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A big inheritance can do more harm than good

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How much money should the super-wealthy leave to their children? Millionaire, media personality and Conservative Party leadership candidate Kevin O'Leary has some advice. "If they don't kick their kids out of the house and put them under the stresses of the real world," he told Chatelaine magazine in 2013, "they will fail to launch. They will become unsuccessful adults."

He was not planning on leaving his children any of his wealth, he said.

A survey of high-net-worth people in the United States by U.S. Trust, part of Bank of America Corp., found similar sentiments among the baby boomer cohort. Nearly half said they did not feel it was important to leave their children a financial inheritance. About a third of those respondents said they would give all of their money to charity.

But do similar numbers of wealthy Canadians feel the same as Mr. O'Leary?

While similar surveys of the estate-planning intentions of high-net-worth Canadians aren't available, an informal poll of financial advisers suggests that only a small number of people plan to cut the kids out entirely.

For Mark Halpern, chief executive officer of WEALTHinsurance.com in Markham, Ont., "it's a very small percentage" of his wealthy clients who plan to leave most or all of their money to charity. He estimates it at between 3 and 10 per cent.

These clients "don't want to set up their kids for failure," he said, "or else their kids are already failures."

Andrew Guilfoyle, a financial adviser at Guilfoyle Financial Inc. in Toronto, said most of his clients want "everything to go to the kids, divided up equally." Others are aiming to leave 70 to 90 per cent of their wealth to loved ones.

Indeed, Mr. Guilfoyle isn't entirely convinced by Mr. O'Leary's statement. "That's not to say it isn't smart," he added.

Some of his clients, he said, feel it's "very important for them that their kids know that they can expect to receive nothing."

Others are "very generous to charities, which convinces the child they won't be inheriting anything. So [the children] say, 'OK, I don't have a trust. I have to get into the world and make my own way.' And I can understand why you want your children to believe deep down that they are not getting a significant inheritance."

Even if they are planning to leave substantial sums of money to their children, Canada's millionaires are concerned about the consequences of their offspring simply waiting around for a big fat legacy. "They feel they are doing their kids a disservice by leaving them too much money," said Mr. Halpern.

Susan Bell, executive vice-president of the investment consulting firm Bell Kearns & Associates Ltd. in Toronto, agrees.

"They want their heirs to avoid the pitfalls that can accompany having a lot of money, such as family strife, addiction issues and individuals not reaching their full potential as members of society," she said.

High-net-worth clients hear stories "about how wealth can destroy a future generation if it is not earned," said Jamie Golombek, managing director of tax and estate planning at CIBC Private Wealth Management. He, too, said that most of his clients will leave the majority of their money to their children.

One way to avoid that, Mr. Golombek said, is to establish a family foundation.

"The money stays in a family foundation, or as part of a public foundation, and ultimately the kids and even the grandkids could be involved in the grant-making from that foundation," he said. "That is definitely a trend I have seen in the last decade."

Higher taxes are also proving to be "a catalyst" for making estate-planning decisions, said Mr. Guilfoyle. High-net-worth individuals are starting to disburse money to charity while they are still alive.

This year, the top tax rate in Ontario will be 53.5 per cent, he pointed out. "And a lot of people in that category are thinking, 'Well, do I want to give half to Ottawa? Or support bursaries at the university I went to, or exciting new research at a hospital for a disease that my parents died from?"

This way, he added, wealthy donors also feel they have more influence over how the money is spent. "By giving that money to a charity, you can keep your kids actively involved as well," said Mr. Halpern. "It's all about creating morals and values and responsibilities."

Wealthy business owners are also setting up business-launch funds for future generations, said Mr. Golombek. "They don't give it to the children," he said. “They set up a fund, via a trust, for each family member to start a business with.”

Another way to motivate heirs is setting up matching incentive trusts.

“If the kid wants to get any money from the parents’ trust after they are gone, they have to prove that they have earned at least that much themselves,” he explained. “It basically gives the incentive to the children to do something and not just rely on an inheritance. We recommend that regularly to very wealthy families who are concerned.”