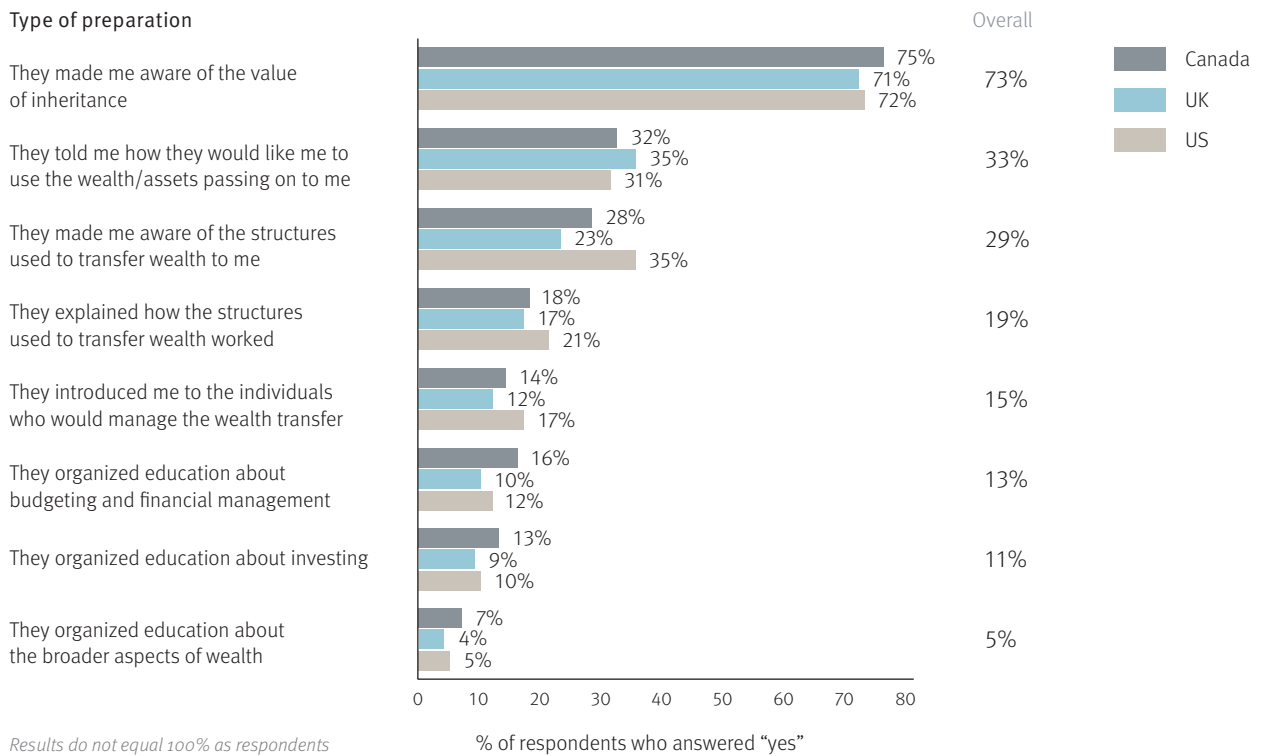
Men received more preparation for wealth transfer than women. While both genders were equally aware of the

monetary value, 37% of males were guided on how the wealth should be used—compared to 29% of females. Similarly, one in three men was informed of the structures to be used, while only one in four women experienced the same sort of preparation. The imbalance is troubling, particularly given that women prioritize collaborative learning in their own wealth education.

The lack of preparedness around transferring family wealth has broad implications on family relationships. Differing expectations between family members can lead to disagreements about what to do with the inheritance, how to manage the estate, or how to best preserve assets for future generations. Misalignment of expectations—particularly if the expectations are not discussed—can create long-term unintended consequences for families. Such occurrences can be avoided through proper discussion in advance.

Were you ready?

FIG. 6 | *How comprehensively were you prepared for receiving wealth?*



Missed opportunities

There is a noticeable gap between inheritors' expectations of the process and how it works in reality, pointing to a need for more advance communication and training to improve financial literacy and preparedness.

For those who stand to inherit, it's important to know the basics—including the asset values and the benefactor's motivations. Only 10% of respondents anticipate that education on managing an inheritance would be beneficial. But for those who have already experienced the inheritance process, typically without adequate preparation, the importance of financial literacy rises to 19%. When faced with a windfall, inheritors clearly need insights to help them preserve and sustain wealth for the future.

Family ties

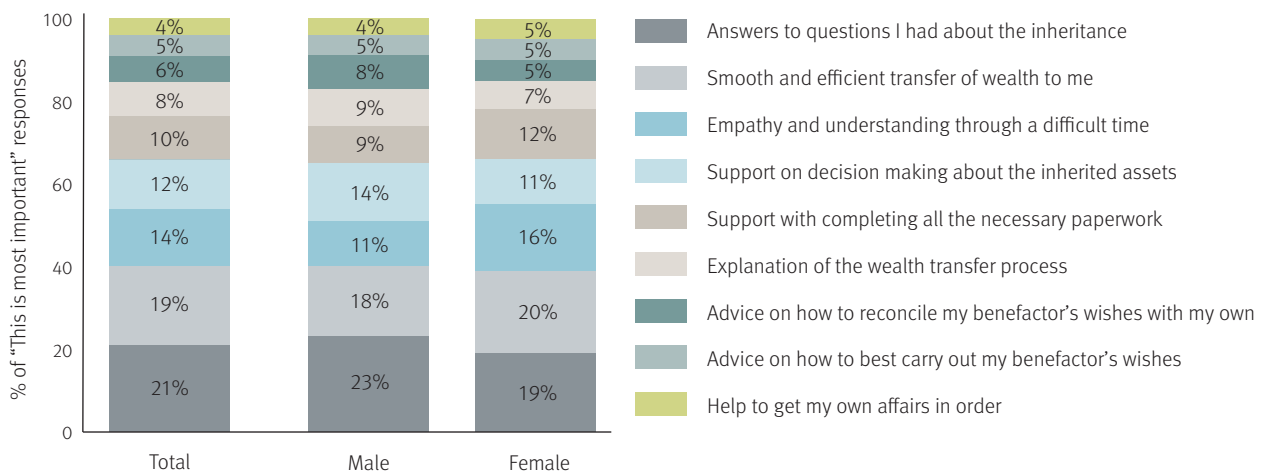
The lack of information provided before a transfer

of wealth is mirrored by a lack of support once the process begins. More than a third of inheritors, 36%, report that they received no help in the aftermath of their inheritance. In the absence of support, they turned to those closest to them—family members. In comparison, only 15% of inheritors cited professional advisors as a source of support.

Yet expert advice and guidance could address inheritors' concerns more effectively than family. Just over a fifth of all respondents, or 21%, say having a sounding board to answer their questions was the most valuable form of support [Figure 7]. An almost equal proportion, 19%, reveal that a "smooth and efficient transfer of wealth" helped set their minds at ease. About one in 10 appreciated help completing the necessary paperwork, and 12% valued support in making decisions about the assets they inherited.

What support did you value most?

FIG. 7 | *Coming into an inheritance can be a difficult and emotional time as a loved one has passed on. What type of support did you most value upon receipt of your inheritance?*



Ian, a millennial and heir in a fifth-generation family, describes how inheritance created an inflection point for learning about identity and family legacy. By working in the family office that manages his family's business interests, Ian has been able to develop a personal connection to his inherited wealth.

“It’s important to get comfortable with the idea of inheriting and to understand where the inheritance comes from. In my situation, it was handed down through the sale of a family business. I’m a steward of that wealth, rather than the owner.”

A better experience

Those who have received an inheritance express a desire for greater clarity on the inheritance process and more guidance to address their questions. Aside from the immediate questions about inheriting wealth and fulfilling their benefactors' wishes, there is a myriad of longer-term questions to contend with.

55% of inheritors say benefactors did not discuss their reasons for passing on their wealth

How will inheritors manage their newfound wealth? How do they develop a financial plan? And how can they determine the best use of inherited assets over the course of their lives? The key is to find an independent source of advisory input to deliver the more practical elements, such as will and estate planning and tax implications, while also understanding the sensitivities of the inheritance experience.

Our research reveals that inheritors are, by and large, entering into the inheritance process without adequate support. However, advance preparation and sound advice from trusted advisors could have a transformational impact during an emotionally challenging time. By seeking out information, talking openly with their benefactors, and asking questions of professional advisors, inheritors can better prepare themselves to navigate the uncertainty that awaits.



Wealth transfer on hold

Many of those we surveyed have limited plans or none at all for passing on their wealth to inheritors: only one in four respondents has a full wealth transfer strategy in place. However, preparedness levels tend to rise among those who have already received a transfer of wealth and experienced the inheritance process themselves.

Overall, respondents have a strong sense of personal responsibility, yet some are reluctant to plan ahead for the next generation. Those who have inherited wealth in the past, however, are more prepared than those who stand to inherit wealth in the future. Previous inheritors tend to have some knowledge of the tax implications, estate structures and various stages of the inheritance process. Having recognized how profoundly inheritance has shaped their own lives, they are taking action in their own will and estate planning for their future inheritors.

One step at a time

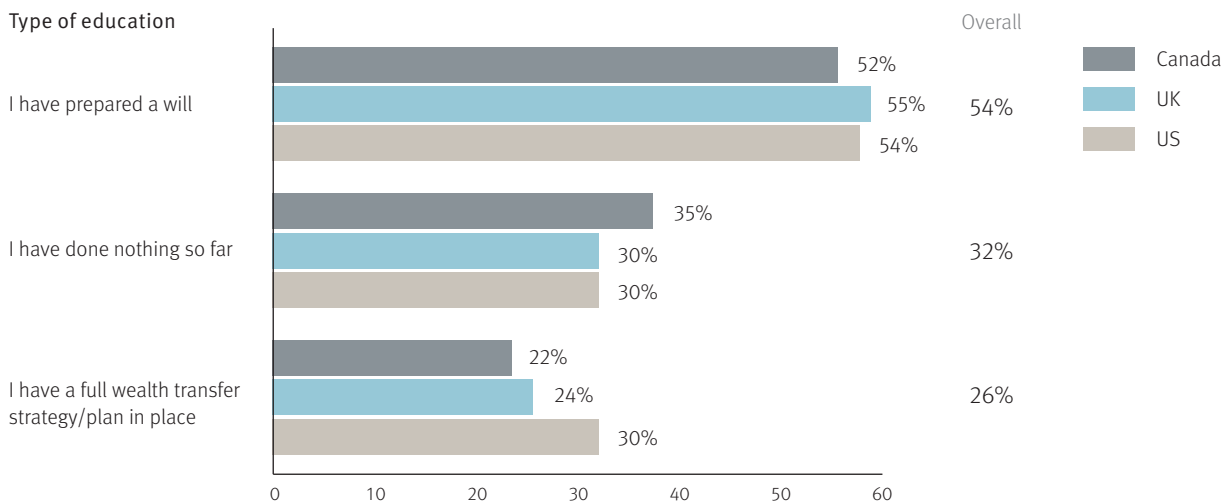
Only 26% of the individuals we surveyed have a full wealth transfer strategy in place, including a will. A surprising 32% have done nothing yet to prepare [Figure 8]. A majority,

at 54%, have prepared a will—though if they have previously inherited wealth, they may recognize that having a will is simply a good first step. To protect the next generation from inheriting wealth without adequate support, they could be far more proactive.

Those in the US are the most prepared: 30% of Americans surveyed have a full strategy in place. In contrast, Canadians are lagging behind: only 22% have a full wealth transfer plan, and 35% have no plans at all—the highest across all three regions. Women are also notably less prepared than their male counterparts: 22% of female respondents have a full wealth transfer strategy, compared to 30% of males.

How prepared are you?

FIG. 8 | Which of the following have you undertaken as part of your wealth transfer strategy?



Results do not equal 100% as respondents could choose more than one answer.

% of respondents who answered “yes”



Experience is the best teacher

People are far more likely to have a wealth transfer strategy if they themselves have received an inheritance. Of those we surveyed, 32% who inherited before now have a full strategy, and a further 58% have a will. Those who have been through an inheritance seem to recognize the benefits of arranging their affairs and preparing their beneficiaries. But preparedness levels drop noticeably among those who have not yet inherited: only 17% have a full wealth transfer strategy and 47% have a will.

Yet those who wait may be putting their family wealth at risk. There are numerous considerations for developing a full wealth transfer strategy, from investment management to strategic philanthropy to estate planning. Aside from having an up-to-date will, individuals should consider every aspect of their estate, from liquid assets to vacation

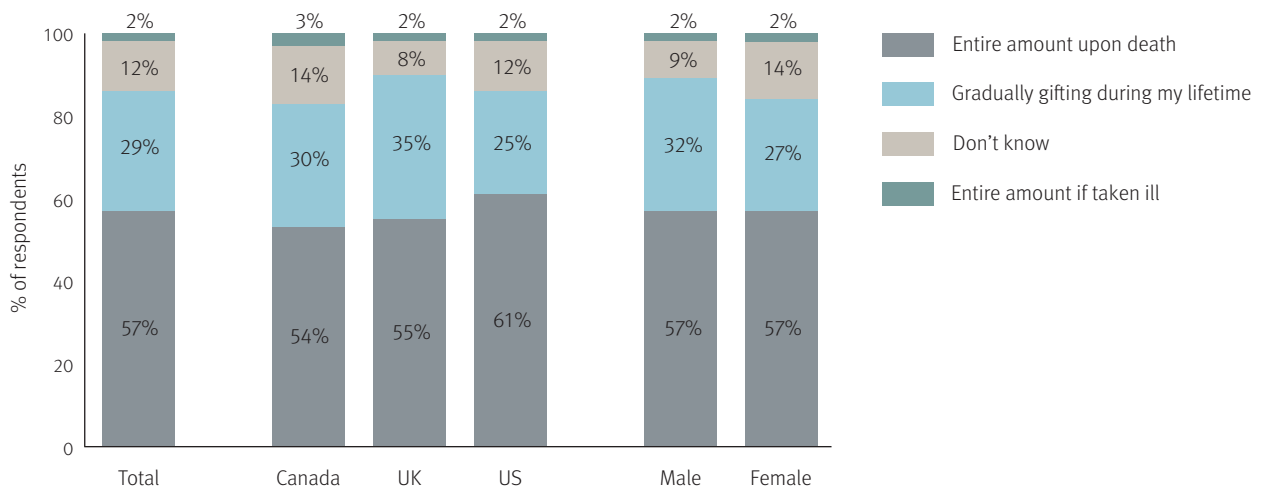
properties to family businesses and other holdings. If they have not been on the receiving end of an inheritance, however, it's difficult for individuals to understand all the decisions that could be made in advance.

Timing is everything

As much as they consider the impact of inheritance on the next generation, benefactors are also concerned about their own quality of life. For many, planning to give upon death is as much about ensuring they have enough during their lifetimes as it is about leaving a lasting legacy. More than half of individuals we surveyed, 57% across all three regions, intend to transfer their wealth upon death [Figure 9]. This approach is most pervasive in the US at 61%, and somewhat less so in the UK and Canada, at 55% and 54%, respectively.

When will you give?

FIG. 9 | How do you intend to pass on your wealth to the next generation?



Harry is an 86-year-old retiree. While recent health problems have highlighted the importance of effective inheritance planning, he remains cautious about transferring his wealth during his lifetime.

“I received some guidance about setting up a trust. I have a good pension, so I don’t need income from my savings. But you are reluctant to give it all away—in case of falling on hard times.”

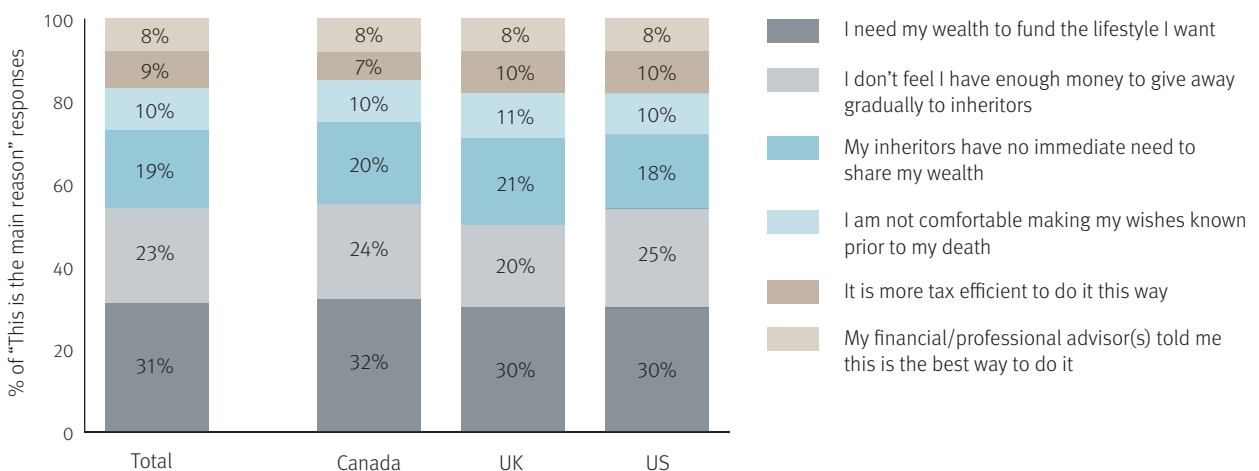
The tendency to give the entire amount upon death reflects a push-and-pull dynamic between people’s current needs and the future needs of the next generation. Almost one-third, or 31%, of those who intend to pass on their wealth upon illness or death do so because they feel a need to “fund the lifestyle that I want,” while a further 23% feel they lack sufficient wealth to justify giving it away gradually [Figure 10].

Not surprisingly, most individuals are going it alone

when making these critical decisions. Only 8% of those transferring wealth upon death say they are adopting this approach on advice from their professional advisor. With an aging population, questions about long-term wealth planning for retirement, ill health and old age are becoming increasingly relevant. Yet our research reveals that, by and large, respondents are not benefiting from professional advice, which could address these concerns and identify gradual gifting strategies that may help them maintain their lifestyle.

What are your reasons for waiting?

FIG. 10 | Why do you intend to pass on your wealth to the next generation upon death or illness?



The sale of Rupert's strategy business served as a catalyst for him to start planning the transfer of his wealth. But the process raised questions about how wealth could impact his children.

“By giving large amounts of money without a plan, you are toying with people’s lives. It can have a positive or very negative effect on them. The classic example is to push an estate upon an inheritor. It puts a burden on them that they may not want or be ready for. Is it fair for a parent to transfer such responsibility?”

A time for action

Inheritors clearly recognize the broad responsibilities that come with being a steward of wealth. Those who have inherited themselves are learning from past experience—one-third have developed a robust wealth transfer plan—and they are taking steps to improve the inheritance experience for the next generation. Those who have not yet inherited are in limbo—likely because they do not understand the inherent challenges of inheritance.

Yet even those who are better prepared have stalled. More than half of them have a will in place—although a will is only a fundamental first step, not a comprehensive plan. These partial efforts mean that the next generation may be better equipped for inheritance than they themselves were, but they are unlikely to be fully prepared for the complexities of managing and stewarding significant wealth.

To prepare for the challenge of an effective and well-managed transfer of wealth, individuals should establish a comprehensive plan and revise it repeatedly as life, family, work and wealth circumstances change over time. By approaching inheritance planning as an iterative and lifelong process, they will empower the next generation to manage and preserve family wealth with confidence.

32%

of those who have inherited wealth in the past now have a comprehensive strategy for the next generation



Educating the next generation

Parents believe it's their duty to guide their children's wealth learning, and they strive to instill the right values and skills to put their inheritors on the path to confident and capable money management. Respondents tend to share their knowledge in such areas as budgeting, investment management and philanthropic giving, yet few introduce financial education from professionals as a supplement to informal family learning. Despite their best intentions, individuals are following the same patterns of education and preparation for the next generation.

New beginnings

More than half of those we surveyed have already started to educate the next generation on wealth matters—and slightly more than a third plan to do so in the future [Figure 11]. Americans are the most proactive: 60% of parents have already begun the education process, well ahead of the 51% of Canadian and 53% of British respondents who have started having the 'money talk' with their kids. Canada has the largest proportion of respondents who have not yet educated their children on financial topics, but intend to do so, at 41%.

Interestingly, about one in 10 respondents, or 11% overall, do not intend to educate their children about wealth and

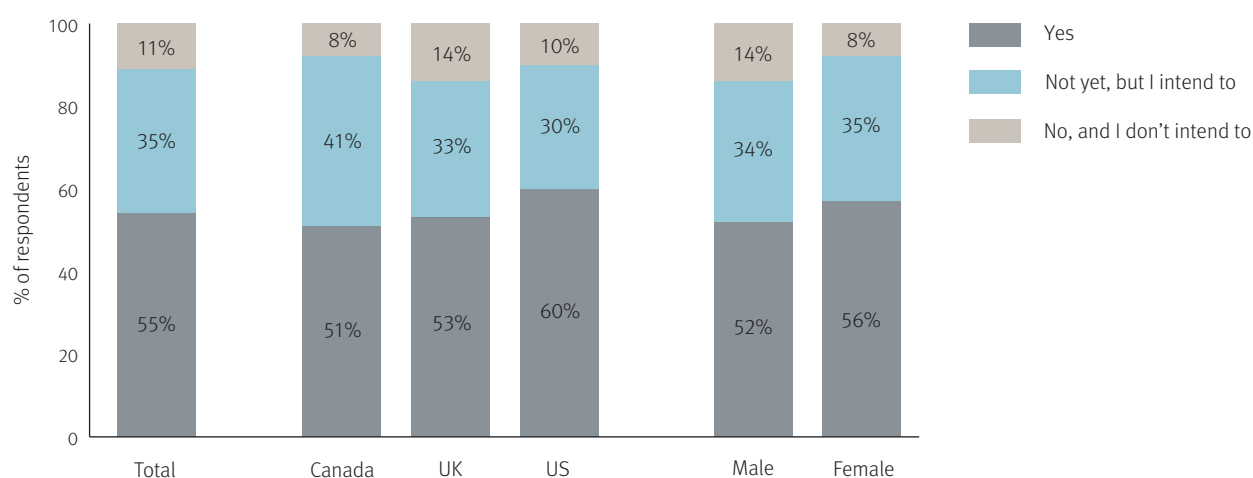
money at all. This may reflect a view that disclosing the full scope of family wealth may cause children to grow up with a sense of entitlement and discourage them from pursuing their own careers.

From intention to action

Despite their efforts, parents don't always succeed in translating good intentions into effective actions. They tend to resort to the informal, in-house learning methods they received in childhood. Without intending to, parents repeat the lessons that contributed to the weaknesses of their own financial education. In the end, they are not equipping the next generation with the right skills to build lasting legacies.

Do you teach your children about money?

FIG. 11 | Do you educate your children on wealth and money topics?



Take the example of subjects that parents consider most valuable. Across all regions, the topic that people most value having knowledge of is budgeting, at 51%. It's followed closely by investment strategy at 46%, and portfolio management at 28%. When asked which topics benefactors intend to teach the next generation, budgeting is the one topic that parents believe should start earlier. However, by prioritizing budgeting over subjects such as inheritance planning, portfolio management and family governance, parents are not cultivating a holistic understanding of wealth.

Repeating the cycle

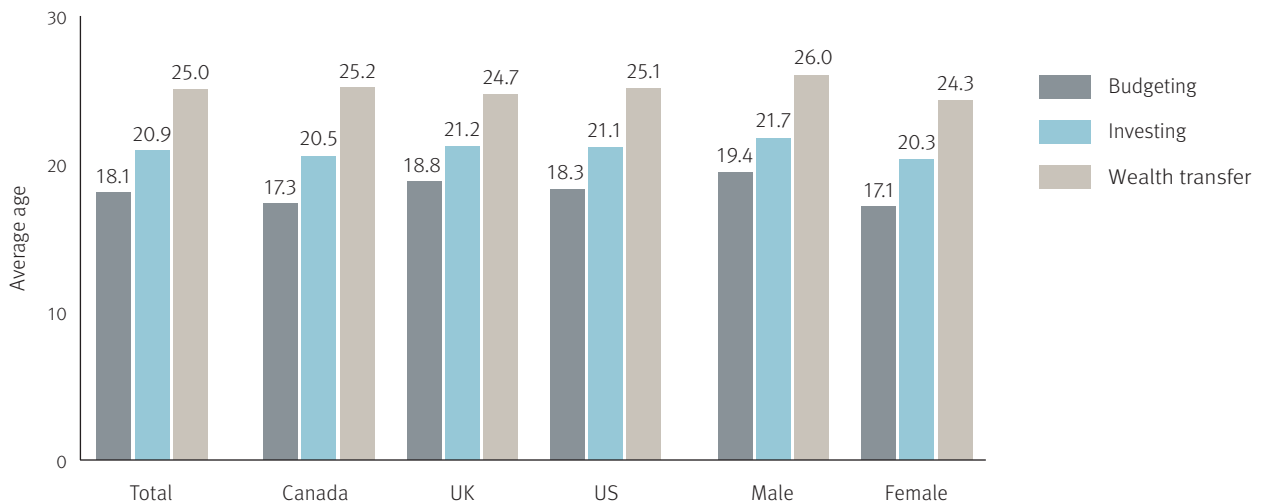
Perhaps the greatest shortcoming we observed was the tendency to delay financial learning. According to our research, individuals are 27 years old, on average, when

they begin their structured financial education from both family and professionals. Yet when asked about their intentions for the next generation, respondents suggest that the late 20s is too late to start learning about financial literacy [Figure 12]. They believe inheritors should start learning the fundamentals of budgeting at age 18—almost 10 years earlier than they themselves started their financial education.

Across the sample, individuals intend to start earlier than 27, though “earlier” seems to still mean adulthood. Based on our respondents’ intentions, the next generation will start learning about budgeting at 18, on average, investing at 20, on average, and they will be 25 when they start learning about wealth transfer. The cycle is set in motion, albeit a few years earlier.

What’s the right age?

FIG. 12 | *At what age do you think children should start learning about how to manage family wealth?*



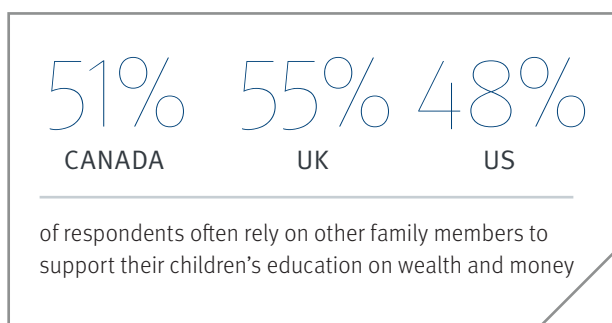
Fernando, a business owner, believes that transferring his knowledge of wealth to his two adolescent children begins at the dinner table, with conversations about values.

“I talk to my children as much as I can. I try to have dinner conversations about many things, including money and financial topics. It’s a good way to start exposing them to such issues. I do not want to force them down a specific career path. It’s more about teaching children to be inquisitive and resilient. It’s about drive, the competition for jobs—and how you can differentiate yourself against the competition.”

A blended approach to learning

Those with wealth to pass on tend to have a conscious strategy of keeping it in the family by retaining control over next-generation learning. Perhaps they want to impart a particular philosophy or set of family values. In pursuing this approach, however, benefactors typically minimize contact with external influences. For instance, 51% of respondents rely on family members to share their knowledge with the next generation, but they are more reluctant to seek input from outsiders [Figure 13, next page]. As a result, financial advisors, accountants and lawyers provide minimal guidance.

Families in the UK are the least open to working with advisors: only 19% opt to leverage their private bank to support the transfer of financial knowledge. Yet our research consistently shows that structured learning—such as financial literacy courses or seminars offered by advisors and other professionals—is a vital complement to unstructured learning. Both formal and informal approaches are necessary to establish a thorough financial knowledge.



The best of both worlds

People prefer to keep their knowledge ‘all in the family.’ Our research shows that families tend to pass on their knowledge of wealth and money informally, through dinner-table conversations, family meetings and other informal means. Of the 3,105 people we surveyed, just over half, or 51%, rely on family members to support their children’s financial education.

This preference is not surprising—after all, that’s how most people learned about wealth as they were growing up. Looking back, however, our respondents also recognize the benefits of widening the circle to other sources of knowledge: 29% turn to professionals such as private bankers and financial advisors [Figure 13]. Trusted friends are also part of the equation, at 15%.

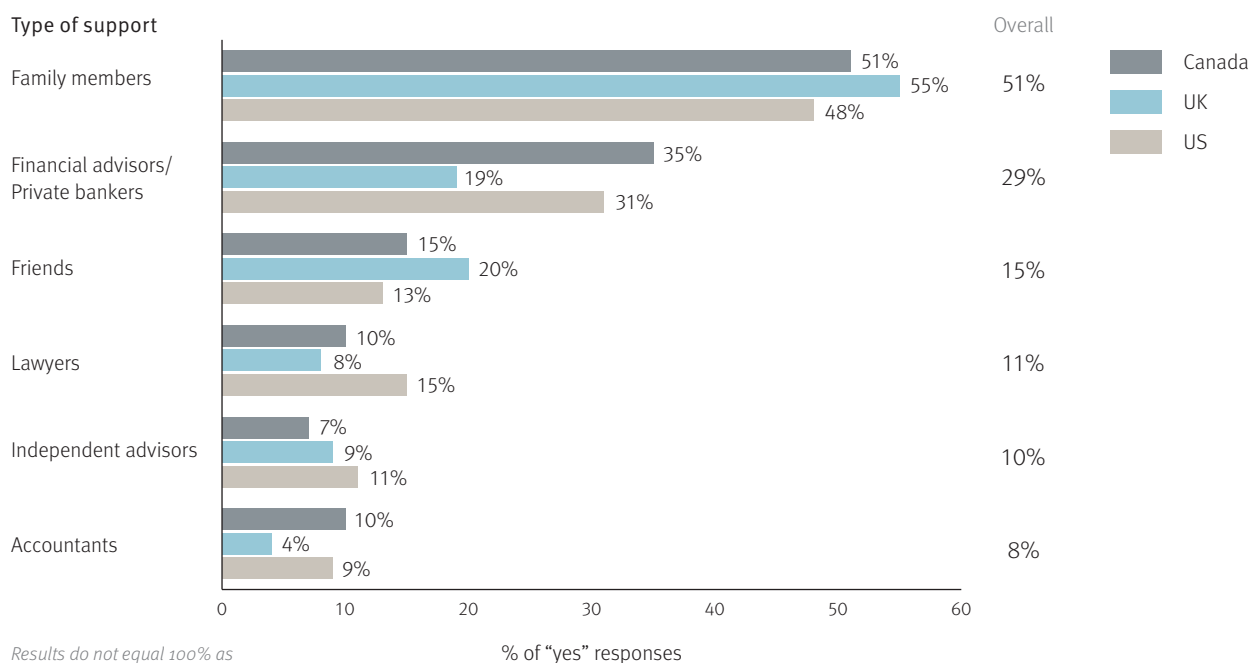
Family remains central to the way people educate the next generation about wealth. To a lesser degree, respondents also recognize the value of outside influences: lawyers (11%), independent advisors (10%) and accountants (8%).

Our research finds that a structured financial education is more effective at building financial knowledge than informal means. Ultimately, the best education comes from blending informal and formal approaches—giving families the best of both worlds.



Who helps educate your children?

FIG. 13 | Do you rely on any of the following to support your children’s education on wealth and money?



Failure to communicate

In general, parents lack confidence in their heirs' abilities to preserve and grow their wealth. But preparation begins at home. To address these concerns, parents must be fully ready to have the inheritance discussion with their children. A majority of those who are waiting to discuss inheritance dynamics believe their inheritors are too young. However, as we've already seen, confidence is largely dependent on individuals getting an early start.

Overall, our respondents reveal a marked level of discomfort when confronting the theme of wealth transfer directly: only 40% say they are comfortable sharing all the details with their beneficiaries. As such, they risk subjecting their heirs to the same lack of clarity and understanding they experienced during their own inheritance.

Almost half of respondents, or 47%, prefer to talk more generally about the big picture of inheritance—an

approach that can cause difficulty for inheritors. A further 13% are not open to sharing any information at all. What's preventing them? Two-thirds say a critical barrier to open and transparent dialogue is that their own wealth transfer plans aren't fully developed.

Preparation breeds confidence

There is a strong correlation between preparedness and confidence levels. When parents have a wealth transfer strategy in place, they feel more confident that their heirs will be capable of preserving family wealth: 58% of those who are fully prepared believe that their wealth will go on to create a lasting legacy [Figure 14, next page]. That proportion is one-quarter higher than the 33% who have done nothing to prepare.



Americans lead the way in educating the next generation

According to our research, Americans are taking a proactive approach to next-generation education, leveraging the full range of resources available to enhance their children's financial knowledge. Of those we surveyed, 60% are already delivering some form of financial education, 7% more than in the UK and 9% more than in Canada.

On the whole, Americans tend to be more open to outside experts. Almost a third of them, 31%, rely on their financial advisors to support education, and 15% also leverage lawyers—over 5% more than in Canada or the UK.

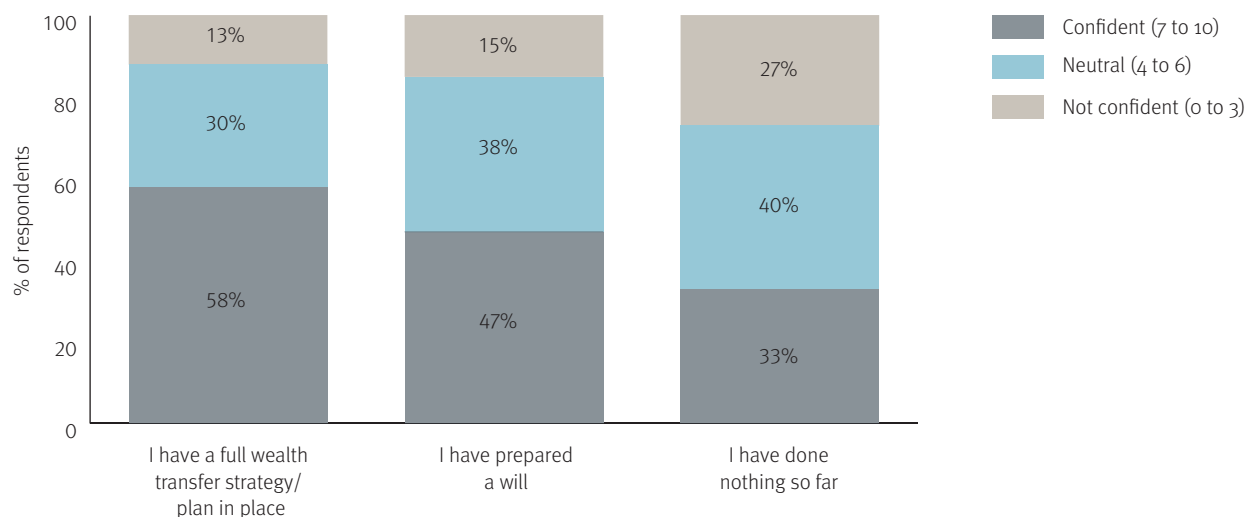
The focus on more formalized education seems to reflect their own experiences. One in five US respondents, or 19%, is more likely to have engaged in a financial literacy program than those in the UK and Canada, where participation falls to one in 10. Americans seem to recognize that these approaches play a role in enhancing their financial confidence—as evidenced by the fact that they reference higher scores for their education effectiveness than counterparts in other countries.

This approach appears to deliver results. Almost half of US respondents, or 48%, are confident their children will be able to grow their wealth, compared to just 39% in the UK and 42% in Canada. There is still room for improvement, but those in the US seem to have found a pattern that works for them.



How confident are you in your children?

FIG. 14 | Which of the following have you undertaken as part of your wealth transfer strategy? And, if your children were to inherit your wealth tomorrow, how confident are you that they would be able to preserve your wealth?



Like most parents, our survey respondents want the best for their children. They take their responsibility seriously, but their approach is centered on informal knowledge transfer that favors learning from immediate and extended family members—at the expense of more formal learning from third-party professionals. Without

these supplementary forms of education, which tend to be more advanced, families are replicating the status quo. Their preference for retaining financial knowledge within the family circle effectively, though inadvertently, hampers the next generation. By repeating set patterns, they may be putting family wealth at risk.

Imran, a former investment banker, has five sons between the ages of 21 and 31. He feels ready to pass on his wealth, and he discusses finances regularly with his sons, though the conversations are relatively simple.

“We are quite well prepared for wealth transfer. We have wills, which we update every few years. There will always be questions in the back of your mind whether the children will know how to handle the money. Will they squander it? I am lucky in that they always turn to me because ‘Dad knows what he’s doing.’ I offer my opinion, but I don’t tell them they’re wrong.”

Conclusion: Time to take action

One generation's success at building wealth does not ensure the next generation's ability to manage wealth responsibly, or provide effective stewardship for the future. In fact, our research underscores the critical importance of advance preparation and effective knowledge transfer in preserving family wealth.

How can families today better prepare themselves to preserve their legacies for generations to come? For starters, they should avoid the pitfalls identified in our research—such as giving the next generation the same unstructured financial education that left them less confident than they should be, or starting their heirs' formal wealth training too late. Another common pitfall is the lack of a comprehensive wealth transfer plan that provides ample guidance and support to inheritors at a difficult time.

Individuals have a chance to fundamentally reset their approaches to managing and transferring wealth. By reflecting on the limitations of their own experiences—both as inheritors and stewards of wealth—benefactors can better prepare the next generation. As parents, they have only the best intentions. To build the foundation for a lasting family legacy, however, they must be mindful of the

lessons they have learned, harness their good intentions, and convert them into meaningful, effective action.

There is no better time for individuals and families to tackle the challenge of wealth preservation. They have greater access to resources, guidance and support than ever before. By improving their financial knowledge, planning the inheritance process, promoting frank discussion, and providing more structured learning at an earlier age, parents can better prepare their heirs to effectively manage family wealth.

For those who get it right, the reward goes far beyond transferring knowledge, raising confidence levels, and creating peace of mind. Concerted effort and effective preparation can help ensure that family legacies will last for future generations.



Methodology

This research, designed by RBC Wealth Management and Scorpio Partnership, was undertaken from June to August, 2016. Participants were independently sourced high net worth and ultra high net worth individuals living in Canada, the United Kingdom and the United States.

The methodology comprised both quantitative and qualitative sections. During the quantitative phase, 3,105 respondents answered a 15-minute online survey. Average investable wealth was US\$4.5 million across the respondent sample. This was supplemented by 30 in-depth interviews in the qualitative phase.

The minimum investable wealth of respondents was US\$500,000. The estimate of US\$4 trillion, which is

expected to change hands in the next generational shift, is based on the following calculation: 55% of respondents anticipate receiving an inheritance, each with an average value of US\$525,159. These figures were applied to Scorpio Partnership's proprietary market sizing database, which models the size of the population across the United Kingdom and North America to predict the potential value of future inheritance among individuals in these markets.

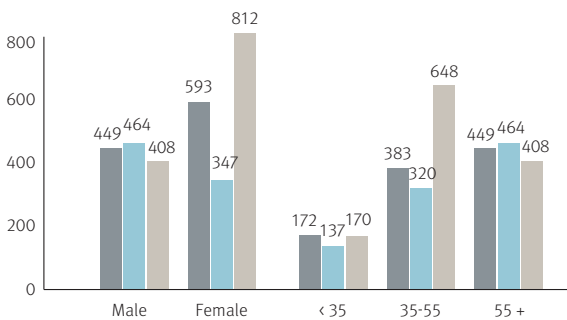
3,105 RESPONDENTS SURVEYED

1,054
CANADA

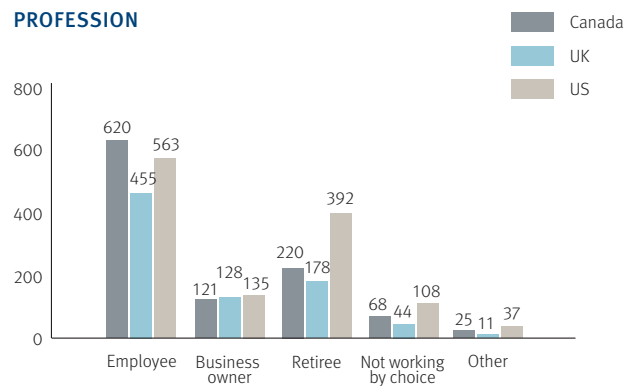
816
UNITED KINGDOM

1,235
UNITED STATES

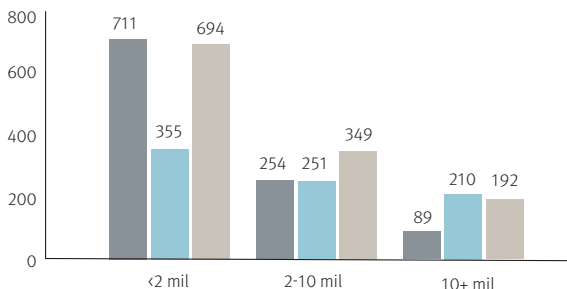
AGE AND GENDER



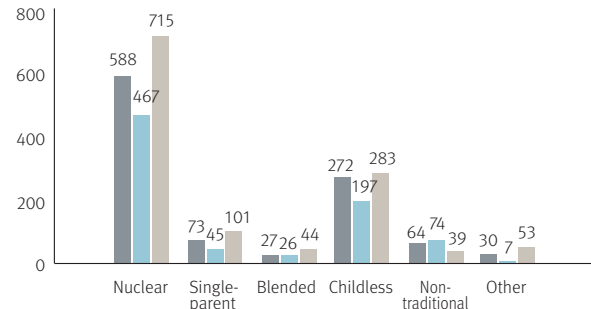
PROFESSION



ASSET LEVEL



FAMILY UNIT



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*Scorpio Partnership Global Private Banking KPI Benchmark 2016.

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**Wealth
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