Entrepreneurs make up a big part of Canada's wealth

As baby-boomer business owners retire, there will be a massive shift of assets between generations

By [Clare O'Hara]

The majority of af-fluent Canadians have traditionally accumulated their wealth by inheriting, earning a hefty income or investing wisely.

However, that appears to be changing. The fastest-growing group of wealthy Canadians is now entrepreneurs, says Keith Sjogren, director of strategy consulting at Toronto-based **Investor Economics Inc.** And in the next decade or so, half of them will retire, triggering the largest turnover of economic control in generations.

The major source of wealth for well-off Canadians has shifted several times in the past 50 years, says a 2004 Statistic Canada report entitled *Perspectives on Labour and Income: A profile of high-income Canadians, from 1946 to 2000.*

In the 1940s, wealthy Canadians relied on a combination of wages, capital (dividends, interest and capital gains) and entrepreneurial sources (self-employed professionals and sole proprietorship owners), StatsCan reports. For those with the very highest incomes, however, wages were relatively unimportant.

By the 1990s, that pendulum had swung in the other direction: wages and salaries had become increasingly important for all high-income recipients, while capital and entrepreneurial sources had become less so.

Now, advisors note, wealth created by baby-boomer entrepreneurs is on the rise. It is the assets that have accumulated in the hands of these business owners that will be monetized over the next 12 years, becoming investible assets. Some of that will be transferred to the next generation.

According to a recent **CIBC** report on small business, there are more than 2.5 million owners of small to mid-sized businesses in Canada. Of those, 20% are planning to retire by 2010 and another 30% by 2020. By 2010, an estimated $1.2 trillion in business assets will be poised to change hands.

Among those planning to retire, says the CIBC report, only 15% have definite succession plans to sell or transfer the businesses to a family member, while 40% plan to sell their businesses to outside interests. Guiding these entrepreneurs through this stage will be challenging.

"These are people who have built companies over 20 or 30 years in all kinds of sectors," says Angela Wiebeck, executive director of the high net-worth clients in Central Canada for Switzerland-based **UBS Investment Bank**. UBS works with individuals who have liquid assets of $2 million-$50 million and, Wiebeck says, more than 80% of UBS's clientele have accumulated their wealth through entrepreneurship.

"They are approaching a time in which they want, in many cases, to monetize that wealth," she says. "They don't have a succession plan or a next generation to take over their company, so there is a liquidity event and they are selling that wealth."

These entrepreneurs bring a unique set of circumstances to investment planning. After spending 20 to 30 years of their lives mastering every aspect of the business they created, clients then have to plan for trading it in.

“The biggest challenge for them is they have gone from having some sort of a physical asset, as in a company, where they understood their business and their clients, and now have sold that,” says Wiebeck. “They have a large source of wealth, [which] could be $10 million, $20 million or $30 million, that they have come into. The concept of them investing that in something that is a non-physical asset to them is very scary.”

Tom McCullough, CEO of Toronto-based **Northwood Stephens Private Counsel Inc.** , has also noted the impact of the pending retirement of baby-boomer entrepreneurs. He says we are starting to see a combination of circumstances in which people are selling businesses and accumulating wealth, as well as transferring money to the younger generation through inheritance.

“The baby boomers are starting to retire,” he says. “We are going to see a huge generational shift, in which businesses will be sold or passed down.”

McCullough runs a multi-family practice that provides services to high net-worth clients who have a net worth ranging from $5 million to several hundred million. The average client has about $15 million in assets and ranges in age from 50 to 55.

“Our clientele is two-thirds entrepreneurs who have decided to sell the business or continue in something new, such as charity work or a new venture,” he says. “I think the day has arrived that both entrepreneurship and inheritance go hand in hand, and that will definitely be increasing.”

The remaining third of North-wood Stephens’ clients consists of individuals who earn high income through private equity, mergers and acquisitions, and financial services.

Corporate executives and professionals, on the other hand, make up 10%-15% of high-net worth clients at UBS. This group includes lawyers, doctors, dentists and investment bankers.

In general, these are individuals who have saved over a long period of time and are now looking for one person to manage their affairs.

“The shift is significant for most of them. They may have had their assets distributed among many different places and advisors, and want to have them all in one place now,” says Wiebeck. “They may have chosen to manage their affairs themselves and, as they grow older, they may want someone with a global perspective managing their money to meet goals that have changed.”

Although entrepreneurs are the biggest chunk of UBS’s business, Wiebeck says, the firm does a significant amount of work related to next-generation wealth transfer.

“Our clientele are with UBS, on average, for 49 years,” she says, “so that is generally more than one generation. It is a situation that is very common for us, and we help our clients plan for it.”