

Families & wealth transfer

Diverse family structures and their influence on wealth preservation

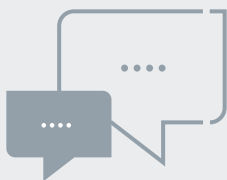
FAMILIES ARE INCREASINGLY DIVERSE

1 in 5 people come from non-nuclear families, including blended and single-parent

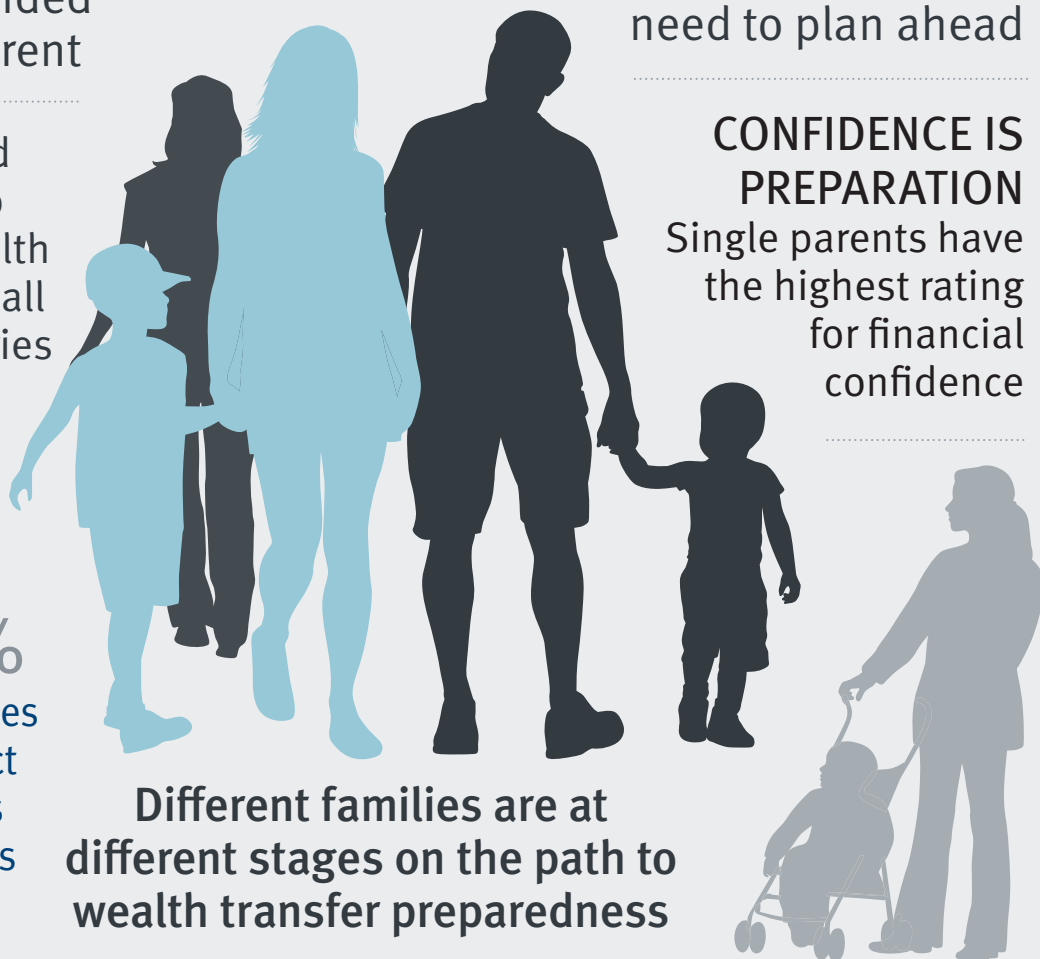
73% of blended families plan to share their wealth equally among all their beneficiaries



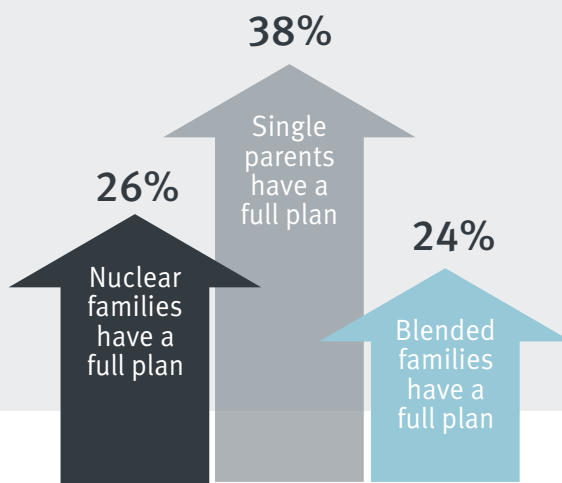
ONLY 15% of blended families anticipate conflict among inheritors over family assets



Wealth Management



Different families are at different stages on the path to wealth transfer preparedness



37%

of blended families haven't started planning, but they have a greater need to plan ahead

CONFIDENCE IS PREPARATION

Single parents have the highest rating for financial confidence

Transparency is key for single parents: 49% are comfortable sharing all the details with their children

Preserving the family legacy from one generation to the next is already a complicated business. So how do high net worth individuals from diverse family structures, including single parents and blended families, approach the task of building, protecting and transferring their 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 high net worth individuals representing various family structures: 1,770 nuclear families, 219 single parents, and 274 blended families across Canada, the United Kingdom and the United States. It summarizes the influence that diverse family structures have on preparedness to transfer wealth, confidence in financial knowledge, and initiative in preparing the next generation.

Families redefined

“I have children from a previous marriage, so I think a lot about treating them in an equal manner.” Dominic, a middle-aged executive and father who recently remarried, is one of many high net worth individuals surveyed who doesn’t identify with the nuclear family structure. He recognizes the challenges he must overcome in determining how to transfer his wealth to his children, his ex-wife and his second wife. However, despite having a high degree of financial knowledge, Dominic isn’t yet sure about how to prepare for wealth transfer.

Dominic is not alone. US census data suggests that the nuclear family—a label that 70% of Americans identified with in 1967—was relevant to only 50% of adults in 2016.¹ In the United Kingdom, cohabiting couples with children were the fastest-growing family structure from 1996 to 2016, comprising 17% of all family types.² The longevity boom, increased globalization and changing social attitudes mean people are living longer and more varied lives. One of the consequences is that families today are characterized by far greater variability and complexity than in previous decades. In wealth planning terms, this requires a more considered and proactive approach to safeguarding the family legacy for the next generation.

Our research highlights the important yet surprising influence of diverse family structures on financial confidence and wealth transfer preparedness. A majority of our respondents, or 57%, identify themselves as

nuclear households, defined as two people, either heterosexual or same-sex, married with children. This group forms the benchmark for high net worth family behavior in our study. Childless households account for about one-quarter of our survey respondents, with nearly 50% of that segment aged 55 or older. Almost one-fifth of high net worth individuals represent diverse family structures, including blended families (couples co-parenting children from previous relationships, and co-habiting unmarried couples with children), as well as single-parent families.³ We discovered that single parents are consistently better prepared and more confident in their wealth planning than any other household surveyed.

Nuclear families set the pace

The majority of families we surveyed across Canada, the UK and the US are nuclear families—characterized by the structure of married parents, heterosexual or same-sex, raising their shared biological or adopted children. More than half of these families, which are worth US\$4.3 million on average, report that they make inheritance planning decisions jointly between spouses. Most of them, at 86%, intend to name their children as beneficiaries, and 43% intend to name their spouses. Their expectation, it appears, is that wealth transfer planning will be fairly straightforward.

Many nuclear families have started to plan for the future: 56% of those surveyed have drafted a will—though a will is a fundamental first step, not a comprehensive plan.

¹ US Census Bureau, Family and living arrangements data series, 2016 ² UK Office for National Statistics, Families and households in the UK: 2016 ³ 90 high net worth respondents identified as ‘Other,’ meaning that these individuals no longer live in a family household. They are either divorced without children, single with adult children who have moved away, or widowed.



Henry, the principal of a wealth advisory business, understands the importance of advance planning:

“Families need to look at wealth transfer holistically. People should start thinking about the security of family assets early, and review their plans regularly. The only thing you can be sure of in life is change.”

A smaller number of nuclear families is well prepared for wealth transfer: 26% have a comprehensive wealth strategy. However, a slightly higher proportion, at 29%, has not yet made any plans. As a benchmark, this places nuclear households at a modest level of wealth transfer preparedness.

Our research shows that nuclear families should move beyond making basic arrangements—such as drafting a will—to much broader considerations in preserving the family legacy. As the principal owner of a wealth advisory business, Henry agrees. “Families often end up without adequate preparation, which can be very risky. Better preparation and education is good for families, and it’s good for society. Families need preparation and training—otherwise the younger inheritors become afraid to use the money. But if they receive the right education, they should feel confident to be actively involved.” The right education also enables inheritors to better evaluate their financial options, reducing the risk of wasteful decisions and misspent inheritances.

Henry offers this unique perspective on the challenges of wealth transfer planning: “Families need to look at wealth transfer holistically. It’s not just about the security of family assets. Inheritors need to know what the assets are, who to contact, and when inheritors benefit. Asking the right ‘What if’ questions is important. ‘How will my family be taken care of?’ It comes down to the importance of the family communicating the wealth transfer plan. People should start thinking about it early and review their plans regularly. The only thing you can be sure of in life is change.”

Nuclear families, however, appear reluctant to change.

When asked how they transfer their financial knowledge to the next generation, respondents reveal that they tend to replicate their own informal learning experiences with their children. Just over half of nuclear families, or 51%, rely on family members to guide the next generation on wealth matters, while 30% rely on private bankers or financial advisors for more structured financial learning [Figure 1, p.8]. To better equip their children for preserving family wealth, parents should supplement informal conversations with structured learning to provide a more holistic financial education.

Family tradition

How do nuclear families teach the next generation about wealth? Largely through informal conversations with family and friends

FAMILY AND FRIENDS

51% rely on family members

15% rely on friends

EXTERNAL ADVISORS

30% rely on financial advisors and private bankers

12% rely on lawyers

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

* For comparative data, please see Figure 1 in Appendix, p. 8



Our research demonstrates that nuclear families are missing opportunities to empower the next generation. When asked which financial topics are most important to teach the next generation, these families report that they focus primarily on budgeting, while placing less emphasis on investment strategy and portfolio management—key topics for high net worth individuals. By relying predominantly on informal family conversations and prioritizing budgeting skills over more technical topics, nuclear households are not adequately preparing their inheritors.

Admittedly, nuclear families are marginally better prepared than many blended-family households. However, with only one-quarter of nuclear families well prepared with a comprehensive wealth transfer plan, this group could make a more concerted effort to safeguard family assets for the next generation. While nuclear families serve as a benchmark, their methods of preparing for wealth transfer and educating the next generation are not as effective as they could be. Nuclear families may set the pace with a modest level of wealth transfer preparedness, but they certainly do not lead.

Single parents lead the way

“I want to know that I will be leaving my children well provided for; that they will be able to further their education and have enough for a good start in their adult lives.” Nancy is a middle-aged high net worth individual who typifies the self-starter attitude that single-parent families seem to embrace. She is the only decision-maker in her family’s financial affairs and, as such, she takes active steps to preserve and grow her wealth for her children.

Like Nancy, single parents are proactive and organized in approaching the task of wealth transfer planning, based on 219 high net worth individuals who identify as single parents. They recognize that they alone must shoulder the responsibilities of managing their family’s wealth: 95% of those surveyed are solely responsible for day-to-day household banking, and 82% are solely responsible for overseeing the family investment portfolio—which is worth an average US\$4.9 million across our respondent group. The remainder share their financial

responsibilities, likely with an extended family member or trusted friend.

Most single parents navigate the world of financial decision-making on their own: 81% consider themselves fully accountable for understanding their financial affairs. They reject the view that a general understanding of wealth is sufficient, and they take action to safeguard their assets for the next generation. Single parents are consistently ahead of other family structures in terms of their financial confidence, their approach to educating their children, and their preparedness to transfer their family wealth.

Prepared for the future

More single parents have a comprehensive wealth transfer plan than other family types

- 38% of single parents have a full plan
- 26% of nuclear families have a full plan
- 24% of blended households have a full plan



* For comparative data, please see Figure 2 in Appendix, p. 8

In fact, our research shows that single parents lead. Among all the family structures surveyed, they are the most prepared to transfer their wealth: 38% of single-parent families have a comprehensive wealth transfer strategy, compared to 26% of nuclear families, and 24% of blended families [Figure 2, p.8]. This is likely attributable to single parents having a simpler family structure, which makes the wealth planning process more straightforward—and more imperative. A sole decision-maker can more easily prepare for a vertical transfer to the next generation, yet he or she must alone shoulder the responsibility of determining how best to preserve, grow and transfer the family wealth to their children. Single parents may have little choice but to take the lead; nonetheless their hands-on approach and degree of preparedness set them apart.

Marianne is a single parent and Baby Boomer who is focusing her legacy on educational funding:

“I am using the money I inherited to finance my daughter’s four-year university degree. I am hoping to be able to leave her enough to finance the post-secondary education of one grandchild.”

Single parents are diligent about planning ahead to protect their wealth, with 85% of those surveyed finalizing their wealth transfer planning on their own. Dan is a Baby Boomer and single parent whose inheritance plans factor in his children’s various financial needs: “They will have enough to get onto the first rung of the property ladder, and they will be able to pursue higher education free of debt.” Similarly, Marianne is single parent focused on providing post-secondary education for her daughter, and her potential offspring: “I am using the money I inherited to finance my daughter’s four-year university degree. I am hoping to be able to leave her enough to finance the post-secondary education of one grandchild.”

Most single parents have followed similar educational paths to parents of nuclear households, relying primarily on general family conversations and meetings with advisors to build their financial knowledge. Single parents, however, stand out for their openness to organized forms of learning from advisors and professionals: 64% report that their structured financial education was effective in building their knowledge, while fewer consider their self-directed education effective. While their independence makes them likely to pursue self-directed learning, single parents also recognize the benefits of supplementing informal learning with more formal financial education, both for themselves and their children.

For single-parent families more than others, transparency seems to be a guiding principle. These parents want their children to be fully informed, and they believe that open dialogue is the best way to share their plans. Almost half of single parents, or 49%, say they are comfortable sharing all the details of their wealth transfer plans with

their children. Blended families, by comparison, are far less comfortable with full disclosure: only 34% of blended family respondents say they are comfortable discussing all the details with their children. And the nuclear family’s approach to transparency? It’s squarely in the middle: 40% of nuclear households are comfortable sharing all the details of their wealth transfer plans with their children.

A further 40% of single parents prefer to outline their wealth transfer plans in broad strokes, with limited detail. For blended families, however, this is the preferred approach: 53% are “comfortable talking big picture, but not sharing the details.” Nuclear families are again in between the two, with 47% of them expressing a preference to discuss only their big-picture plans. It appears that wealth transfer discussions become increasingly general and high-level as more stakeholders are involved. Clearly, the structure of a single-parent family creates better conditions for transparency and openness.

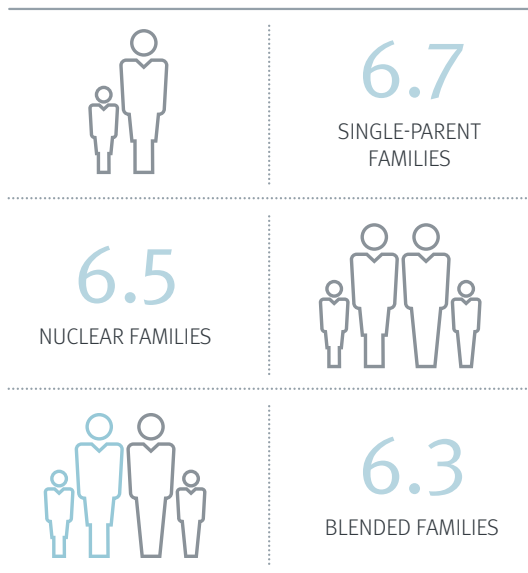
Single parents are not only more transparent and willing to talk about their plans; they are also more confident in their knowledge of wealth matters. Their lived experiences give them a notable sense of self-assurance: when asked to assess their confidence in their financial knowledge, single parents rate themselves an average of 6.7 out of 10. That’s just below the score of 7.0 out of 10 that signals a financially-confident individual; however, it is also the highest of any family type surveyed. By comparison, nuclear families rate themselves slightly lower, at 6.5 out of 10, and blended families lower still, at 6.3 [Figure 3, p.9].

Clearly, the higher confidence and greater preparedness



Confidence in preparation

Single parents are the most confident in their financial knowledge, on a scale of 0 to 10



* For comparative data, please see Figure 3 in Appendix, p. 9

of single-parent families sets them apart from the nuclear family structure. The contrast becomes even sharper when we compare the differences between single-parent and blended families—who by definition have more decision-makers preparing to transfer wealth to more inheritors. The complexities of blended-family situations give rise to a wider range of often challenging questions. Conversely, the relative simplicity of the single-parent family is a key factor in enabling these parents to lead the way in wealth transfer preparedness.

Blended families face more complexity

Among all our respondents, blended families are significant generators of wealth: of those surveyed, 274 are households worth an average US\$5.3 million in investable assets—almost a million dollars more than the average across the total sample. Yet their household structures are diverse and defy straightforward definition. They include individuals who have found new partners and are raising their biological, adopted or step-children together, cohabiting couples who have started families outside the marriage structure, and those divorced

or separated, with children, who have joint custody arrangements with former spouses.

Blended households are among the first to admit that they face higher barriers to financial decision-making due to their complex family arrangements. Planning for a blended family's financial future typically requires input from more individuals, often with diverging needs and opinions; as a result, many blended families struggle to get started. Only 24% of blended families surveyed have a comprehensive wealth transfer plan in place. Just under half, or 48%, have taken the initial step of drafting a will, and 37% admit to having done nothing—far more than the 29% of nuclear families who have not started [Figure 2, p.8]. This lack of preparedness may explain why blended families prefer to discuss their plans in broad strokes; they cannot discuss the details of their inheritance plans until they have completed the planning process.

Dominic, the middle-aged executive who recently remarried, is well aware of the complexities of his family situation. Although his career in financial services has given him a thorough understanding of wealth transfer issues, he acknowledges that he has fallen into a common pattern of behavior—deferring wealth transfer planning. “Like many people, I think I am going to live forever. I haven't started properly thinking about it, beyond signing a prenuptial agreement in my second marriage.” Yet he admits that he often ponders how to treat his children from the first marriage “in an equal manner”.

Another cause of delayed wealth transfer planning among blended families is a concern about how to balance their inheritors' needs with their own wealth requirements. The majority of those surveyed, or 56%, intend to pass on their entire legacy to the next generation only upon illness or death. Only 31% of blended families, however, intend to start gifting some of their wealth to inheritors gradually during their lifetimes.

The principal reason? They feel that they cannot afford to give away their assets. Blended families, despite having a higher net worth, are more likely than nuclear or single-parent households to feel insecure about their



Dominic is a middle-aged financial services executive and father who recently remarried:

“I have children from a previous marriage, so I think a lot about treating them in an equal manner. But at the same time, like many people, I think I am going to live forever. I haven’t started properly thinking about it, beyond signing a prenuptial agreement in my second marriage.”

capacity to actively support the next generation without compromising their own standard of living. Of those who intend to pass on their wealth only upon illness or death, 80% say they need their wealth to maintain their current lifestyle, and 72% say they simply don’t have enough to start giving gradually.

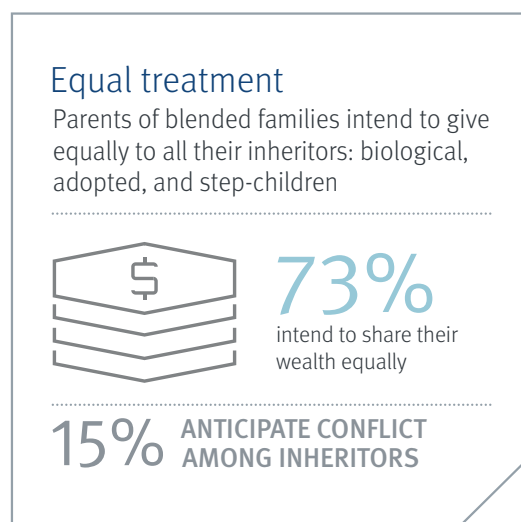
As Dominic observes, the rising cost of health care, coupled with longer life expectancy, is a central concern for parents nowadays. “My generation usually bought a house right after their first job. As parents now, you worry about providing for your children, but you also worry about having enough to care for yourself in retirement. In a perfect world, I would love to help my children and put them on the property ladder, but I am equally worried about health care.”

Though blended families are not as prepared to preserve and pass on their family legacies, they exhibit a strong preference toward equal treatment for all. A sizeable majority, 73%, believes that distributing the family assets fairly means giving equally to all their inheritors—regardless of whether they are biological, adopted or foster children [Figure 4, p.9]. Conversely, 10% of respondents believe that a fair distribution of assets shouldn’t be determined by giving equally to all, but by the individual needs of each inheritor.

Perhaps the expectation is that by giving equally to all, parents of blended families are removing a potential source of friction and creating optimal conditions for inheritors to manage their assets amicably: 73% of those surveyed believe that their families will manage the wealth

transfer process in a cooperative manner. Despite their complex family structures, only 15% of blended families anticipate conflict among their inheritors in the future.

Like single parents, blended households rely heavily on non-professional sources, such as trusted family members, to educate their children on financial matters. Just over one-fifth, or 21%, turns to financial advisors or private bankers to provide more structured financial guidance. Despite their good intentions to share their wealth fairly and equally among all inheritors, their current approach is likely to leave the next generation inadequately prepared, without a comprehensive wealth transfer plan—and with the unanticipated risk that disputes may arise over shared family assets.



*For comparative data, please see Figure 4 in Appendix, p. 9

Conclusion: Articulating the family legacy

Complexity is nothing new; it has always characterized family dynamics. In matters of wealth, the most forward-thinking families are less defined by their structure and more by their degree of transparency, initiative and preparedness. Blended families stand out for their optimistic outlook on how the family legacy will be managed: most believe in fair and equal treatment for all inheritors, and few anticipate internal disputes over their assets. However, the smooth transfer they envision is likely to be hindered by insufficient preparation, as blended households are the least prepared of the family structures studied. In fact, blended families would benefit from taking greater initiative in planning for wealth transfer, communicating their intentions, and preparing for the unexpected.

By contrast, nuclear families can take advantage of the fact that their wealth transfer planning is more straightforward, and many have completed at least some basic preparation. However, given the relative simplicity of their family structures, they are missing opportunities to develop more comprehensive wealth transfer plans and initiate more transparent inheritance conversations with their children. Nuclear families are largely replicating their

own financial learning methods, rather than seeking ways to improve the financial knowledge and sophistication of their next generation.

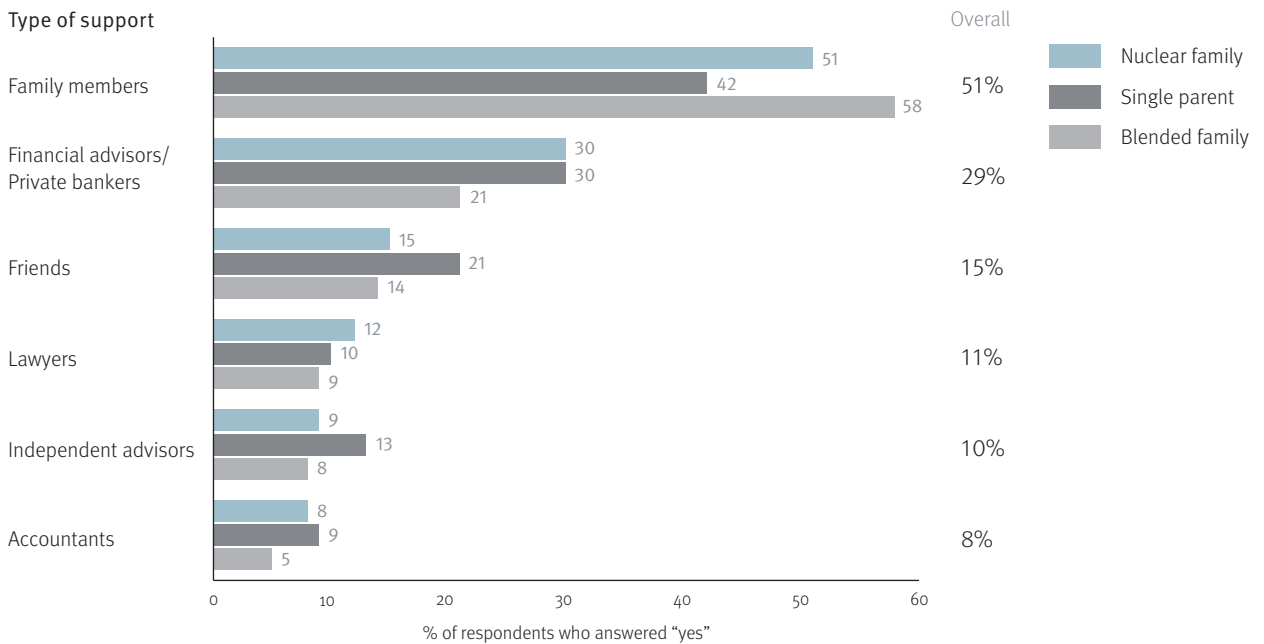
Single parents are clearly leading the way. Their commitment to transparency is a key differentiator: they understand the importance of open dialogue on wealth planning topics, and they are more willing than others to discuss all the details of their plans with their children. However, while single parents are notably more confident and better prepared for wealth transfer than other family types, there remains a sizeable contingent that has not yet started, putting the family legacy at risk.

Ultimately, all parents are well advised to clearly articulate their intentions and make the necessary arrangements for the moment of transition, regardless of family structure. It is equally important that they arm their inheritors with the financial knowledge, skills and confidence to preserve and grow the family legacy over time. Indeed, families of every size and structure could reduce the potential for unanticipated risk and conflict with thoughtful discussion, advance planning and clear communication in order to ensure that their family legacy endures for future generations.



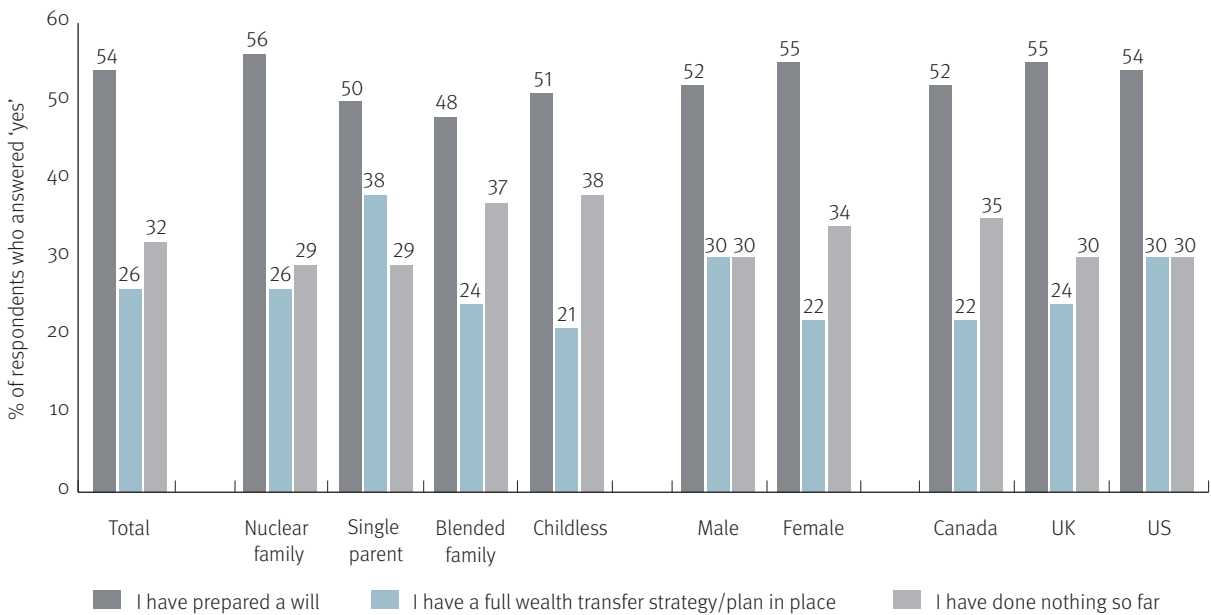
Appendix

FIG. 1 | 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.

FIG. 2 | 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. 3 | How confident do you feel in your knowledge of wealth and money?

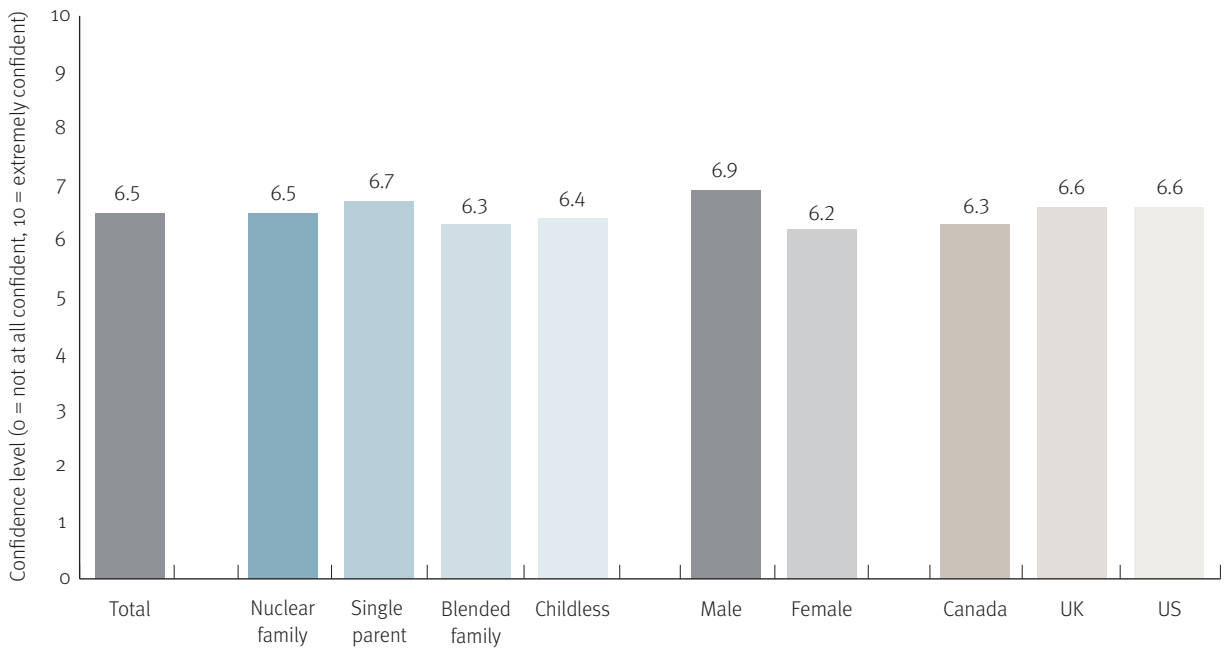
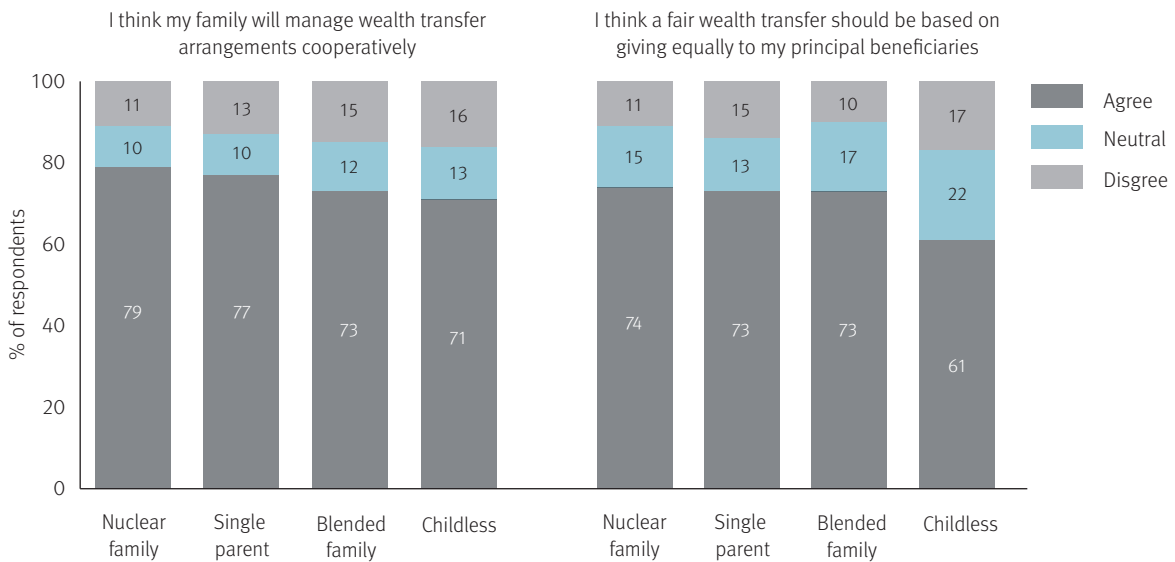


FIG. 4 | For each of the following statements, which do you agree with in relation to your wealth transfer plans?



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 States and the United Kingdom.

The methodology comprised of 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 1,770 individuals who identify as heads of nuclear families, 219 individuals who identify as single parents, and 274 individuals who identify as heads of blended families, with investable assets of US\$4.3 million, US\$4.9 million and US\$5.3 million respectively. The regional breakdown for single parent households and blended families combined consists of 164 Canadian respondents, 145 UK respondents, and 184 US respondents.

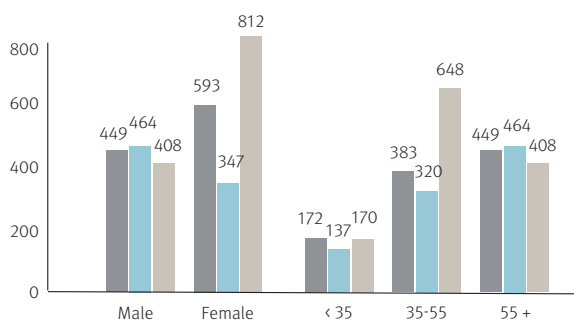
3,105 RESPONDENTS SURVEYED

1,054
CANADA

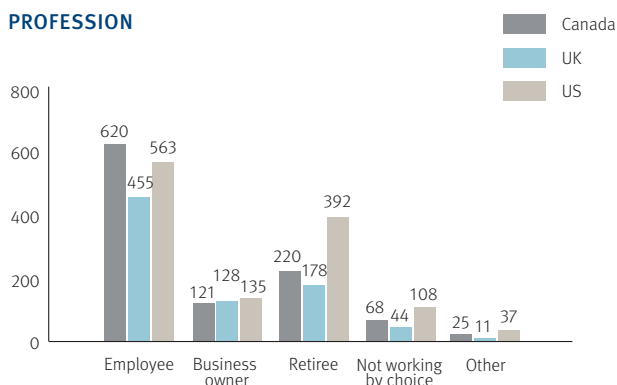
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UNITED KINGDOM

1,235
UNITED STATES

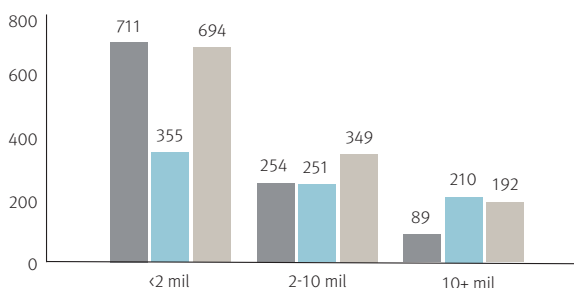
AGE AND GENDER



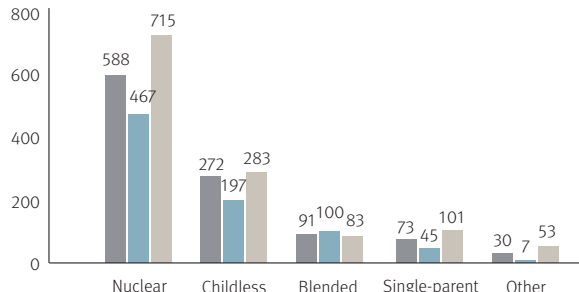
PROFESSION



ASSET LEVEL



FAMILY UNIT



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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, business owners and Millennials, and will be released in May and June 2017.

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