DON'T RELY ON AN INHERITANCE

Nearly half of Canadians are banking on an inheritance to meet their financial goals. What are the dangers?

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Counting on a lottery win is disastrous financial planning, but nearly half of Canadians are banking on another kind of windfall when they look to their financial future. Forty-four per cent are expecting an inheritance, according to a recent Edward Jones poll.

That kind of life ring apparently can't come soon enough, with 83 per cent of the 1,500-plus Canadians surveyed saying they haven't achieved their financial objectives because of hindrances such as high cost of living, low income and insurmountable debt.

While there may be comfort in knowing that a cash gift is in their future – whether it's through a living inheritance or a will – the financial planning industry agrees that Canadians should be careful about incorporating that into a realistic, sound financial plan.

Strategic Insight, a Toronto-based research firm, projects that roughly $1-trillion in personal wealth will be transferred from one generation to the next in Canada between 2016 and 2026, with roughly 70 per cent of that in the form of financial assets. The average inheritance in Canada, according to a 2014 BMO survey, is just under $100,000.

Carlo Palazzo, a financial planner at Objective Financial Partners Inc., a fee-only firm in Toronto, says that he often has parents inquiring about how to give money to their grown children without compromising their own financial security. Less common are young adults asking about a related plan.

"The parents typically ask about how to structure the gift, when to give, how much to give, and what to do with the money once it's given," Mr. Palazzo says, noting that the intention is often for that money to be used for a down payment on a home. "It's mostly the parents coming forward and doing the planning for the kids."

Among those who will be receiving money, a frequent question is whether it's best to pay down their existing mortgage or shore up savings, he says.

Mr. Palazzo warns that young people shouldn't get too comfortable – or anxious – with the notion that they have an imminent cash infusion coming to them upon their parents' passing: He once had a prospective client in his late 80s who was still waiting for his inheritance from his mother, who's now a centenarian.

Beyond the practical considerations of receiving an inheritance are intangible aspects – feelings such as shame and embarrassment that sometimes accompany it.

When parents gift money to their children, people are quick to judge the kids, notes Shannon Lee Simmons, founder of the New School of Finance, an advice-only financial planning firm in Toronto. There is often an emotional toll on the children receiving money.

"Comments like 'spoiled,' 'entitled,' or 'lazy' are just some of the words I hear people using to describe young adults, often millennial, receiving money from parents," she says. "Most times, if I meet with a person who is receiving monetary gifts from parents, there is extreme guilt."

All of this contributes to the general Canadian reluctance to talk about financial matters. "People who are being offered help from family are extremely worried about being judged. This is why people don't talk about money. It's why most people who are lucky enough to receive family help don't tell other people."

Ms. Simmons suggests that grown children don't need to feel guilt or shame if they have family who want and can safely afford to gift money without creating stress in their own life. It's important to have upfront conversations about the inheritance, including whether there are any strings attached. If parents are giving the money for a wedding but there's no desire to ever get married, for example, don't accept it.

"Ensure you ask and know the terms upfront," Ms. Simmons says. "Be honest within your close circle of friends and family. You don't have to get into specifics, but if a close friend wonders how you bought your home, you could say 'we were very lucky and had a generous gift from family.' Yes, this may put you in an enviable position, but by acknowledging your luck and privilege, you put an end to the judgmental or gossipy chatter that may happen if you aren't forthcoming about getting help.

"Plus, if you know for a fact that your parents can afford the gift without compromising their financial safety and that they want to help you, there's nothing to feel worried or guilty about," she says.

In addition to dealing with the embarrassment, young people slated to receive money need to get ready for that, says fee-only financial adviser Ngoc Day of Vancouver's Macdonald Shymko & Co. Ltd. Those who plan to use it for housing should stress-test potential mortgage payments to make sure they are not buying too much house, particularly if interest rates were to rise.

"Ultimately, you're carrying the debt," Ms. Day says. "I'm encouraging both parents and the kids to say, 'This is not the Bank of Mom and Dad.' The people receiving these gifts should be prepared to say 'Can I afford to do this?' Is this the right time to do this?'

Andrea Andersen, a Calgary-based financial adviser with Edward Jones, agrees that people need to understand what their full financial picture looks like before spending an entire inheritance in one place, such as a home. Having a sudden influx of money doesn't, for instance, eliminate the need for an emergency fund that would cover at least six months of expenses in case of job loss.

"You want to identify and prioritize goals," Ms. Andersen says. With money, "fear and greed are the worst decision-makers."