Business owners & wealth transfer

Applying the lessons learned in business to wealth transfer

Business owners are better prepared for wealth transfer than others

39% have a full plan in place

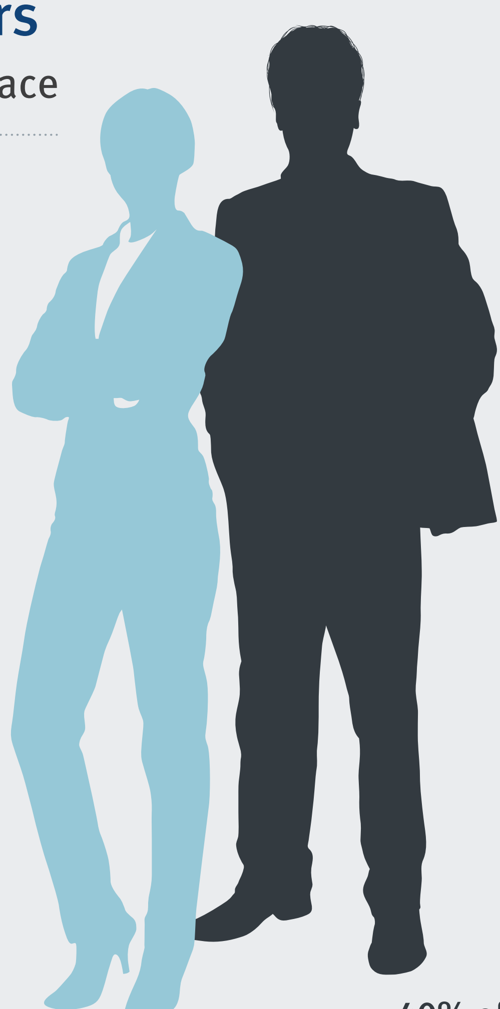
96%

educate themselves on financial matters

Those with **$10 million+** are **3 times** more likely to have a full wealth transfer plan than those with less than **$1 million**

Business owners prefer self-directed personal finance education

- **68%** conduct their own research
- **52%** read the financial press
- **51%** seek knowledgeable individuals
- **48%** manage their own investments



51%

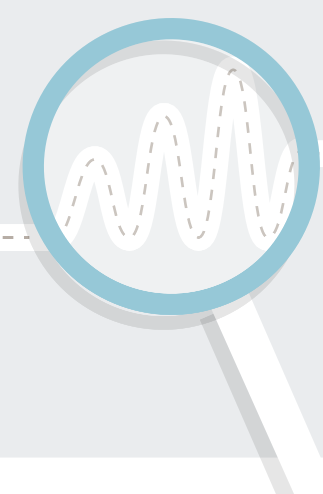
have a will but **22%** haven't started planning

32%

believe it's critical to educate their children about the **family business**

GIVING WHILE LIVING

40% of business owners plan to transfer some personal assets while living



45% intend to give their children more guidance on inheriting wealth than they received

RBC Wealth Management

Business owners are known for being independent and entrepreneurial, but what is their approach to building, preserving and transferring family wealth? Working with Scorpio Partnership, we undertook an extensive study of wealth transfer and published our research in the Wealth Transfer Report 2017. As part of our continuing series, we examine four key groups: women, business owners, Millennials and families. This report takes an in-depth look at 384 high net worth business owners, worth US$6.4 million on average, across Canada, the United Kingdom and the United States. It summarizes how business owners prepare to transition their personal wealth, and shares key insights around how they build their financial knowledge, manage their own inheritance plans, prepare their financial affairs and transfer their wealth to the next generation.

The business of wealth transfer

Transferring personal wealth to the next generation without having a full plan in place can pose a number of challenges. Yet our research found that business owners may be better than most at tackling those challenges: more than one-third of those surveyed have a full wealth transfer plan in place. But there's still considerable room for improvement, as one in five has not yet started planning for wealth transfer.

A business owner's assets are often illiquid, and they're inextricably linked to family interests, creating a host of additional wealth planning challenges that don't apply to other individuals. "With owners of family businesses, there's often an unarticulated hope or assumption that one of their children will follow in their footsteps," says Bill Ringham, Vice-President and Wealth Strategist at RBC Wealth Management–U.S. "I had one client who always assumed his son would take over, but when they finally sat down to have a conversation about business succession, he was surprised to learn his assumption was incorrect." In addition to common planning considerations for individuals—tax and estate planning, retirement planning and inheritance planning, for example—a comprehensive wealth transfer plan for a business owner should encompass a broader range of considerations to include such things as business succession planning and family dynamics.

In preparing for personal wealth transfer, business owners tend to adopt the same strategies that have brought them success: a high degree of self-reliance, a thirst for knowledge and a talent for strategic planning. The business owner's entrepreneurial spirit and self-starter attitude appears to engender a hands-on approach in managing financial matters within the household. But in some cases, this leads to insufficient preparation for the many challenges of wealth transfer.

Business owners are better prepared

Business owners acquire financial knowledge and prepare for personal wealth transfer with the same proactive approach they bring to their business ventures. They have a high propensity for self-directed education: 96% make a deliberate effort to educate themselves on wealth, and 68% do so by conducting their own independent research. They are less interested in formal learning opportunities: only 19% take advantage of structured financial literacy programs offered by their financial advisors. Business owners are self-motivated, and they prefer to drive their own learning activities: 52% read the financial press, compared to 38% of employed professionals.

Our research shows that business owners are better prepared for personal wealth transfer than the other groups surveyed—with 39% having a full wealth transfer plan—and notably more prepared than employed professionals, 26% of whom have a full plan [Figure 1, p.7]. Business owners seem to better understand the need for comprehensive planning, due in part to the illiquid nature of their assets. "It's such a challenge to deal with generational wealth transfer when, say, 75% of your net worth is tied up in a family business," says John Younger, Managing Director of Relationship Management with RBC Wealth Management in the UK.

The tendency to be well-prepared for personal wealth transfer is markedly more pronounced among business

Rupert is an entrepreneur and father of two who recently sold his equity stake in the business he founded:

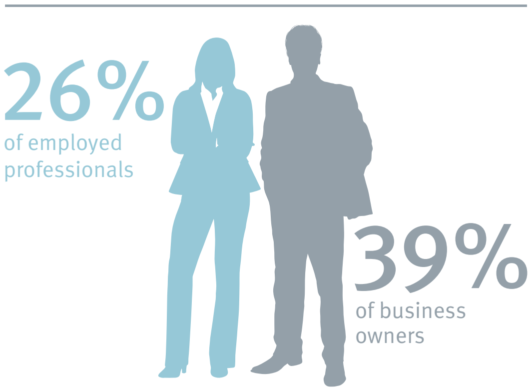
"In the last six months I put together my first will, because I sold my stake in the business and am now a father of two young children. Discussions came up with regards to wealth transfer and inheritance, and what would happen if I were to die."

owners with investable assets exceeding US$10 million. These respondents are three times more likely to have a full wealth transfer plan, at 58%, than those with less than US$1 million, at 19%. As the value of the business increases, business owners seem to give greater attention to wealth transfer planning.

Rupert is an entrepreneur still in the early stages of wealth transfer planning. He recently sold his equity stake in the business he founded and is now developing his wealth transfer strategy, starting with a will: "A few months ago, I did not have any wealth transfer plans. But in the last six months I put together my first will, because I sold my stake in the business and am now a father of two young children. Discussions came up with regards to wealth transfer and inheritance, and what would happen if I were to die. What if my wife were to remarry? We started talking about putting the money into a trust. There are a multitude of benefits to using trust structures."

Taking charge

More business owners have a full wealth transfer plan for the next generation



* For comparative data, please see Figure 1 in Appendix, p. 7

Isabella, the founder of a communications company with two children, aged 17 and 20, is aware of those benefits. She and her husband are making use of a trust to transfer some of the family assets now, while simultaneously giving their children a head start in the real estate market: "Our focus has been on helping the children with their first home. We've invested in a condominium, which is currently rented, but the intent is to give our children a place to live, if they were to live and work in the city."

Despite their proactive nature, a significant proportion of business owners still have much to do in preparing for wealth transfer: 51% of them, like Rupert, have only taken the first step by drafting a will. Employed professionals are not far behind: 49% of them have a will in place. Moreover, 22% of business owners have not yet started any sort of wealth transfer preparations. As a result, the majority of business owners are relatively unprepared to pass on their financial legacy.

The advantages of giving early

"In our family, plenty of wealth transfer activity is happening prior to death, such as grandparents paying for their grandchildren's education, parents taking out an insurance policy in their children's names, or parents helping their children break into the residential property market. People in my circles are increasingly moving away from making a single transfer; they often use a testamentary trust to defer the transfer of wealth."

Ryan is the owner of a financial research and boutique consulting firm:

"In our family, plenty of wealth transfer activity is happening prior to death, such as grandparents paying for their grandchildren's education. People in my circles are increasingly moving away from making a single transfer; they often use a testamentary trust to defer the transfer of wealth."

Ryan, the owner of a boutique consulting firm, serves as an example of the business owner's approach to 'giving while living.' Our research shows that business owners are more likely than other groups to transfer some of their assets during their lifetimes: 40% of those surveyed intend to make lifetime transfers to heirs, compared to 32% of employed professionals, who have a higher tendency to transfer all assets upon death.

A giving while living strategy has numerous benefits. For one, it creates an opportunity for business owners to share their financial knowledge and guide the next generation in their learning of wealth and finances: 20% of respondents cite the ability to mentor their heirs on responsible wealth management as a key motivator. Like other high net worth individuals, business owners do not want their children to grow up feeling entitled and dependent on the promise of a healthy inheritance, so they strive to instil in them a sense of responsibility and self-reliance early on.

Another benefit is that it enables benefactors to witness the positive impacts of their wealth and the legacy they envision leaving: 21% of business owners say the desire to help their inheritors achieve their ambitions motivates them to give while living. It also creates opportunities to cultivate and pass on the family's attitude towards wealth. "We've seen numerous clients take advantage of starting their wealth transfer earlier rather than later," says Julian Washington, Head of Client Insight at RBC Wealth Management International. "Not only can they be on hand to guide their heirs as they step up; they also have the pleasure of watching their legacy really take root with the next generation."

The inheritance experience

The self-starter attitude that business owners exhibit in wealth transfer planning is mirrored in their broader approach to managing their finances. They are more likely to make decisions independently: 70% describe

An expectation of support

Business owners who have yet to inherit anticipate support from various sources, but few previous inheritors received it

	FUTURE INHERITORS	PAST INHERITORS
Other family members	37%	28%
Personal financial advisor	32%	14%
Personal lawyer and/or accountant	28%	21%
Benefactor's financial advisor	30%	20%
Benefactor's lawyer and/or accountant	27%	14%

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

** For comparative data, please see Figure 2 in Appendix, p. 7

Isabella is the founder of a communications company with two adult children:

"I would like my children to get more formalized education, particularly in the areas of financial planning and budgeting."

themselves as "sole decision-makers" on everyday money matters, compared to 63% of employed professionals. Self-sufficiency, however, can come at a price. Being an independent thinker, while normally a positive attribute, tends to hamper business owners when they find themselves receiving an inheritance.

Inheritance typically occurs during a time of bereavement, when most people anticipate additional support and guidance from family, friends and others. Our research shows, however, that the support network business owners expect often fails to materialize: 37% of future inheritors anticipate guidance from other family members, yet only 28% of business owners who have already inherited say they received guidance from family.

It's not just family and friends who fail to give business owners the guidance they expect: 27% of would-be inheritors anticipate guidance from their benefactor's lawyers or accountants, yet only 14% of previous inheritors received it [Figure 2, p.7]. Similarly, 32% of business owners anticipate support from their financial advisor, but only 14% received such assistance. Business owners evidently lack support during a difficult time. To help manage the inheritance process more effectively, business owners would benefit from greater guidance and support, both personal and professional.

"Because business owners are so independent, others may think they don't need support, even in challenging situations," says Allison Marshall, Vice-President of High Net Worth Planning Services at RBC Wealth Management Canada. "From what we've observed, business owners benefit significantly from asking for help and leaning on the guidance of qualified tax, legal and wealth planning professionals to make the most informed decisions."

Better education for the next generation

"Educating the next generation on investments, accounting and economics are all important. It's good to do something earlier, rather than leaving your children to pick it up by themselves at the age of 30. Some wealth managers are now focusing on giving the younger generation tutorials and courses, which help build closer relationships with families."

William, a self-described serial entrepreneur and investor with two adult children, believes it's important to start arming children with a stronger foundation in financial literacy at a young age. Similarly, Isabella, the company founder with two adult children, sees value in a more structured education. "I would like my children to get more formalized education, particularly in the areas of financial planning and budgeting."

Business owners like William and Isabella know from experience that to keep the business thriving, their

Finance fundamentals

Top-ranked financial topics business owners want to teach their children for a well-rounded education

- 36% wealth transfer
- 35% investment strategy
- 33% budgeting
- 32% the family business
- 25% entrepreneurship

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

** For comparative data, please see Figure 3 in Appendix, p. 8

children must acquire knowledge across a broad range of financial topics, from the basics of establishing a budget, to the planning aspects of an estate, as well as tax, retirement and business planning. With this in mind, they seem resolved to do better for the next generation. For instance, almost half of those surveyed, or 45%, intend to better prepare their children for inheritance by giving them more guidance than they received.

For these business owners, one of the chief concerns is providing their children with a well-rounded knowledge of business and finance. Interestingly, they are less focused on budgeting skills than others: 33% consider budgeting the most important subject, while 52% of employed professionals put it first [Figure 3, p.8]. Learning about budgeting is almost on par with wealth transfer and investment strategy, which are at 36% and 35%, respectively. In assigning almost equal weight to a wider array of subjects, business owners demonstrate their preference for a comprehensive and balanced education. And 32% identify the family business as one of the most important subjects for children to learn.

This desire for a balanced education is also reflected in their willingness to draw on various sources of learning. Business owners welcome professional guidance in educating the next generation on personal wealth and finance. To round out their children's education, they seek input from external sources: financial advisors and private bankers constitute the largest group, with 29% of respondents turning to them, followed by accountants and independent advisors at 13% each, and lawyers at 12% [Figure 4, p.8]. These sources offer a critical supplement to building the next generation's financial knowledge, particularly if they intend to pursue an entrepreneurial path or take over the family business.

Family, however, remains the most preferred source of guidance on matters of wealth, at 51%. That's hardly surprising, given the business owner's independent mindset, and the tendency of most individuals to turn to family first. Trusted friends are also an important source of guidance, with 22% of respondents saying they rely on friends to support their children's education in wealth.

Interestingly, this reliance on family members reverses itself higher up the wealth curve. Business owners with investable assets of more than US$10 million are less likely to rely on family, at 42%, than business owners with assets of less than US$1 million, at 57%. In addition, those over the US$10 million threshold are more likely to rely on financial advisors and private bankers at 34%, accountants at 24%, and lawyers at 22%, to educate their future inheritors.

A broad base of support

Business owners rely on a diverse network to educate their children

FAMILY AND FRIENDS

51%	rely on family members
22%	rely on friends

EXTERNAL ADVISORS

29%	rely on financial advisors and private bankers
13%	rely on accountants
13%	rely on independent advisors

* Results do not equal 100%, as respondents could choose more than one answer
* For comparative data, please see Figure 4 in Appendix, p. 8

As business owners increasingly turn to external advisors to educate their children on financial literacy, they also see the value of starting earlier. They typically start at 25—two years earlier than the majority of respondents—and younger business owners are accelerating this trend: 20% of those surveyed intend for their heirs to begin their wealth education younger than they did, before age 18. This preference for starting earlier may also reflect some business owners' plans to involve the next generation early on, as they search for natural successors to take over the business.

Conclusion: Balancing independence with collaboration

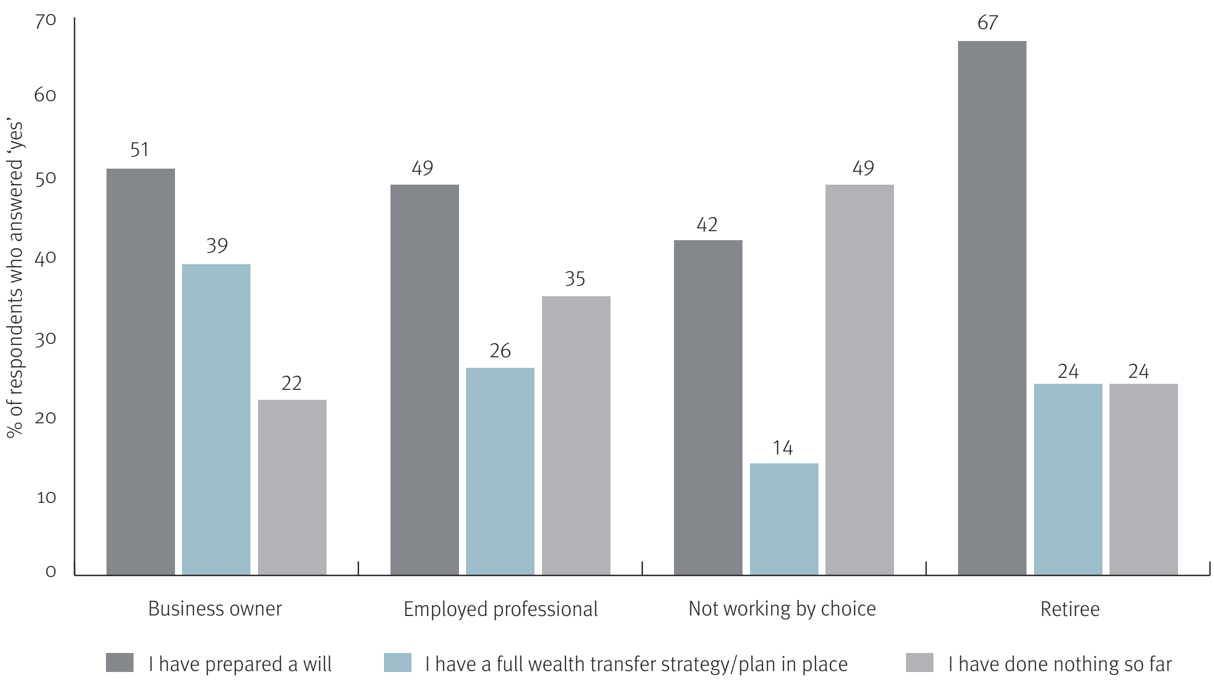
It's clear that business owners, who are predisposed to think and act independently, are more comfortable taking the lead, particularly when compared to other groups surveyed. They prefer a self-directed approach to educating themselves, and they are more likely to leverage the benefits of giving while living strategies. Their proactive attitude makes them more likely than others to have a comprehensive wealth transfer plan in place.

The independent, take-charge attitude that has brought entrepreneurs business success, however, can have its drawbacks; for example, during their own inheritance process, business owners receive far less support than they anticipate. As well, they must acquire a tremendous breadth of financial knowledge and pass it on to the next generation. This includes estate planning to ensure tax-efficient strategies, the need for an exit strategy from the business that funds their retirement, the need for a long-term business succession plan and, in many cases, the unique dynamics of a family-run business. An individual business owner may find it challenging to become knowledgeable in all these areas while simultaneously managing a business, keeping up with competitors, and setting long-term strategy.

Promisingly, the business owners surveyed acknowledge that they can't do everything on their own, and do it well. They recognize the benefits of leaning on others for advice and guidance, and of giving the next generation a well-rounded wealth education supported by external sources. At the same time, they expect their children to be independent, self-reliant and motivated to achieve their own goals. This two-pronged approach of independence combined with collaboration suggests that the heirs of today's business owners will be well-positioned to take on their legacy, manage it effectively, and ensure its growth over future generations.

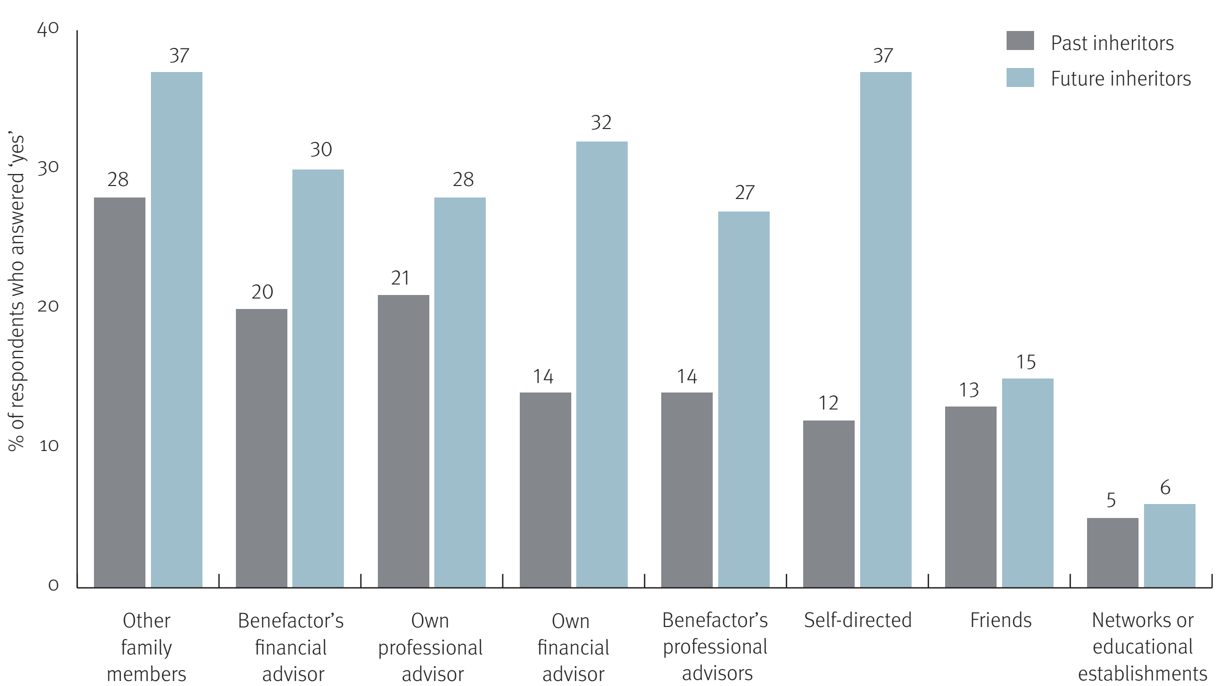
Appendix

FIG. 1 | *Which of the following have you undertaken as part of your wealth transfer strategy?*



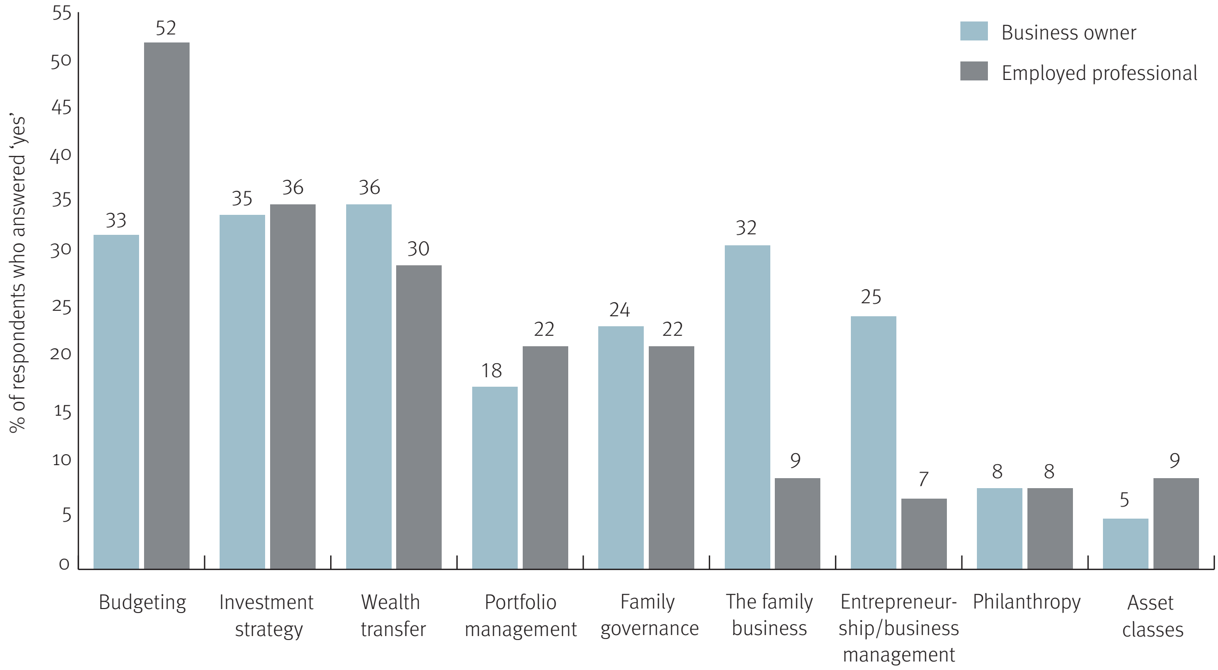
Results do not equal 100% as respondents could choose more than one answer.

FIG. 2 | *Upon receiving your inheritance, did you receive guidance on the wealth transfer from any of the following individuals or institutions? And, upon receiving a future inheritance, do you expect to receive guidance from any of the following individuals or institutions?*



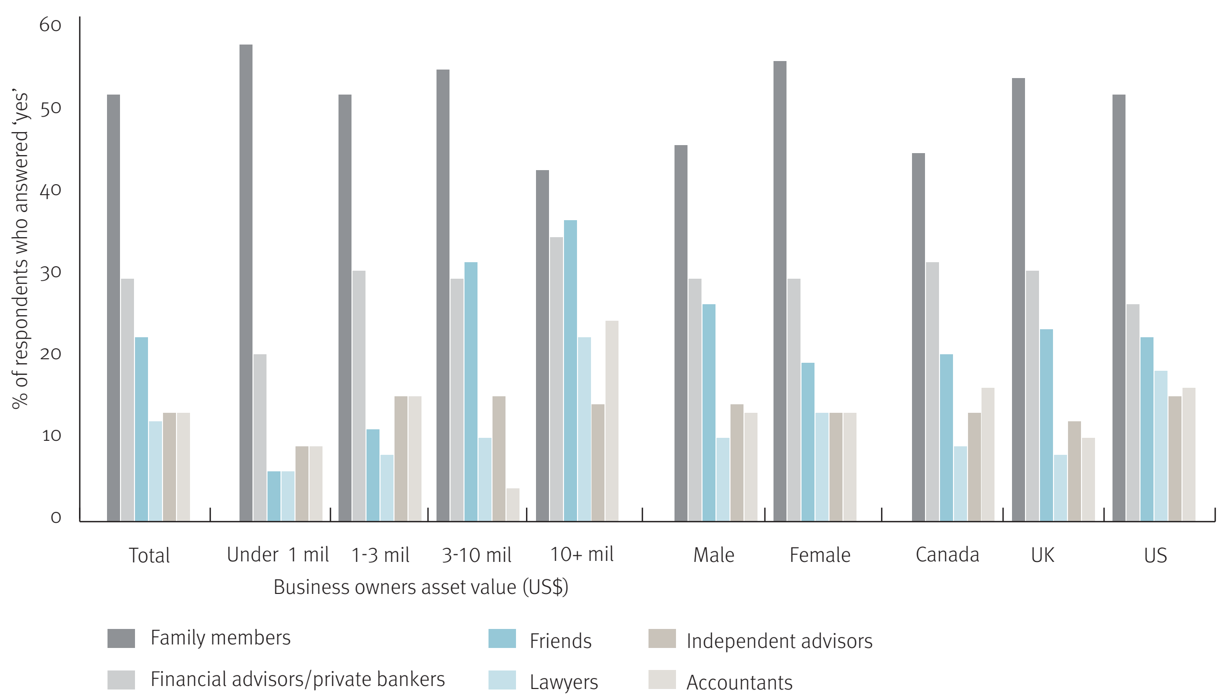
Results do not equal 100% as respondents could choose more than one answer.

FIG. 3 *In your view, which industry topics are most important for your children to know about?*



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

FIG. 4 *Do you rely on any of the following to support your children's education on wealth and money?*



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

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.

This report is based on data from 384 business owners with average investable assets of US$6.4 million. The regional breakdown is as follows: 121 Canadian respondents, 128 UK respondents, and 135 US respondents.

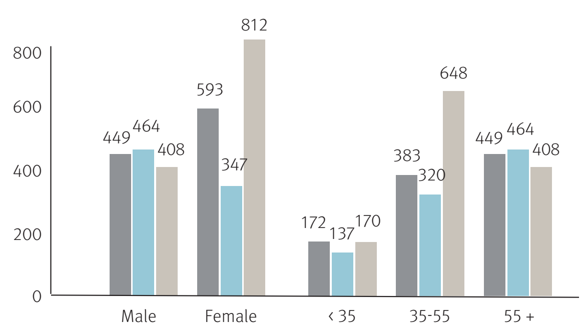
3,105 RESPONDENTS SURVEYED

1,054 CANADA

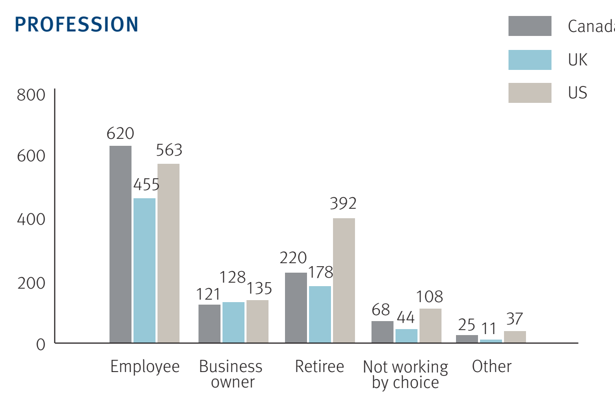
816 UNITED KINGDOM

1,235 UNITED STATES

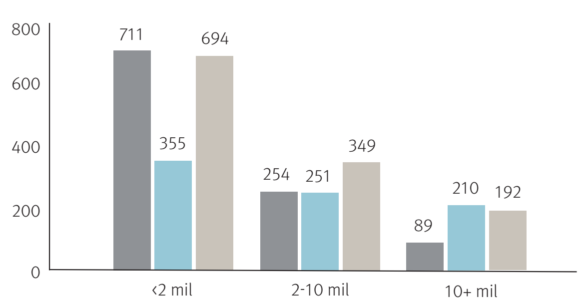
AGE AND GENDER



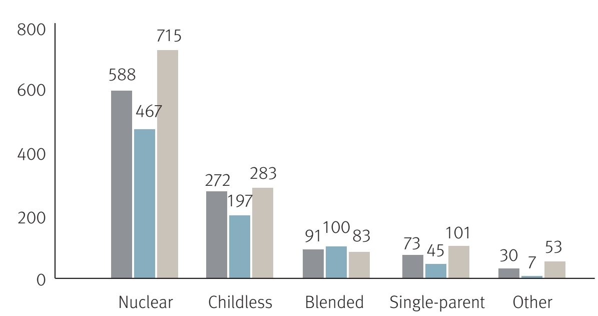
PROFESSION



ASSET LEVEL



FAMILY UNIT



Wealth Management

RBC Wealth Management

RBC Wealth Management is one of the world's top five largest wealth managers*. RBC Wealth Management directly serves affluent, high net worth and ultra high net worth clients globally with a full suite of banking, investment, trust and other wealth management solutions, from our key operational hubs in Canada, the United States, the British Isles, and Asia. The business also provides asset management products and services directly and through RBC and third party distributors to institutional and individual clients, through its RBC Global Asset Management business (which includes BlueBay Asset Management). RBC Wealth Management has more than C$879 billion of assets under administration, C$579 billion of assets under management and 4,797 financial consultants, advisors, private bankers, and trust officers.

For more information, please visit **rbcwealthmanagement.com**

*Scorpio Partnership Global Private Banking KPI Benchmark 2016. In the United States, securities are offered through RBC Wealth Management, a division of RBC Capital Markets, LLC, a wholly owned subsidiary of Royal Bank of Canada. Member NYSE/FINRA/SIPC.

This report is one of four in-depth papers based on research from the Wealth Transfer Report 2017. The other three papers in the series focus on women, Millennials and families, and will be released in May and June 2017.

Visit **rbcwealthmanagement.com/wealthtransfer** for more information

Scorpio Partnership

Scorpio Partnership is a leading insight and strategy consultancy to the global wealth industry. The firm specializes in understanding high net worth and ultra high net worth individuals and the financial institutions they interact with. We have developed four transformational disciplines—SEEK, THINK, SHAPE and CREATE—each designed to enable business leaders to strategically assess, plan and drive growth. These include market research initiatives, client engagement programs, value proposition and brand assessments and strategic business intelligence initiatives.

Scorpio Partnership has conducted more than 450 global assignments across wealth for institutions in the banking, fund management, family offices, law, trusts, regulation, IT and technology, insurance and charity sectors. In the course of these assignments, the firm has interviewed over 60,000 private investors and advisors.

For more information go to **scorpiopartnership.com**

For more information, please visit **rbcwealthmanagement.com/wealthtransfer**

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