Investor's**Edge**

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4 ways to pass along your financial wisdom

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Wonderful as it may be to pass along wealth to your children, it's just as important to share your financial values, philosophy and know-how with the next generation.

Whether your children are in preschool, high school or beyond, it's likely neither too early nor too late to teach your kids about money, financial management, saving, investing and giving.

Many high-net-worth parents, however, don't prepare their children for large inheritances, neglecting to provide guidance or to arrange the wealth transfer in ways that will protect both family members and family wealth.

Preparing your family for wealth transfer

Many financially successful parents—uneasy about discussing money—haven't taught their offspring about finances or given them an "inheritance education" in interacting with portfolio managers, wealth advisers and lawyers. The children may inherit wealth in their 50s or 60s with little clue about how to handle it.

Money conversations are important, as U.S. heirs are expected to inherit more than $3.2 trillion within a generation, according to RBC Wealth Management's 2017 Wealth Transfer Report, which is based on a survey of more than 1,200 Americans with average investable assets of $4.3 million.

The report found that most inheritors were largely unprepared, unsupported and uninformed about the inheritance process. This often leaves children overwhelmed and susceptible to making financial mistakes, jeopardizing the inheritance and the children's financial safety.

Working with professionals

Financial advisers, private bankers and wealth managers often are the best teachers. There have been times when parents have asked RBC Wealth Management's financial advisors to join family meetings so that they could share some financial knowledge with their children.

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4 ways to pass along inter-generational financial wisdom, continued

Families that successfully transfer wealth often set up children's trust accounts with third-party trustees. Beneficiaries need to learn about the trusts—including budgeting and living within their means—at an early age.

Work, allowance and saving money

Structured financial guidance typically doesn't start until age 28, according to RBC's report, however financial education can start years earlier, as soon as a child is old enough for an allowance.

Business owners often excel at passing along financial know-how and values, as they tend to involve even their young children in the business. The youngsters may start by taking out the trash or otherwise getting their hands dirty.

Putting a child on the payroll can also help them learn to put money aside. An allowance for younger children, often with chores as part of the arrangement, is another way to teach kids about money, spending, saving and charitable giving.

Many parents are aware of the power of compounding. They will encourage their children to save their allowance, and a lot of parents will match dollar for dollar. To help children learn about budgeting and cash flow, some parents encourage their children to have three categories for their savings: one for personal savings, one for personal spending and one for charitable giving.

Passing the knowledge with success

It's important for families to communicate with their children about their expectations on how their children will manage the wealth they inherit. In addition to good financial management skills, this may also include charitable giving opportunities to keep the family legacy going strong for many generations.

Well-thought-out charitable giving is a great way to pass along family values. Including children on the conversation of how the family supports different organizations is an excellent opportunity to give them the family history and experience for when they're ready to take over the program. (Please see accompanying article titled "Include the family in end-of-year gift planning on page 5 for more information.) Some families will establish family board meetings where the topics of investing, charitable giving and family budgeting are discussed to help prepare children and grandchildren for the time they will inherit the family estate.

For help passing your financial wisdom on to your children, please contact your financial advisor.

Can my family business survive a natural disaster?

Discuss contingency plans with family members

Unexpected disasters have the potential to crush a family business both literally and figuratively. From devastating wildfires to severe flooding with a violent tornado thrown in for good measure, natural disasters can strike any family business. In the aftermath, having access to liquid financing may help speed the recovery process tremendously.

The Munich Re's NatCatSERVICE, one of the world's most comprehensive databases for analyzing and evaluating natural catastrophes registered 850 natural disasters globally in 2018, 20 percent of which happened in North America. Floods, flash floods and landslides made up 46 percent of the incidents, with storms following close behind with 42 percent of the disasters. Insurance payouts were reported at $80 billion to cover the global claims, which reached $160 billion.

As a responsible business owner, you have proper insurance policies to cover your company from everything like property damage to loss of business income. Those insurance payments will certainly help your family business get back up and running. But sometimes it takes time for the paperwork to process, and while you're waiting, bills and employees are waiting to be paid.

An RBC Credit Access Line, offered by the Royal Bank of Canada, may provide your family with same day liquidity, so you have financial flexibility to handle the needs of your business while maintaining your investment portfolio and keeping your long-term financial strategy in place. If you have a business portfolio established, the line would be created using your eligible business assets. In a solely owned business situation, you may combine your eligible personal accounts with your business accounts to pledge the RBC Credit Access Line.

In the minutes, hours and days following a natural disaster, your response time may be a key factor in your company's continuity and longevity. While you wait for the insurance payments, your business needs immediate liquidity to keep business operations running.

Talk with your family about contingency plans for the family business, and consider reaching out to your financial advisor about RBC Credit Access Line. It can help you prepare for the unknown and the unexpected. Once established, it is ready when you are.

The odds of a natural disaster affecting your business may not be top of mind, but with an RBC Credit Access Line you are ready with a business continuity plan that includes immediate access to liquidity—just in case. It can help you prepare for the unknown and the unexpected. Once established, it is ready when you are. There is no cost to set it up, nor any costs until you draw on the account.

RBC Credit Access Line is a securities-based, demand line of credit offered by Royal Bank of Canada, an Equal Opportunity Lender and a bank affiliate of RBC Capital Markets, LLC. Subject to Credit Approval. Securities-based loans involve special risks, are subject to minimum collateral requirements, and are not suitable for everyone. Additional restrictions may apply. You should review the provisions of the RBC Credit Access Line agreement and related disclosures, and consult with your own independent tax and legal advisors about any questions you have prior to using RBC Credit Access Line.

Wealth planning for luxury family travel

High-net-worth families are increasingly opting for unique vacations, such as educational travel, expedition tours, adventure travel and personalized trips to share and experience with extended family.

Adventure travel alone is a $683 billion market, according to the Adventure Travel Trade Association.[1] And while adventure travelers can choose from activities like mountain climbing or an exploration of Antarctica, the fastest growing types of such travel include family-friendly activities, classes and workshops, wellness experiences and cultural experiences, according to TripAdvisor's 2019 Experiential Travel Trends report.[2]

Jets for the jet-set

While flying off on vacation on a private jet was once the exclusive privilege of the super-rich, more high-net-worth and ultra-high-net-worth families now use "jet cards" for access to private planes, says Liz Jacovino, a wealth strategist for RBC Wealth Management.

"Many of our clients ask us to budget $100,000 to $250,000 for a jet card that provides them with a specific number of hours on a certain size plane," says Jacovino. "For example, if the family has five people, you purchase a card for 30 flight hours for a six-person plane."

Typically, families use the jet cards for less commercially accessible locations, such as ski resorts or islands, that would require several connecting flights to visit.

"They're paying for the convenience, so they spend less time in layovers and more time enjoying the experience," says Jacovino, adding that clients who actually own a plane need a substantially larger budget to cover upkeep, fuel costs and hanger fees.

Paying for pleasurable travel

Travel is usually the third item of importance on a financial plan after daily living expenses and health care needs, according to Jacovino.

"Generally, the annual travel budget for clients is between $100,000 and $250,000," she says.

While inflation of 2.5 to 3 percent is factored into anticipated regular expenses for planning, says Jacovino, inflation for luxury items, including travel, is estimated at 6 percent.

The amount to budget for travel depends on individual appetites and life phases. For example, more money is usually allocated for travel during the "go-go" phase of early retirement.

"We usually budget 5 to 10 percent of all spending on travel, but sometimes we go up to 20 percent if the clients have the travel bug," says Angie O'Leary, head of Wealth Planning at RBC Wealth Management – U.S.

Managing expectations

Ultimately, even high-net-worth families don't have unlimited time or money for travel, which could make it important for families to be realistic about their vacation or travel plans each year. People who want to treat their extended family to vacations may want to take an every-other-year approach to help keep expectations at a reasonable level.

[1] https://cdn.adventuretravel.biz/research/2018-Travel-Trends.pdf

[2] https://www.tripadvisor.com/blog/experiential-travel-trends-health-wellness-family/

Include the family in end-of-year gift planning

Talk about philanthropic goals at holiday get-togethers

When everyone is gathered at your house for the holiday season, put wealth planning conversations on the agenda. That way you'll have the undivided attention of your entire family, making it easy to involve children and grandchildren in wealth planning discussions.

Defining the family legacy is a large part of wealth planning, and an important step in helping transition the family wealth from one generation to the next.

"When family members work together on a common goal like developing a united legacy, we find they experience a much higher success rate in maintaining their wealth from generation to generation," said Cathy Walker, senior trust consultant with RBC Wealth Management.

Start the discussion by sharing an overview of the family financial plan, including what is—and has been—available for donating to charities. By providing a historical overview of the family's giving presence, you may set the stage with your expectations for future generations.

Ask each family member to promote the organizations and programs they most wish to support. Have a discussion centered on what is important in terms of causes and charities for the family as a whole, and build a plan that acts on that passion.

If your discussion is complicated by the rapidly approaching end-of-the-year tax deadline date, your family may want to consider using donor advised funds (DAFs). DAFs offer an easy way to make gifts over multiple years for tax purposes, plus people other than the grantor, like your children, can make contributions and generate their own income tax deduction. Throughout your lifetime, the DAF allows you to recommend which charities receive grants, how much they receive and when funds are disbursed. Plus, you can recommend how fund contributions should be invested.

Keep in mind, the 2019 standard deduction is now $24,400 for couples married filing jointly ($12,200 for single filers), but that donated amount into a DAF is the only requirement needing completion in 2019. Bunching charitable donations over multiple years into a single-year donation amount may allow some tax benefits on income taxes. Your family can decide at a later date which organizations will receive the donations, and when.

Note, if you—and/or your spouse—need to make required minimum distributions from your IRA account(s) and you wish to potentially limit your tax liability through qualified charitable distributions, you are not allowed to deposit those distributions into a DAF. They must be made directly to a specific charity.

It may be beneficial to discuss your family's charitable giving options with your financial advisor prior to holding the family meeting so you can share the overall best financial picture. Then, when the discussion is finalized, you're ready to move forward with the new family legacy.

For help with year-end charitable giving decisions, and to discuss whether a DAF may be an appropriate tool for your family's philanthropic goals, contact your financial advisor.

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