



ECONOMICS

The Looming Bequest Boom — What Should We Expect?

by Benjamin Tal

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.ca

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.ca

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.ca

Royce Mendes
(416) 594-7354
royce.mendes@cibc.ca

Nick Exarhos
(416) 956-6527
nick.exarhos@cibc.ca

Over the next decade an estimated \$750 billion will be transferred to Canadians between the age of 50 and 75. That will be the largest intergenerational wealth transfer in Canadian history over such a period of time. And the amount will be even larger during the subsequent decade. This significant wealth transfer could impact important economic variables such as wealth distribution, savings, labour market participation, start-up activity, and real estate markets.

The Givers

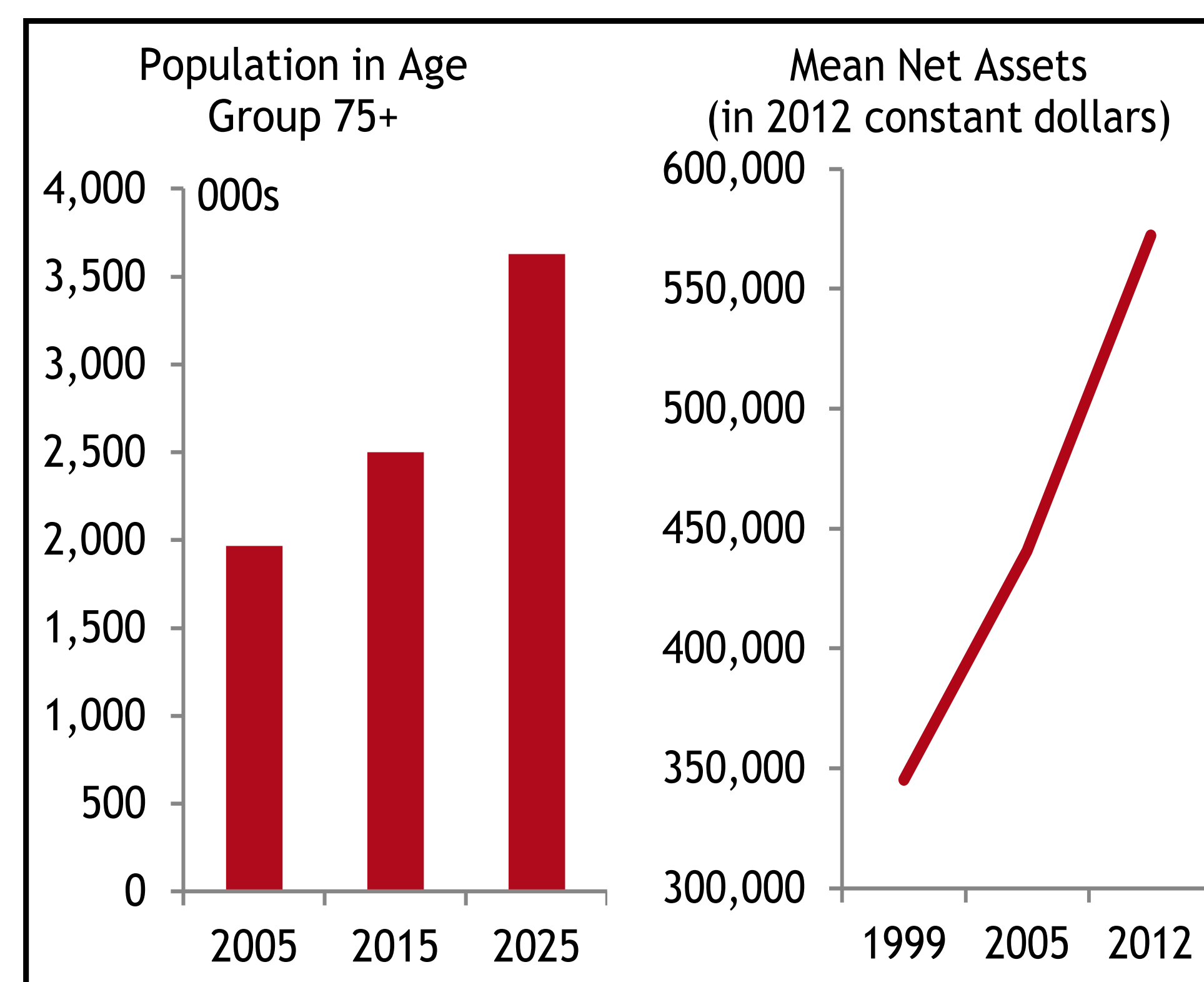
There are currently just over 2.5 million Canadians over the age of 75, of which close to 45% are widowed. That number (75 years and older) represents a 25% jump over the level seen a decade ago. And the next decade will see an even greater jump (Chart 1, left). Yes, Canadians are living longer with mortality rates among the elderly falling steadily, but

the demographic picture still suggests that, in absolute terms, more Canadians over the age of 75 will pass away in the coming decade (Chart 2). And the new cohort of that age group is not only the largest on record, but also the wealthiest. Average net worth among Canadians at this age has risen 30% between 2005 and 2012 (Chart 1, right). We estimate that total net worth of this cohort is currently north of \$900 billion.

The Beneficiaries

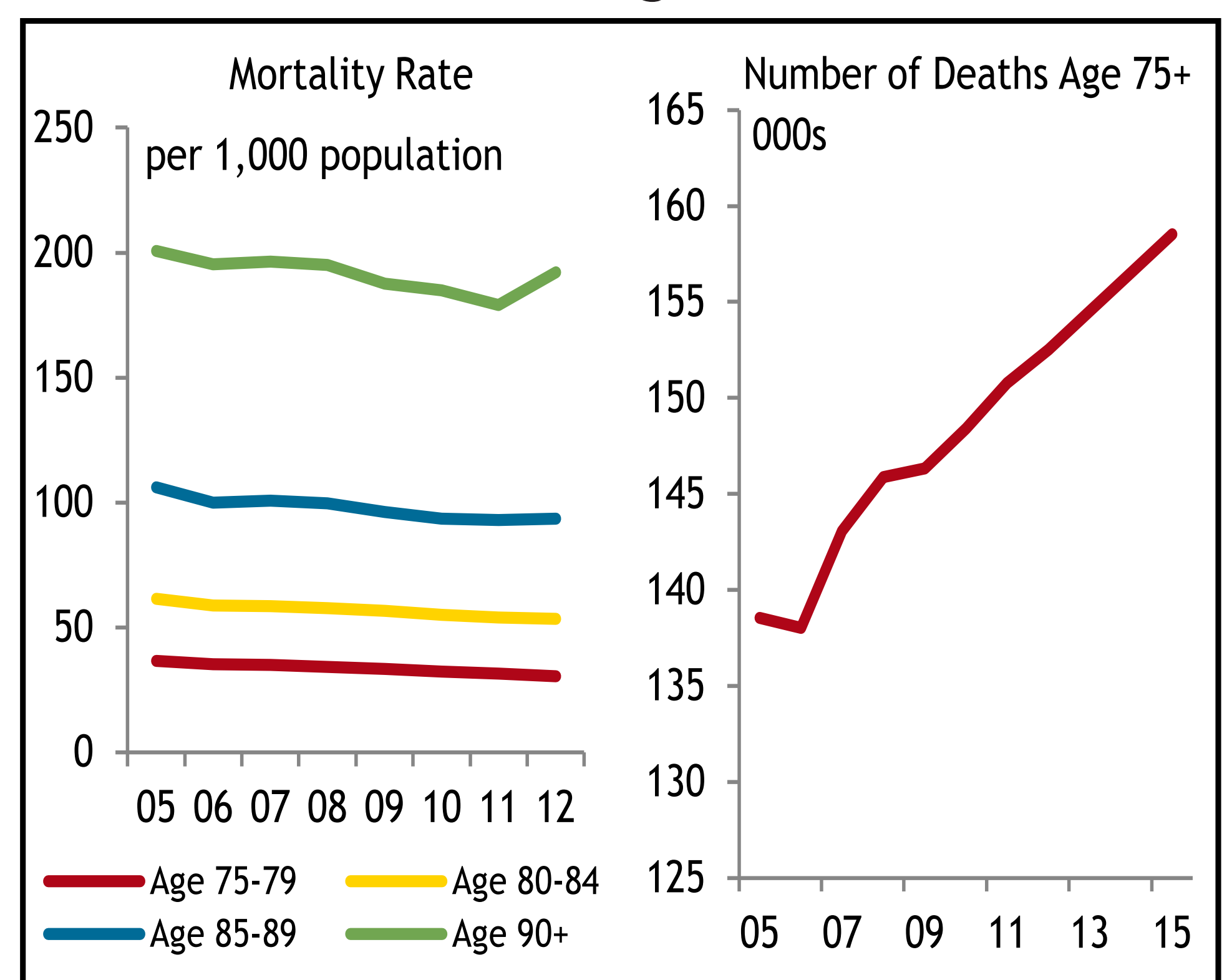
On the receiving end of that inheritance pool are mostly Canadians aged 50-75. Their number has risen dramatically over the past decade as more baby boomers passed the age of 50. That cohort will continue to grow in the coming decade, but more slowly. While debt accumulation among those baby boomers has accelerated in recent years, their overall financial position has, in fact,

Chart 1
The Givers



Source: Statistics Canada, CIBC

Chart 2
Despite Decrease in Mortality Rate, Number of Deaths in Age 75+ Increases

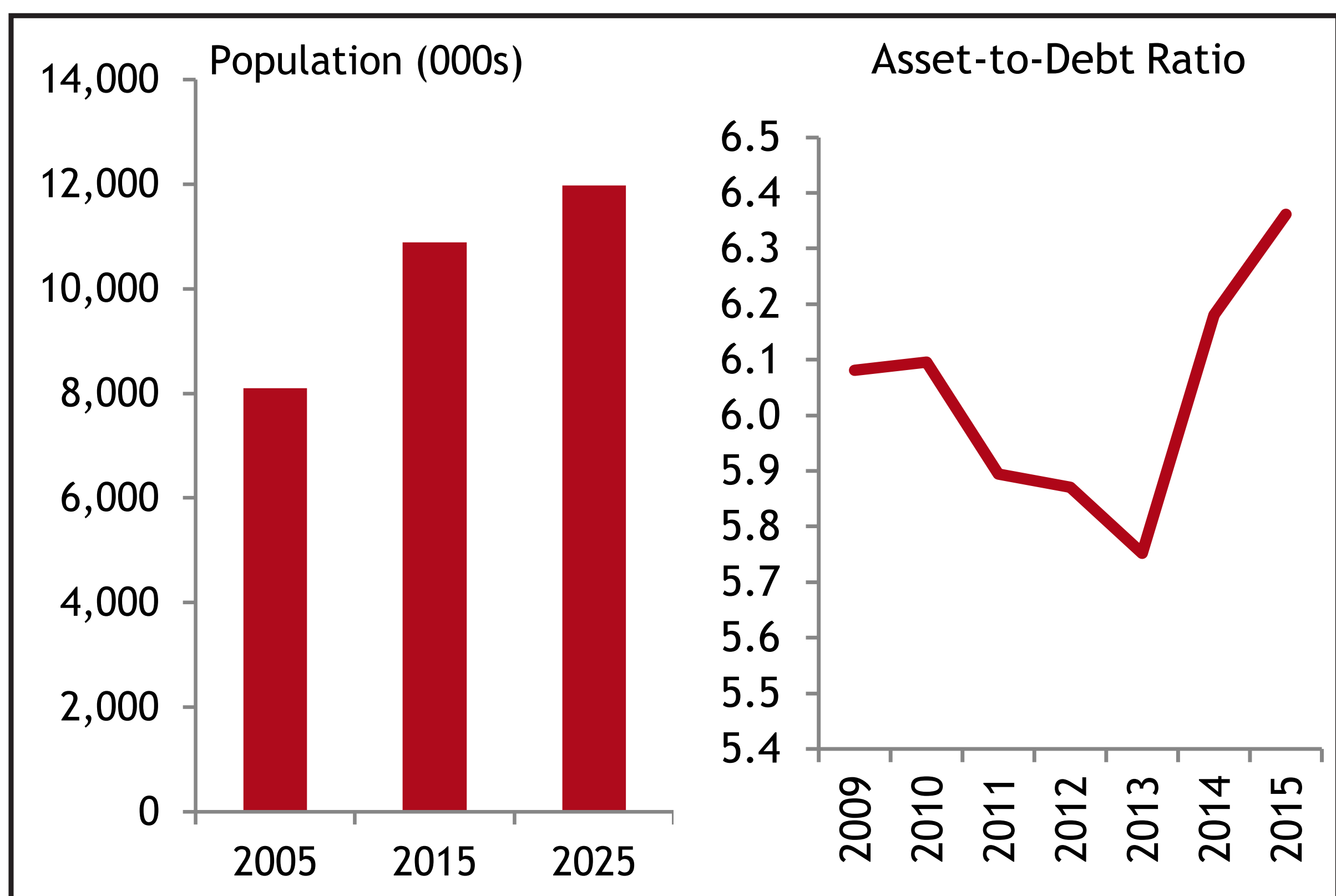


Source: Statistics Canada, CIBC

<https://economics.cibccm.com/economicsweb>

Chart 3

Age Group 50-75



Source: Statistics Canada, The Financial Monitor, CIBC

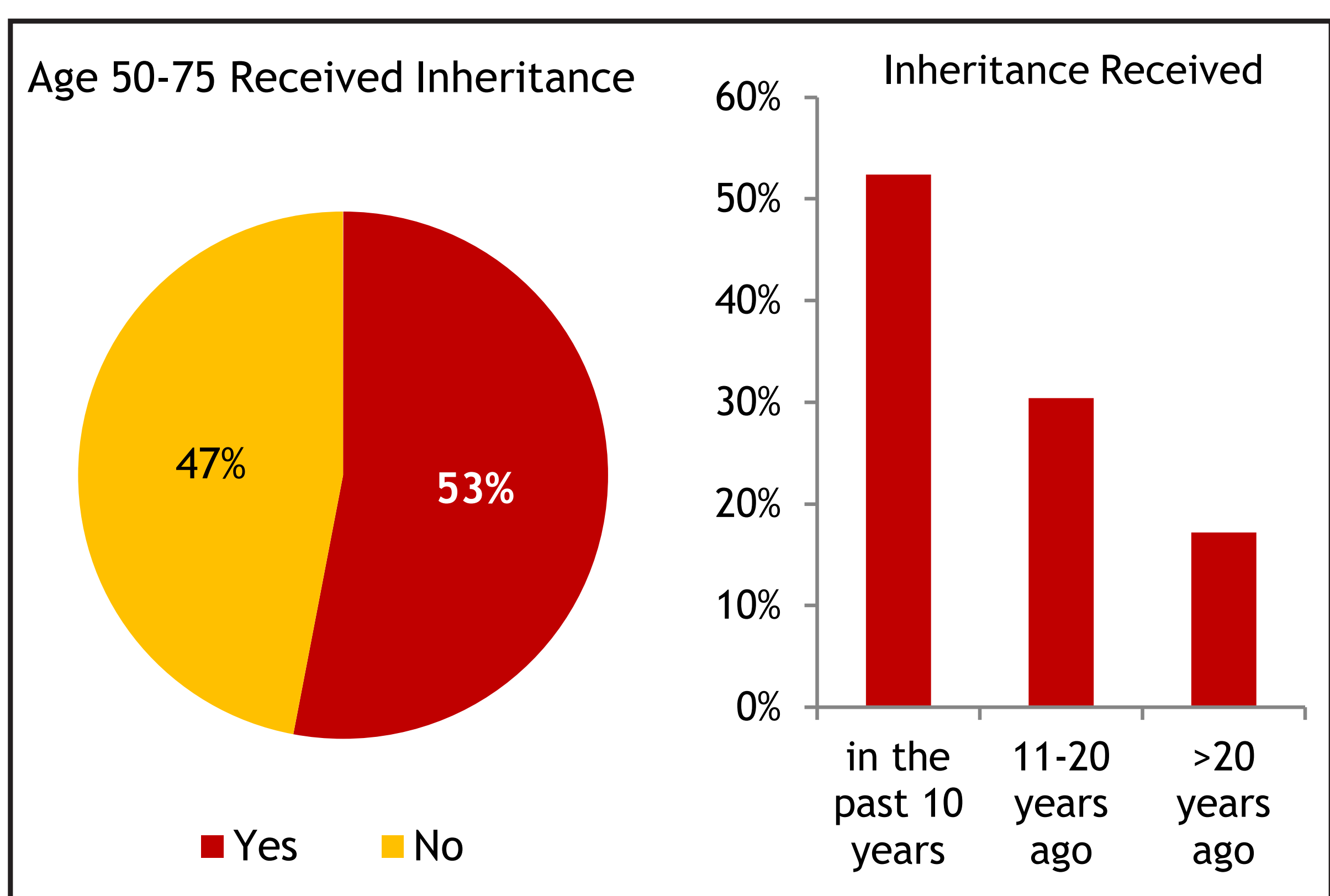
improved with the ratio of assets to debt recovering strongly in recent years (Chart 3).

So, How Much?

Guesstimating the amount of that wave of potential inheritance is tricky. Most estimates are based on forward looking questions, asking potential beneficiaries what they expect to receive. It's clear that that approach is problematic for many obvious reasons. We have decided to tackle the issue differently, and asked Canadians about the inheritance they actually received as opposed to what they expect to receive¹. And then we derived our estimates by adjusting to (predictable) demographic changes. The rationale here is that talking about the past is easier, and the answers should be more accurate.

Chart 4

Half of Canadians Aged 50-75 Received Inheritance

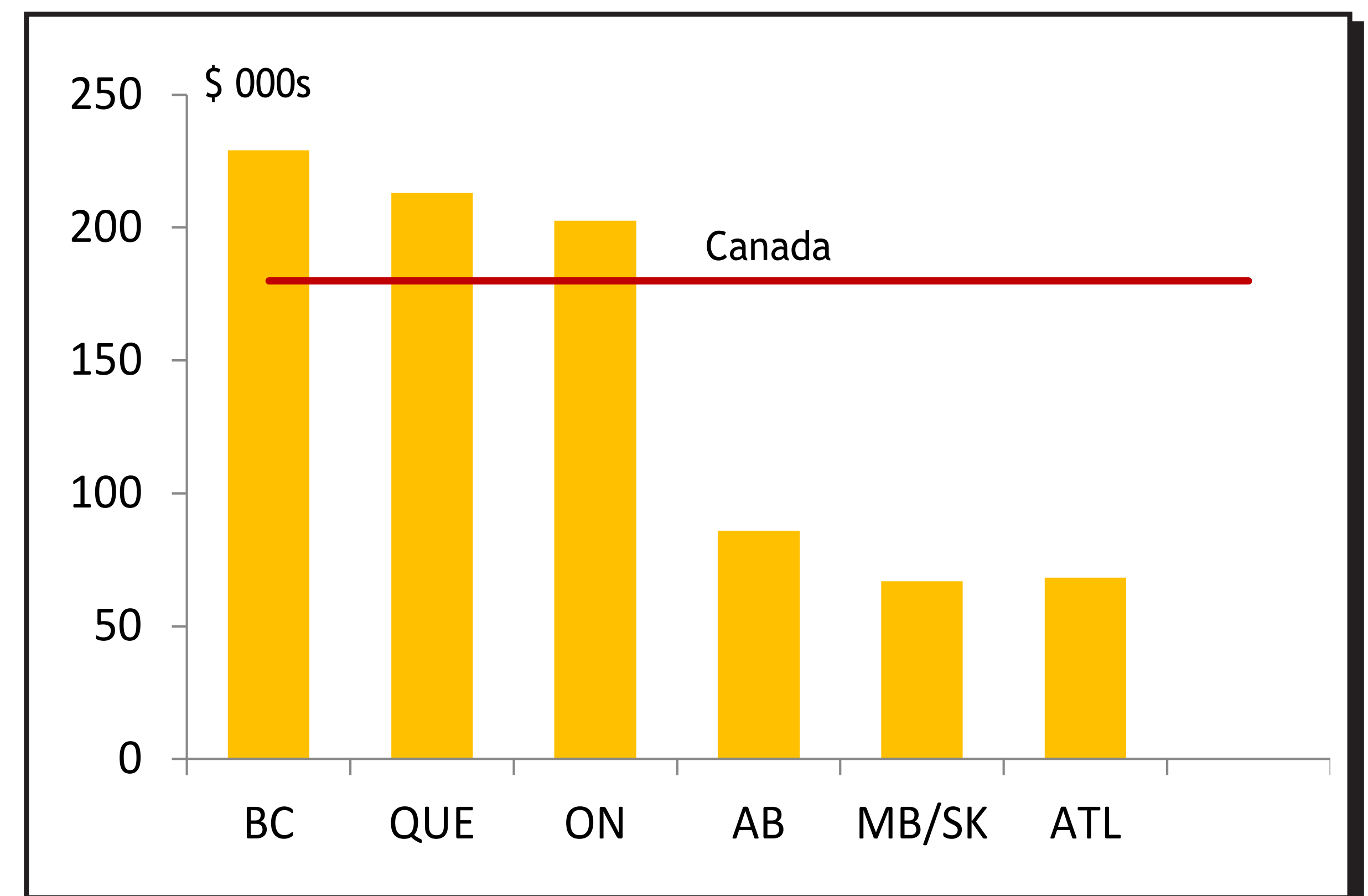


Source: CIBC Inheritance Survey, 2016

So what have we learned? Just over half of Canadians aged 50-75 have received an inheritance. And half of those received it in the past decade (Chart 4). Zooming in on that sub-group, the average inheritance was \$180,000 with the largest amount being in British Columbia, no doubt due to the elevated value of real estate in the province, followed by Québec and Ontario. For the rest of the country, the average inheritance received over the past decade was below \$100,000 (Chart 5).

Chart 5

Average Inheritance Received in the Past Decade



Source: CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs)

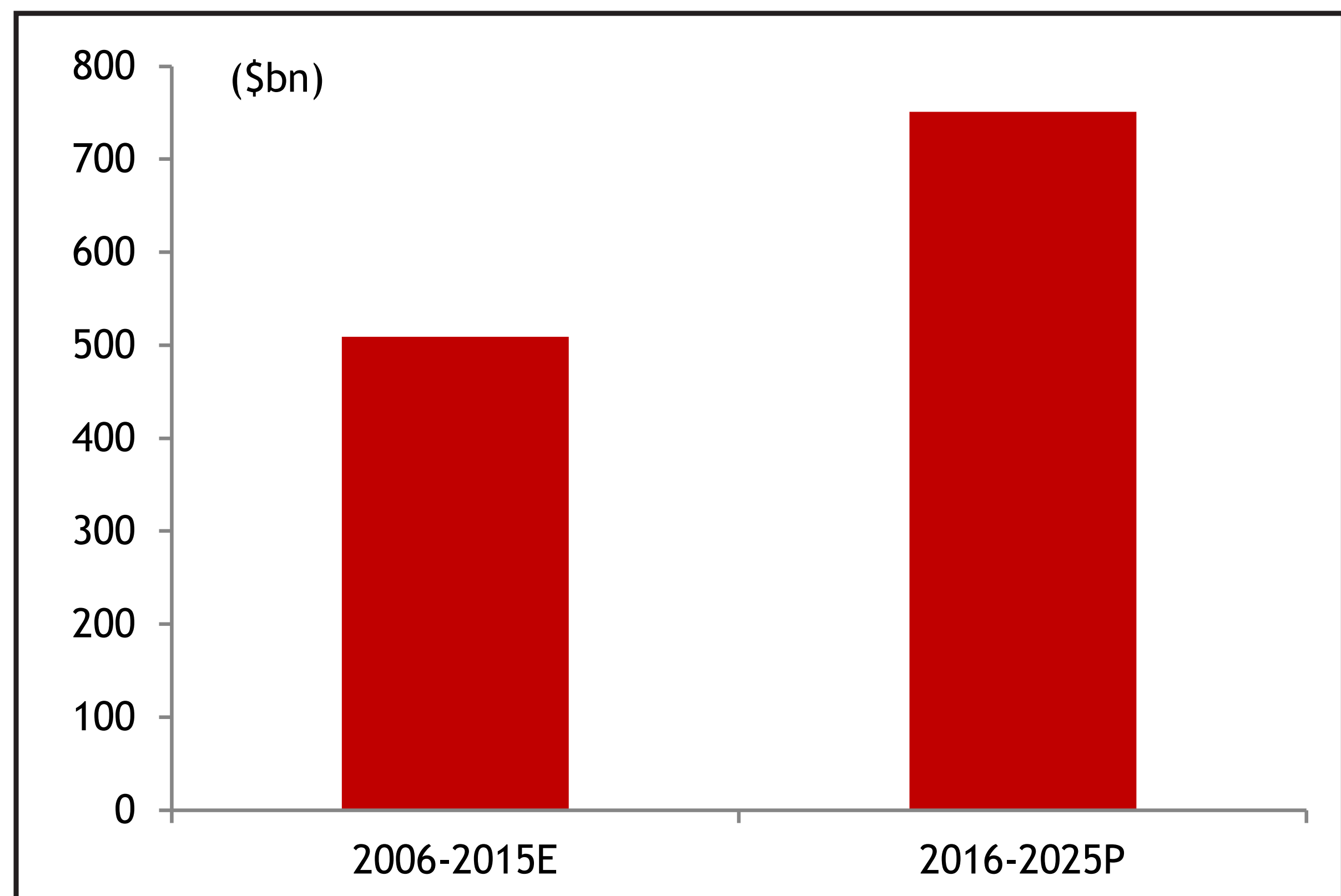
Based on that information, and Statistic Canada's demographic projections, alongside conservative assumptions regarding wealth appreciation², we estimate that the coming decade will see close to \$750 billion exchanging hands (Chart 6). That is almost 50% more than the estimated amount of inheritance received over the past decade. The transfer is estimated to boost the asset position of Canadians 50-75 years old by no less than 20%.

Naturally, the economic impact of a bequest is largely a function of how it is used. A typical household has several options here. It may increase current and future spending and therefore decrease its current active saving. Households also may elect to consume some of the new wealth in the form of leisure and decrease their labour market engagement. As well, the beneficiaries may use some of the money to make *inter-vivos* gifts to family.

¹ From April 26 to April 27, 2016, an online survey was conducted among 1,003 Angus Reid Forum panelists who are Canadians between 50-75 years old and have received an inheritance. The margin of error - which measures sampling variability - is +/- 3.1 per cent, 19 times out of 20. The results have been statistically weighted according to gender and region. Discrepancies in or between totals are due to rounding.

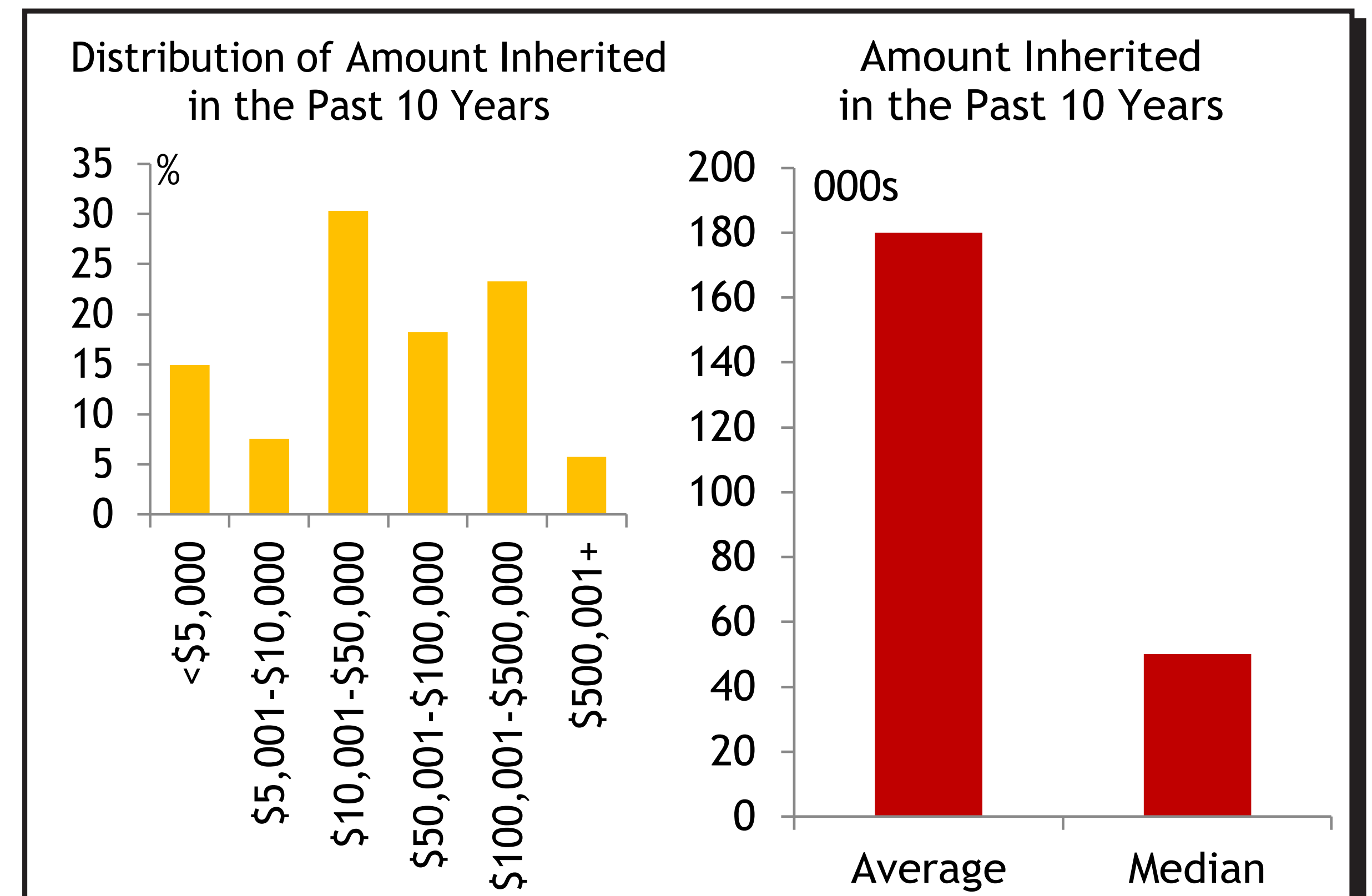
² We assumed annual return on assets (real estate & financials) of 3%.

Chart 6
Total Inheritance



Source: Statistics Canada, CIBC, CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs, inflation adjusted)

Chart 8
Uneven Distribution



Source: CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs)

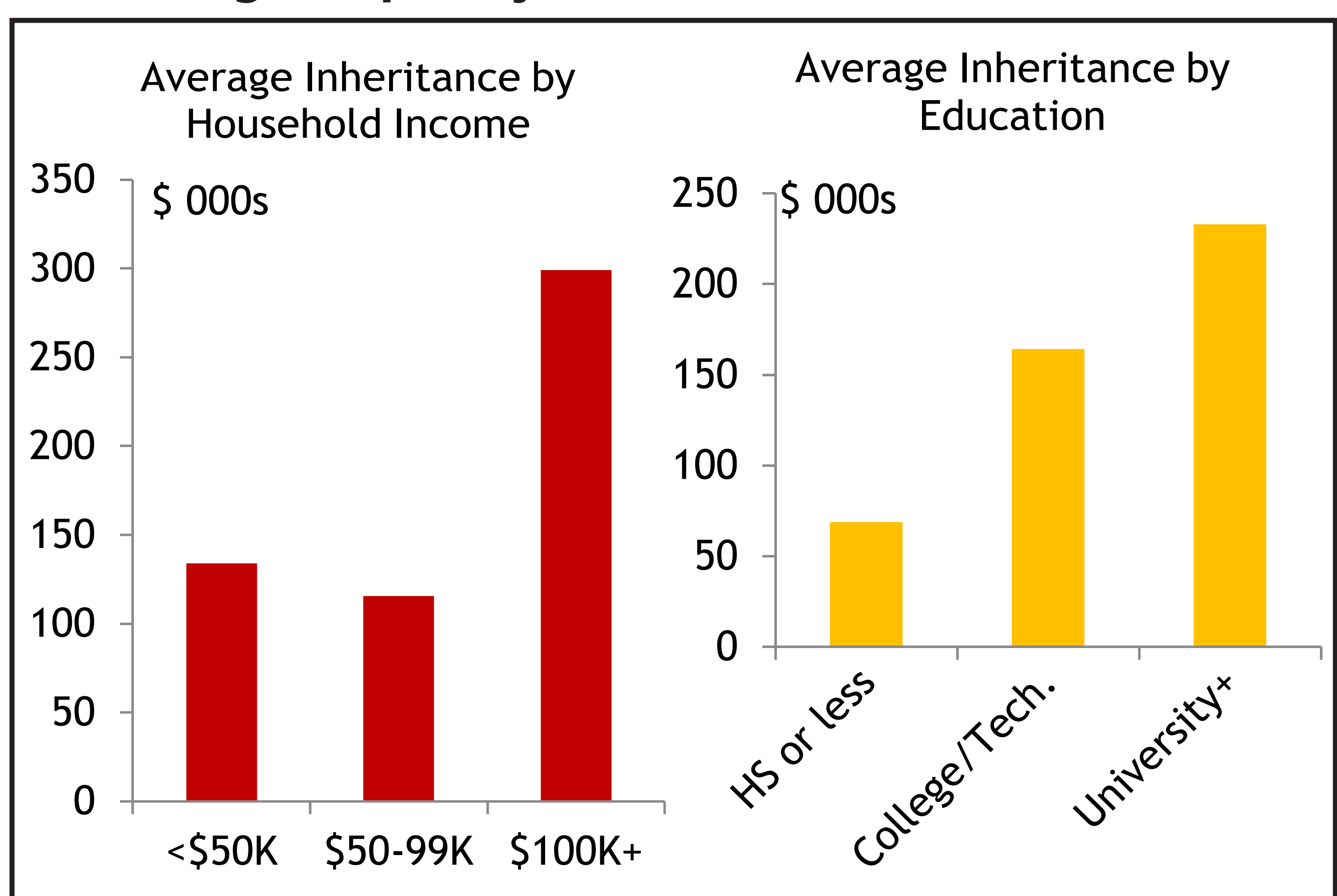
Inheritance and Inequality

The abnormal distribution of average inheritance by province is the first hint that the average figure hides a lot of interesting information. Focusing on the distribution by income clearly shows that more money is going to Canadians that are already in higher income brackets, with average inheritance for those who earn more than \$100,000 almost three times higher than among lower-income Canadians. The same goes for the breakdown by education; those with higher education received notably more in inheritance (Chart 7). This largely abnormal distribution is reflected clearly in Chart 8, with the average inheritance more than four times larger than the median.

The large proportion of the looming bequest boom that is expected to go to high-income Canadians suggests that income inequality will be further transformed into wealth inequality. Roughly 40% of high-income individuals indicated that they saved or invested their inheritance, while a larger proportion of lower income Canadians used that money towards daily expenses (Chart 9). Simply put, if wealth is not evenly spread across society, then inheritance will repeat the pattern and exacerbate inequality.

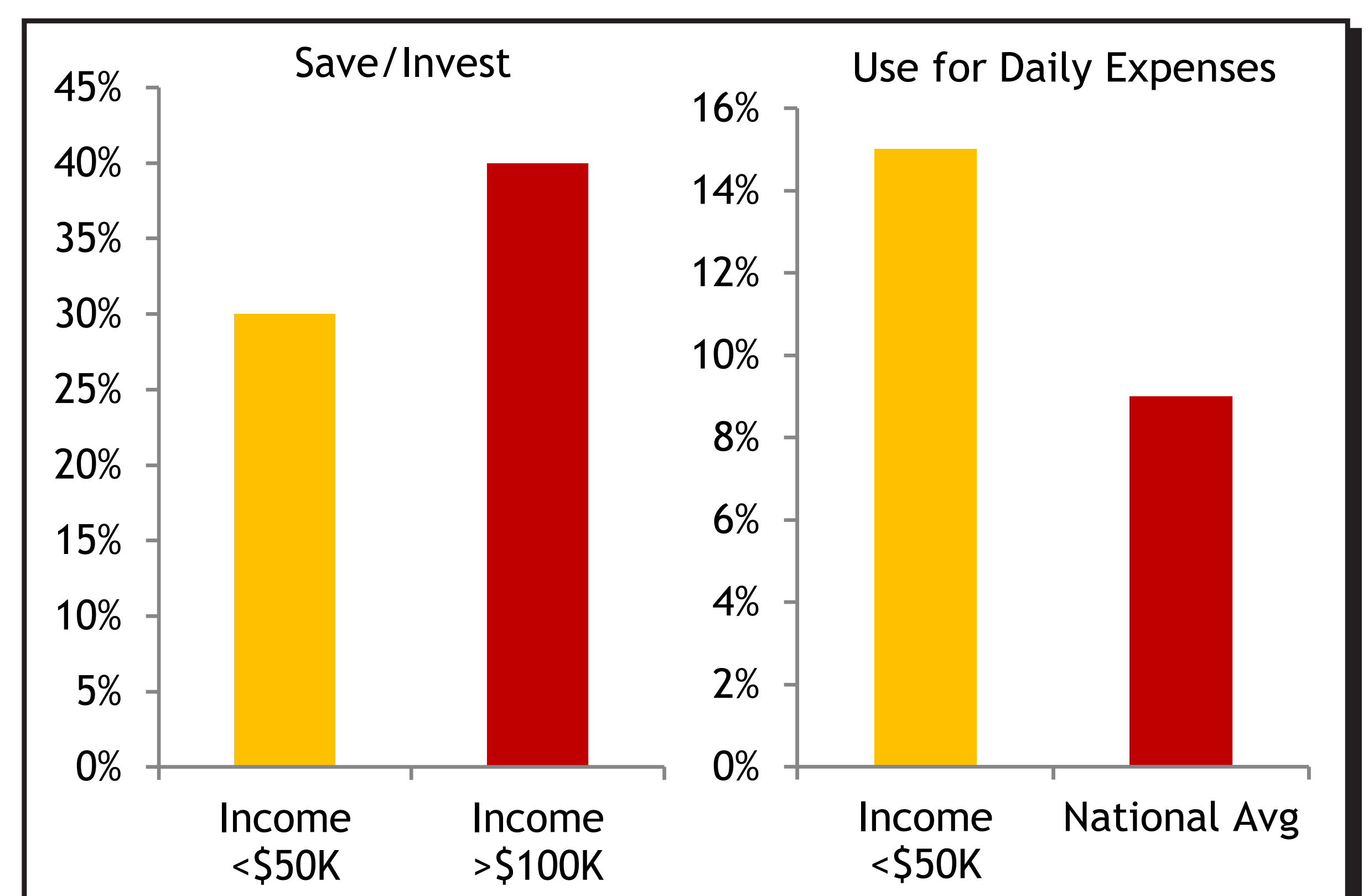
Given that many households will receive inheritances when they are approaching retirement age, the upcoming transfer can potentially impact the Canadian retirement landscape. As demonstrated earlier, higher-

Chart 7
Inheriting Inequality



Source: CIBC Inheritance Survey, 2016 (age group 50-75, past 10 yrs)

Chart 9
What Did You Do With Your Inheritance?



Source: CIBC Inheritance Survey, 2016 (age group 50-75, based on total sample)

income households, who are less likely to be unprepared for retirement, are more likely to receive inheritances and to receive larger amounts than their lower-income counterparts. Therefore, inheritance will have little impact on their decision to retire and will potentially improve their already sufficient level of retirement readiness. At the same time, the anticipated inheritance receipts of low- and middle-income households represent a much larger percentage of their current wealth, suggesting that inheritances could potentially be more influential in boosting their retirement security. Based on research done in the US, the average inheritance increases the probability of retirement by only 3%, and the impact on retirement security is statistically significant, but relatively modest³. We have no reason to believe that the situation in Canada is very different.

Another potential impact of large-scale inheritance is to stimulate labour supply by encouraging self-employment as it reduces the liquidity constraints on starting a

business. Our assessment is that the net outcome of the upcoming inheritance wave will be an increase in self-employment activity among Canadians over the age of 50.

Furthermore, one-fifth of beneficiaries indicated that the money was used to reduce debt. Given the expected notable increase in the inheritance pool in the coming decade, that can impact the pace of debt accumulation, and more so, the distribution of debt. The impact on real estate markets will be gradual, and in large cities such as Toronto and Vancouver it might modestly ease the shortage of supply of low-rise units. Furthermore, given elevated real estate valuations, it's reasonable to expect that a larger portion of the projected inheritance will be transferred via *inter-vivos* gifts—a factor that might have a positive impact on homeownership rates among younger Canadians, and would probably increase overall spending on home renovations.

³ Center for Retirement Research at Boston College. *How do Inheritances Affect the National Retirement Risk Index?*, September 2015

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2016 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.