PHOTO: DIANA MULVIHILL/SHESTOCK/CORBIS

Lying In Wait

Inheritances should be seen as a nice bonus, not an expectation. But **Alison MacAlpine** found that more boomers are counting on inheritances to save their retirement plans

Orville Acton has a client who is living the retirement most investors hope for. She enjoys a comfortable lifestyle, travels, and has enough extra money to help out with down payments on her grandchildren's homes. In the shadows, however, there's one daughter who is anxiously — and outspokenly — waiting for her inheritance.

"It makes for awkward family dynamics," says Acton, CFP, financial advisor at Edward Jones in Weyburn, Sask., wryly. "If I'm waiting for a parent to pass on, when I visit over the holidays, what am I hoping for?"

The daughter feels entitled to the proceeds from her father's business, sold after his death several years ago — and her mother is in the way, spending those proceeds. Acton's client is confident her husband, whom Acton describes as a "build-from-the-bootstraps business owner," would never have promised his children an easy legacy. His philosophy was, "You work hard and you reap the rewards."

Acton shares his personal estate planning perspective with all of his retired clients. It's similar to being on an airplane. The wise thing is putting on your own oxygen mask first and then helping others. "You saved so you could have a comfortable retirement and not be a burden on your family," he emphasizes. "Did you actually save your money so that somebody else could retire comfortably?"

Yet Acton's client is far from alone. A 2014 BMO survey found that 40 per cent of Canadians are counting on an inheritance to help fund their retirement. These heirs presumptive — or perhaps more accurately "presumptuous heirs" — are lying in wait. Many are boomers, racking up debt instead of savings during their peak earning years, basing their future financial security on the timely death of a loved one.

Les Kotzer, wills lawyer at Fish and Associates in Thornhill, Ont., calls these heirs "waiters," with a tip of the hat to a couple in their late 50s living the high life who came to him to make a will but without any assets. "He's a waiter," explained the wife, adding, "He doesn't work in a restaurant. He's waiting for his mom to die so he can get her inheritance and pay off our debts."

DEATH'S A CERTAINTY, RIGHT?

What's wrong with a retirement plan founded on great inheritance expectations? Some forecasts, after all, predict $1 trillion will be bequeathed to Canadian boomers over the next two decades in the greatest intergenerational wealth transfer our country has ever seen.

"The biggest risk is it's not a sure thing," says Rob Daumler, CFP, senior financial consultant with Investors Group in Calgary. "So many things can happen between now and the point in time when you might get an inheritance. Somebody could spend more [in retirement] than they thought they would. Somebody could change their mind on who's going to get that inheritance." He adds, "In financial planning, I try and create as many sure things as possible. Otherwise, your plan is really more a dream than anything else."

The two biggest question marks are, of course, "when" and "how much." While the former is up to the whims of fate, the latter depends on a number of demographic and financial factors.

First, people are living longer. Longevity by the boomers' parents delays inheritance. Acton's grandmother lived to 102, and he points out, "My aunt had been retired for 20 years by the time she passed away. If [my aunt] had been waiting for [her mother] to pass away to retire, it would have been a long wait. [Turns out] my aunt was 78 when she got her inheritance."

The longer parents live, the more assets they use in paying for regular living expenses and the costs associated with illness and disability that often rise as one ages. As Ron Harvey, CFP, senior financial advisor and branch manager with Investment Planning Counsel in Ottawa, put it to his children when they were teenagers, "If we live longer, you don't get as much. If we die earlier, you get more, but you don't get the pleasure of our company."

> After the funeral, taxes, probate, debt and all the costs associated with settling an estate, will what's left be enough to make a significant contribution to a boomer's lifestyle?

Family size can be an inheritance-shrinker too. "Statistics show that boomers' parents' generation had more children than the average Gen Xer or Millennial today," says Chris Buttigieg, CFP, senior manager, wealth planning strategy at BMO Financial Group in Toronto. "How much of that inheritance pot will have to be split up among multiple siblings, grandchildren and even potentially a favourite charity?"

Buttigieg also emphasizes the impact of today's volatile markets and low interest rates. This challenging environment may force boomers' parents to dip into more of their capital to fund their own retirement, which will reduce the value of the inheritance they leave behind.

And then there's the other certainty in life: taxes. One of

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Harvey's clients shared an RRSP inheritance with four sisters. "They were completely surprised by how much they didn't get," he says. The client learned her lesson, he adds, and her own estate plan includes insurance to cover the projected tax bill.

After the funeral, taxes, probate, debt repayment and all the costs associated with settling an estate, will what's left be enough to make a significant contribution to a boomer's retirement lifestyle? Consider that a 2013 HSBC survey found that the 57 per cent of Canadian retirees who expect to leave an inheritance anticipate the average value of that inheritance will be just US$171,154.

How many years of a boomer's retirement will that cover, especially when you consider that another recent BMO report found the 55+ crowd has average household debt of $57,307 — an amount they anticipate will be $17,935 bigger in a year?

WHAT IF THE CHICKENS DON'T HATCH?

So what's an advisor to do? The safest route is to construct a retirement plan that doesn't depend on a dollar of inheritance, suggests Harvey.

"In your peak earning years, instead of getting a bigger house with a bigger mortgage … and [a more expensive] vehicle, [you should be salting] money away for tomorrow," he emphasizes. "Money does not [grow on] trees; you have to build it. And [to expect that] it's just going to show up one day — if it's not the right day, you're in real trouble."

Daumler agrees. A note goes into the file if a client mentions inheritance, but it stays out of the financial plan unless a parents' death is imminent. He can only recall one or two times when he has included inheritance before the benefactor's death. "Ultimately, we should only plan for the things we can control," he says.

An inheritance should be seen as a bonus, says Acton: "I want my clients to build a plan based on conservative assumptions — conservative investments and a conservative timeline — that gives them at least a basic retirement. If they do receive an inheritance, then that can make retirement happen a little earlier or give them a little more income."

Although boomers relying on an inheritance to see them through their golden years can run into problems if the money arrives too late, an inheritance that comes too early can also trip them up. "Most people use the money to pay down debt, pay off a mortgage, buy something new … versus saving it for retirement," warns Daumler. "A lot of people live in the 'now.'"

Harvey echoes that cautionary thought: "I can always do it tomorrow … That's the procrastinator in the boomers. Things will work out. Well, things will work out when you plan appropriately."

FACILITATING COMMUNICATION

What if you have clients who forcefully insist that their great expectations are quantifiable and deserve pride of place in their retirement plan?

"Advisors can begin by talking to the client about the current relationship with their parents to gauge whether it is a good, open one," says Doce Tomic, president and CEO of Credential Financial. "If there is a high comfort level, the advisor can have the client invite the parents to join the conversation, and even include the other individuals that the parents are working with, such as their accountant or tax specialist."

Bring all involved parties together and have a frank discussion about estate plans to realistically assess the client's expectations for his/her inheritance. Tomic suggests the client open the conversation along these lines: "My advisor is going through my retirement and estate planning, and feels it would be beneficial to start including

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you in the discussion to ensure we're all on the same page."

In other words, frame the discussion around the boomers' own planning — what they are doing of their own accord to prepare for retirement. Tomic adds that boomers should be prepared for the fact that this type of meeting may lead to additional costs now — perhaps helping with parents' debt or paying for parents' life insurance — to enhance the value of an inheritance in the future.

Buttigieg agrees that advisors can play a valuable role in facilitating family meetings to clear the air on inheritance. He points to a 2013 BMO Wealth Institute report that revealed just one in five (22 per cent) Canadians with parents age 60 or older had engaged a detailed conversation about their parents' estate planning and legacy goals. A better understanding of parents' intentions can help to avoid family conflict later. It can also assist an advisor with planning for the beneficiary, even if the scenario that includes the potential bequest is not the primary financial plan.

"It is a difficult conversation," Buttigieg acknowledges. "Take it at a slow pace … and make sure everybody has an opportunity to speak." Also, expect that more than one conversation, and perhaps even one-on-one meetings, may be required.

The upside: better intergenerational communication. After all, as Kotzer says, "silence is not golden when it comes to estate planning."

SPOTTING FINANCIAL ABUSE

A sense of entitlement is at the root of presumptuous heirs' attitudes. "These kids almost see their mother's money as their money … and will do anything they can to get that to pay off their bills," says Kotzer, who has collected dozens of stories of estate planning gone wrong for his books. (The most recent is *The Wills Lawyers: Their Stories of Money, Inheritance, Greed, Family and Betrayal*). "Parents have to be careful. If you don't do things right by planning properly, you may plant the seeds for a family war after you pass away."

Kotzer adds that advisors can protect clients with inheritance-hungry children by being alert for situations when seniors start giving up control of assets. A common argument in favour of joint accounts is that they can help families reduce probate fees, but Daumler says there is a case to be made for funneling assets through the will. He suggests that a joint account or a beneficiary named directly on an RRSP, RRIF or TFSA may bypass both responsibility for taxes and a benefactor's intentions.

"In Alberta, probate is so low we've received advice from some of our head lawyers to put everything through the will because that's the way it will work out exactly [as clients] want it to," Daumler says.

Harvey prefers a power of attorney to a joint account, and he watches for out-of-the-ordinary withdrawals from investment accounts. "If someone's RRIFing money out, that's fine, and if they want to take out an additional $8,000 every year because they're taking a vacation, that's fine. I'm looking for unusual activities and unusual requests."

Several years ago, he encountered one. A client explained that her brother needed cash and had approached her mother for it.

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Senior-Proof Your Practice

Do you have the right stuff to manage this demographic?

By Léony deGraaf

Working with seniors can be truly rewarding. Over the years, I have heard inspiring stories from concentration camp survivors, war veterans, and even from Elvis Presley fans who saw "The King of Rock 'n' Roll" in concert when he was in his prime.

To borrow an expression from the late Bette Davis, serving seniors "ain't for sissies." It takes patience to serve this demographic well. As a general rule, seniors like to take their time when processing information. So extra time and care needs to be taken to ensure the client fully understands the decisions they are making.

You will also need to be comfortable talking about things such as a potential loss of independence or mental capacity, retirement residences, end-of-life wishes and funeral arrangements. By having these discussions and documenting them, you can advocate for your client at a time when they may not be able to speak for themselves. You are in a position to facilitate family estate planning meetings and ensure everyone's concerns are addressed, while being an advocate for your client and the calming voice of reason if necessary.

Show care when you set up your workspace. A senior-friendly office is also conducive to mobility, so clients with walkers and wheelchairs can get around and through doorways, with parking near the entrance. The office should be on the ground floor, with two or three steps at most, or a small ramp. Asking an older senior to walk up a flight of stairs to your second-floor office may be a tall order. Be prepared to offer in-home visits, either at the senior's house, at their retirement residence, or even in their hospital room. Provide sturdy armchairs, which they can lean on and get up from. Ensure your office is quiet and free from any visual distractions or interruptions.

Take your time explaining concepts and recommendations. Leave the industry jargon and slang for your tech-savvy clients. Speak clearly, pause between thoughts, and always make eye contact. You'll need to be comfortable explaining complex estate planning concepts in a simplified manner while watching closely the client's body language and facial expressions. You'll want assurances they understand before you move on to the next point. Try not to speak too quickly or rush the process along as this may frazzle the client and actually prolong the process.

Printed communication should be clear and concise. I personally don't use any font smaller than a 12-point. I also stick with plain fonts as script fonts are harder to read. Pay attention to colours and contrast in your logos, letters, print ads and brochures. Light print or tone-on-tone can be difficult for seniors to read. Return phone calls and emails promptly, since the senior client doesn't have as much to distract them while waiting for your reply. I aim to respond within the same day or, worst-case scenario, within 24 hours.

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The mother said yes. The client, as her mother's power of attorney, had authority to stop the transaction, and Harvey recommended she do so. Her mother still needed the money. "It was a threat," Harvey says. "You've got to protect the senior and — you hate to say it — protect them from family too."

Harvey has had too many conversations with boomers who feel they've done their duty — taking parents to the grocery store and to doctors' appointments — and deserve a reward. "Well, good for you," says Harvey. "They also bathed you, housed you and got you through school … They spent a lot of energies on you for the first 16 to 30 years of your life." He adds, "The people who are entitled to it are the ones whose money it actually is."

BUY THE YELLOW CAMARO

Of course not all boomers are greedy and presumptuous heirs. In fact, a 2014 HomEquity Bank survey found that 94 per cent of those expecting an inheritance would give up half (not all, mind you) if it helped to maintain or enhance their parents' lifestyle.

Acton works with one son of an elderly couple who goes a step further. He recently told his advisor, "My siblings and I don't care if we inherit anything. We're doing fine. We want mom and dad to enjoy life." He also mentioned that his mother has always dreamed of driving a yellow Chevrolet Camaro.

Acton plans to include the purchase price of a new Camaro in a card mailed to the parents. His note will discreetly communicate their children's seemly inheritance expectations. "If you take this out of your retirement plan, your kids will inherit this much less," he plans to write. "They're OK with that." F

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