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The Wealth Advantage

The Growing Wealth Gap Between Canada's Affluent and the Middle Class

David Macdonald

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Executive Summary

THIS REPORT DRAWS on Statistics Canada's Survey of Financial Security to examine the extent of wealth inequality in Canada. The major finding is that Canada's wealth gap is big and growing — the wealthiest 10 per cent of families enjoy a net worth that's millions more than families in the middle of the income spectrum — and that wealth advantage starts early in an affluent family's life. Young affluent families in their twenties have a major wealth advantage: their net worth is already higher than middle class families in their fifties and sixties. If these millionaire babies stay at the top, they'll spend the rest of their lifetime accumulating even greater wealth, leaving their middle class contemporaries behind in their gold dust.

In general, Canadians' net worth follows a predictable life path: net worth starts off small in the early working years, it peaks when Canadians are in their sixties, and then it declines while Canadians are in retirement. But when you look at the specifics by age brackets, there are real differences between affluent and middle class families in Canada. Families in the middle class have less than $10,000 of wealth in their twenties. Middle class thirtysomethings likely own a house which increases both their assets and their debt but adds only a small amount to their net worth. In their forties through their sixties, middle class families have smaller mortgages, save a bit for retirement, and hit their peak wealth of just under $500,000 in their sixties. Wealth is then drawn down in retirement.

Canada's affluent twentysomethings start where middle class wealth peaks. The wealthiest Canadian families in their twenties already have net worth of more than $500,000 — more than Canadian middle class families managed to save over a lifetime. In their thirties, the wealthiest are already millionaires. They hit their peak wealth at $3.4 million by their sixties. By that point, the wealthiest Canadian families hold seven times more in wealth than middle class families in that age group do; about $3 million more.

The growth in net worth between 1999 and 2012 has been nothing short of breathtaking for Canada's wealthiest families. With the exception of affluent families in their thirties, Canada's wealthiest have doubled the amount of wealth in real terms today compared to 1999:

- In 1999, the most affluent families in their twenties held $280,000 in wealth (in 2012 dollars). Today they hold $540,000 in wealth — 95 per cent real growth since 1999.
- In 1999, the most affluent families in their thirties held $740,000 in wealth (in 2012 dollars). Today they hold $980,000 in wealth — 33 per cent real growth since 1999.
- The gains for the most affluent families in their fifties and sixties have been even more extreme in dollar terms. For instance in 1999, affluent families in their sixties held $1.8 million in wealth. Today they hold $3.4 million in wealth — a $1.6 million wealth gain (93 per cent) in real terms.

Across most age groups, middle class families also saw wealth gains between 1999 and 2012, although they were much more modest in percentage terms and quite small in dollar terms compared to the wealthiest:

- Middle class families in their thirties actually have slightly less wealth today. In 1999, they held $68,000 in wealth but today they hold $63,000 in wealth — a 7 per cent drop since 1999.
- Middle class families in their twenties, forties and fifties saw real wealth increases of less than 40 per cent since 1999. At best, middle class families in these age groups saw increases of less than $100,000. By comparison, the wealthiest at these ages were seeing real increases of well over a $1 million since 1999.
- Middle class families in their sixties and seventies saw wealth increases of close to 80 per cent, closer to the proportional gains of the wealthiest. However, on a dollar basis, the gains of the wealthiest at those older ages dwarfed those of the middle class.

For both the affluent and the middle class, a significant portion of the increase in assets since 1999 can be attributed to strong returns in real estate and the stock market over that period. Also contributing were larger pay raises for the wealthiest since 1999. Inheritance played a relatively small role in wealth gains—particularly for the younger age groups, where it played almost no role at all.

The report shows another important finding: Canada's affluent twenty-somethings today have twice as much wealth as affluent 20-year-olds had in 1999, even after adjusting for inflation. The net worth of affluent families in their twenties today is $540,000, up from $280,000 in 1999. For comparison, 20-year-olds in the middle class in both 1999 and 2012 held less than $10,000 in wealth.

Between 1999 and 2012, the increases for the wealthy in their twenties can be attributed to three key asset areas: the principle residence, secondary real estate (condos, cottages, etc), and family businesses. These 'million dollar babies' likely benefited from parental help, either financial or non-financial other than inheritance—inheriting opportunity and leverage instead. Non-financial help in the form of backing loans or spinning off family businesses may have played an important role in doubling the net worth of the wealthiest in their twenties since 1999.

It seems unlikely that the tremendously well-educated middle class youth of today could overcome the half-a-million dollar head start that the wealthiest Canadian families enjoy in their twenties. It is time to re-examine measures like the 50 per cent lower tax rate on capital gains that may, in some small measure, slow this growing gap.

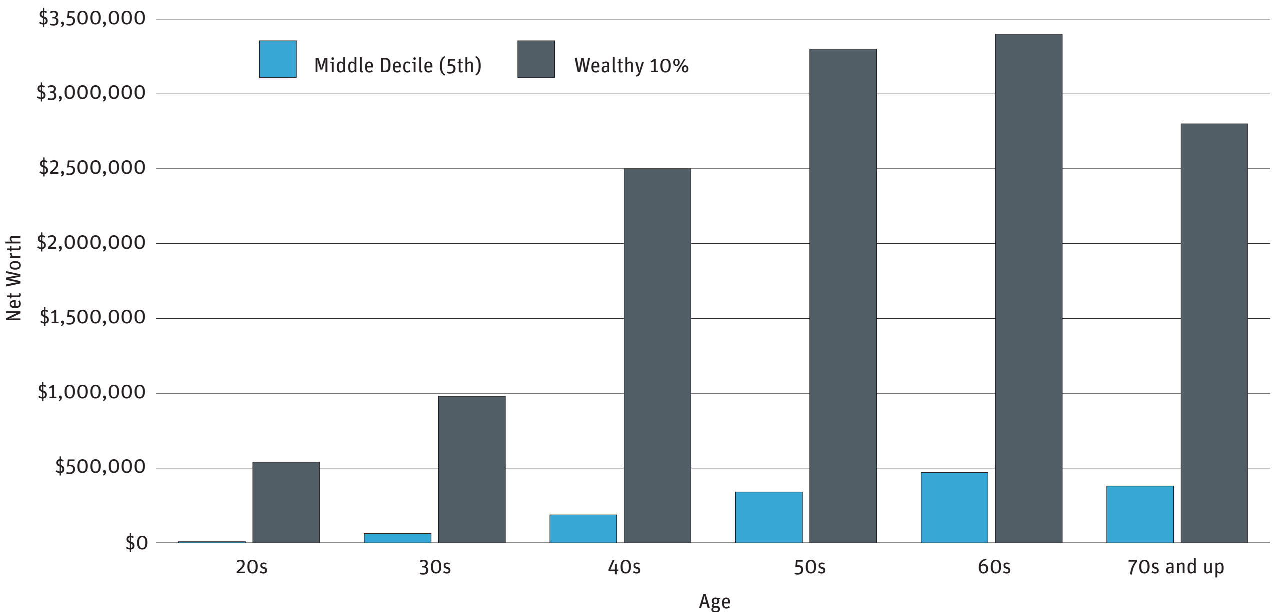
A Story of Wealth In Canada

> "When I was young I thought that money was the most important thing in life; now that I am old I know that it is."
> — *Oscar Wilde*

WE KNOW THAT both income and wealth inequality has been growing in Canada, but how wealth inequality unfolds over the course of a Canadian family's lifetime provides important additional dimensions to this trend.[1 2 3] This report examines Statistics Canada's Survey of Financial Security data to compare the life path of wealth accumulation for Canada's most affluent families and for its middle class families, spanning from 1999 to 2012. Neither this report, nor the survey it is based on, tracks families over time. Instead common age categories are compared in 1999 and 2012. For instance, it is not clear if the wealthiest in their 20s in 1999 comprise those who are the wealthiest in their 30s in 2012, although it's probably a decent bet. For full details on data sources and methodology see Appendix 1.

The middle class is represented in this paper by the fifth decile of wealth (for all the deciles of data, see Appendix 3). For middle class families in their twenties, they have net worth of only $8,000. This equates to few debts but, also, few assets, as shown in *Figure 1*. Middle class families in their thirties tend to have a house which, doesn't change net worth substantially as the value of that house is offset by a large mortgage — meaning wealth only goes

FIGURE 1 2012 Average Net Worth of the Middle and Wealthiest By Age Group



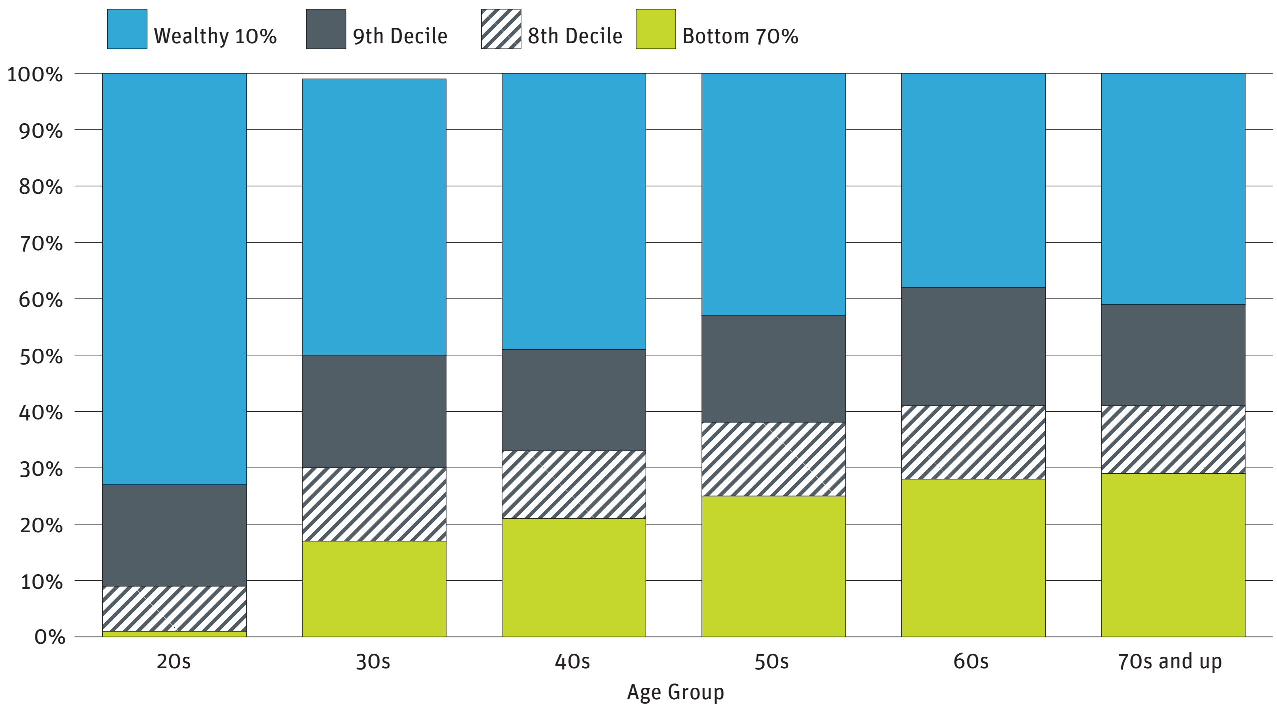
Source SFS 2012 Custom tabulation

up slightly compared to those in their twenties. However, as that mortgage is slowly paid off and a potentially larger house can be afforded, middle class net worth rises through in the forties and fifties age groups. In their sixties, as retirement becomes imminent, retirement savings in the form of RRSPs, TFSA, a pension and other savings begin to play a more prominent role for Canada's middle class. Middle class wealth is highest for those in their sixties, reaching a little less than half a million dollars. For middle class families in their seventies and up, those squirreled away savings are lower, hopefully supporting a long retirement. Although older people are often reticent to access the wealth held in primary residences, as one has to live somewhere.[4]

While the middle class wealth values at different ages may be familiar, the values for Canada's affluent follow a very different path, one that's paved with a little more gold, as shown in *Figure 1*. While it takes Canada's middle class all the way to their sixties to hit a peak wealth level of half a million dollars, Canada's affluent families in their twenties already have half a million dollars with older age groups reaching well into the millions. Put another way, Canada's most affluent families start out with same wealth that the middle class has to work forty years to accumulate.

How do they do it? Canada's most affluent families start out early in their twenties with real estate, but it doesn't play as important a role in storing

FIGURE 2 Share of Net Worth by Age (2012)



Source SFS 2012 Custom tabulation and author's calculations

wealth as real estate investments do for the middle class. Wealth contained in primary real estate in particular is often difficult to access.[5] The most affluent hit their thirties are already millionaires — a new peak for Canada's wealthy thirtysomethings. The affluent's wealth continues to soar: by the time they reach their fifties and sixties, Canada's most affluent have an average net worth of $3.4 million. By this point, real estate only makes up roughly a third of their wealth, with most of their money in private business equity combined with financial assets. Like Canada's middle class, the most affluent families draw upon their considerable wealth in retirement, thereby reducing it in their seventies, compared to earlier ages.

The most affluent families in their sixties have seven times more wealth than the middle class does by that age.

No matter the age group, as shown in *Figure 2*, the wealthiest 10 per cent captured at least 38 per cent of Canada's wealth in 2012. The wealthiest in their twenties control almost three quarters of all wealth in that age group. In the thirties and forties age groups, the wealthiest 10 per cent hold half of the wealth in that age group. By their fifties, the wealthiest 10 per cent see their share of net worth decline to closer to 40 per cent of net worth in those age groups.

Families in the second richest decile (the ninth decile) captured roughly 20 per cent of all wealth in any given age group. The bottom 70 per cent of Canadians in any age group never captured more than 29 per cent of all wealth in 2012 (although this excludes the implied benefits of the Canada Pension Plan, the Guaranteed Income Supplement and Old Age Security).[6] The best performance for the bottom 70 per cent is in the later age groups of sixties and seventies-plus, where they captured 28 per cent and 29 per cent respectively of all wealth within those age groups.

As *Figure 2* shows, by the time lower- and middle-class Canadians make it into their sixties and seventies their net worth catches up a bit, but the top 30 per cent families still hold over 70 per cent of the wealth in their age bracket.

Compared to 1999, the share of net worth has shifted towards the wealthiest and that shift has generally happened at the expense of the bottom 70 per cent. For instance in 1999, the bottom 70 per cent of those in their fifties, sixties and seventies captured at least 30 per cent wealth in those age groups. By 2012, all of those categories capture less than 30 per cent. The opposite was true for the wealthiest in those age groups who held under 40 per cent of all wealth in 1999 for the fifties, sixties and "70 & up" groups. By 2012, they now capture 40 per cent or more of all net worth in the fifties and "70 & up" age groups.

For those in their twenties, the shift was even more dramatic. In 1999, the wealthiest in their twenties held 66 per cent of all wealth in that age group. By 2012, they held 73 per cent of all wealth. The age groups of thirties and forties saw similar increases in holdings for the wealthiest shifted almost entirely from the bottom 70 per cent.

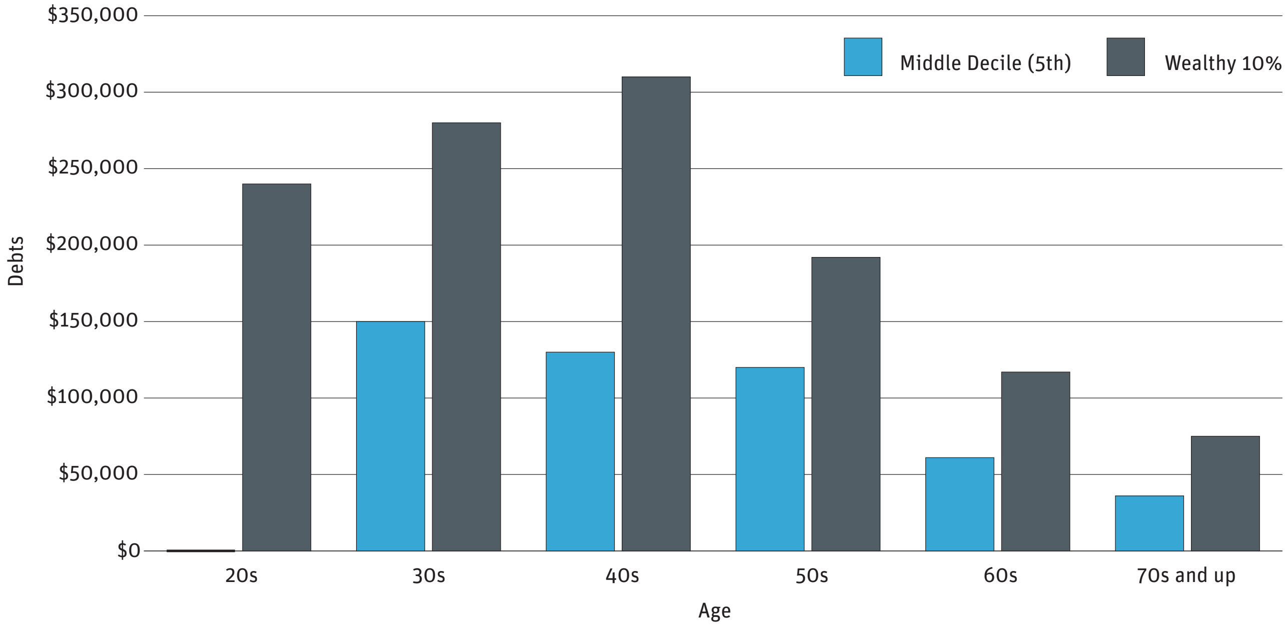
A Story of Debt In Canada

> "Speak not of my debts unless you mean to pay them."
>
> — *George Herbert*

AS WITH THE broad strokes for wealth, the debt held by the most affluent and middle class families across age groups are a study in contrast. For the middle class, the debt values are ones that will be familiar to many Canadians. In their twenties, Canada's middle class has little debt (except student debt) and little wealth.[7] In their thirties, a mortgage jumps into the picture, substantially ringing debt up to, on average, $150,000 a family. This debt is largely offset by the value of the house, meaning that wealth in one's thirties remains small. However, by the fifties age group that mortgage has been whittled down. In their sixties, middle class family average debt sits at $61,000. Debt is still a fact of life for the middle class in their seventies, which is $36,000 on average.

As with net worth, Canada's most affluent families show a very different amount of debt depending on their age. They assume debt much earlier, hitting $240,000 in their twenties, whereas their counterparts in the middle class have almost no debt at this age. While debt is high for the wealthiest twentysomethings, assets are valued at $770,000 — meaning their net worth is already over half a million dollars. Debt continues is higher for the most affluent through their forties, where it hits its peak of $310,000. This peak

FIGURE 3 2012 Average Debts of Middle Class and Wealthiest (5th and Top Decile) by Age Group



Source SFS 2012 Custom tabulation

is later than it is for the middle class, whose debt peaks when they're thirty-something. Average debt for the wealthiest is substantially lower in their fifties, being cut nearly in half compared to those in their forties. As with the middle class, debt is lower in retirement.

While the debts of the wealthiest are certainly larger than those of the middle class, they are not dramatically more burdensome given the chasm that exists for net worth. The debts of the wealthiest are roughly double those of the middle class, but the wealthiest hold roughly 10 times more in wealth. This small difference in debt but big advantage in wealth means the wealthiest have a far softer cushion to fall back on if asset values such as housing decline. The middle class, for their part, are far more leveraged, considering how much less wealth they have. They are more susceptible to asset value changes, such as a declining housing market.[8]

Wealth Creation Since 1999

"It takes money to make money"

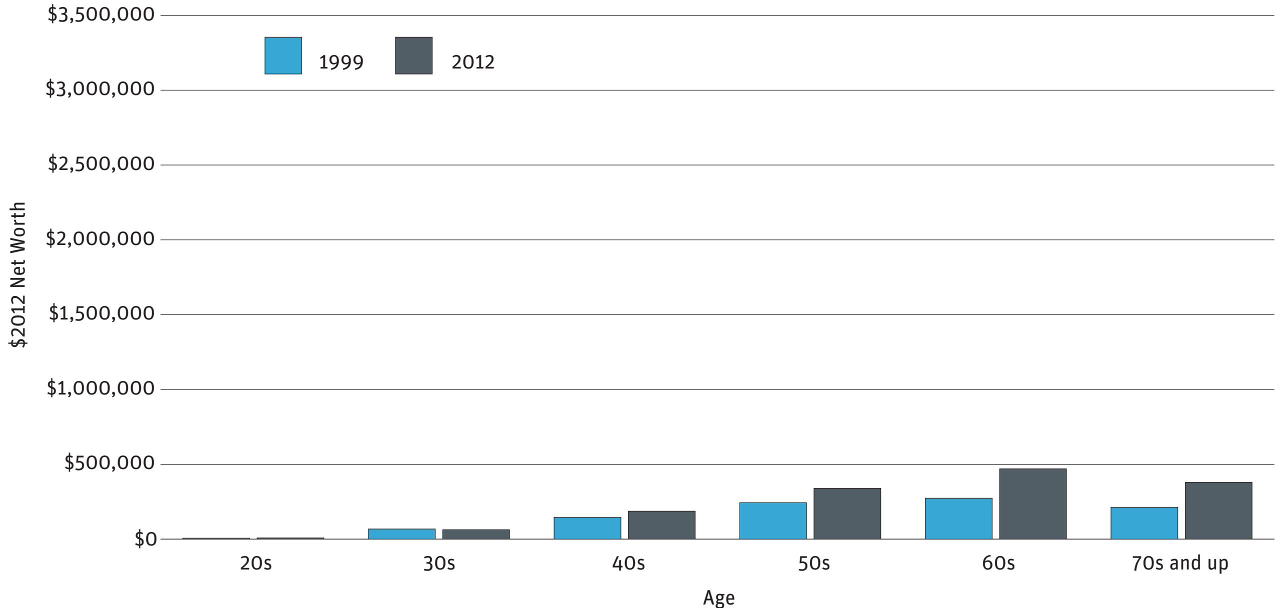
GIVEN A COMPARABLE Statistics Canada wealth survey in 1999, it is possible to determine if the affluent and the middle class, examined by various age groups, are better off today compared to that same age group 13 years earlier.

Canada's middle class families have seen only a modest improvement in net worth since 1999 (in inflation-adjusted dollars). Those in their twenties are slightly better off than twenty year olds in 1999, but in both cases net worth was quite small. Middle class families in their thirties are worse off today compared to the net worth of that age group in 1999: net worth for this group has fallen slightly, from $68,000 in 1999 to $63,000 in 2012 (in 2012 dollars). Both assets and debt went up between 1999 and 2012, however, debt rose by a faster clip, leaving middle class thirtysomethings slightly worse off than that age group was in 1999.

For middle class families in their forties and fifties, real net worth rose by 28 per cent (to $190,000) and 40 per cent (to $340,000) respectively in 2012 compared to those same age groups in 1999.

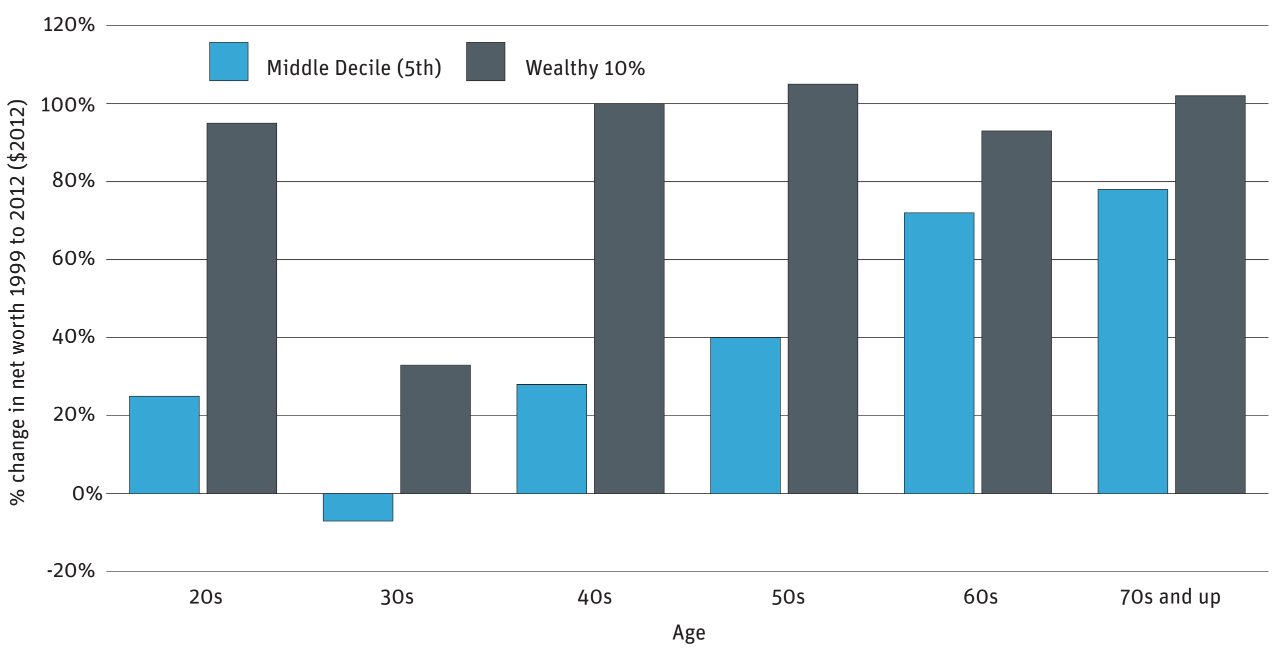
The gains were larger for middle class families in their sixties and seventies. Those age groups saw gains of 72 per cent (to $340,000) and 78 per cent (to $470,000) respectively compared to 1999.

FIGURE 4 Change in Net Worth Since 1999 for Middle Class (5th Decile) ($2012)



Source SFS 2012 Custom tabulation, SFS 1999 PUMF

FIGURE 5 Percentage Change in Net Worth 1999 to 2012 ($2012)



Source SFS 2012 Custom tabulation, SFS 1999 PUMF

Generally speaking Canada's middle class saw only modest wealth gains compared to 1999, see *Figure 5*. The largest real wealth gains were for those in their seventies and up, where their net worth grew by almost 80 per cent since 1999. The weakest performance was for those in their thirties who are slightly worse off today than in 1999. The weakness of wealth increases for those in their thirties appears to extend prior to 1999.[9]

The wealthiest 10 per cent however, dwarfed the gains of the middle class both in dollar (*Figure 6*) and percentage terms (*Figure 5*). The trend of growing wealthy inequality started in 1984, but continued between 1999 and 2012.[10] Wealth gains since 1999 for Canada's most affluent families were nothing short of breathtaking, although hints were already available by 2005.[11] Every age group, except those in their thirties, saw a doubling of wealth compared to what that age group had in 1999 (inflation adjusted).

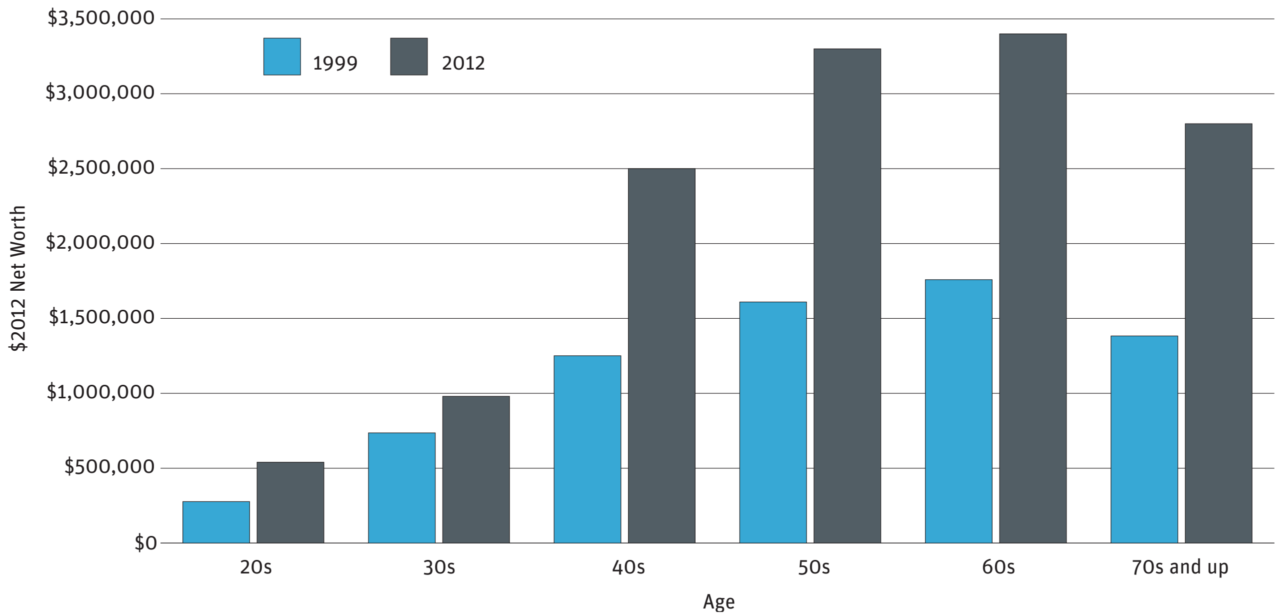
Canada's affluent twentysomethings today have twice as much wealth as affluent 20-year-olds had in 1999, even after adjusting for inflation. The net worth of affluent families in their twenties today is $540,000, up from $280,000 in 1999. For comparison, 20-year-olds in the middle class in both 1999 and 2012 held less than $10,000 in wealth.

The one exception to the doubling of wealth among the wealthiest is for those in their thirties. The wealthiest 30-year-olds today have only a third more than wealthy 30 year olds had in 1999 (after inflation). Net worth increased from $740,000 in 1999 to $980,000 in 2012 (in 2012 dollars). This mirrors the small decrease in net worth for 30-year-olds in the middle class. In both cases, those in their thirties saw the worst performance of any age group. Even though the increase was smaller for the wealthiest 30-year-olds, their $240,000 increase is still four times larger than the entire wealth of 30-year-olds in the middle class. Even the modest increase for the wealthiest in their thirties made them millionaires in 2012.

The most affluent forty year olds saw their inflation-adjusted wealth double compared to affluent forty year olds in 1999. The middle class in this age group only saw an increase of 28 per cent in their wealth. Not only was the increase for the wealthiest much larger in percentage terms, they also started from a higher base. The wealthiest 40-year-olds in 2012 hold an average of $2.5 million in wealth—up from $1.3 million for that same age group 13 years earlier. For comparison's sake, fortysomething middle families had a net worth of only $190,000 in 2012, a fraction of the wealthiest in this age group.

The most affluent families in their fifties saw their wealth double from $1.6 million in 1999 to $3.3 million in 2012. The fifties age group from the middle

FIGURE 6 Change in Net Worth Since 1999 for Wealthiest Decile by Age Group ($2012)



Source SFS 2012 Custom tabulation, SFS 1999 PUMF

class only saw wealth increase by 40 per cent. The starting point from which the affluent grew their wealth by 105 per cent was much higher, leading to an increase in inflation-adjusted wealth of $1.7 million. The increase is five times larger than the total wealth of Canada's middle class — $340,000 in 2012.

The wealthiest in their sixties saw a similar doubling of wealth (93 per cent). Wealth in this age group increased from $1.8 million in 1999 to $3.4 million in 2012. For comparison, middle class families in their sixties saw a 72 per cent increase in their wealth, the most similar growth rates of any age group. However, their starting points are vastly different, giving the wealthiest in this age bracket a wealth advantage: their net worth went up by $1.6 million while the middle class saw its net worth grow by only $200,000 between 1999 and 2012 (in 2012 dollars).

Growth rates in wealth for those in their seventies and up were also closer between the wealthiest and the middle class. However, the wealthiest still had a 24-percentage point lead in wealth growth since 1999. The wealthiest saw a gain of 102 per cent and the middle class a gain of 78 per cent. The wealthiest seventies and up age group saw its net worth increase from $1.4 million in 1999 to $2.8 million in 2012 (in 2012 dollars).

With the exception of thirtysomethings, wealth doubled across the board since 1999 for the wealthiest Canadian families. Those increases were higher in percentage terms than the middle class across every age group. As the wealthiest started out with more to begin with — the wealth advantage — their larger percentage gains led to dramatic increases in wealth since 1999 for Canada's most affluent. In every age group, from those in their forties and up, the wealth increase since 1999 was over a million dollars.

Source of Wealth Accumulation Since 1999

"Money isn't everything but it sure keeps you in touch with your children"
— *J. Paul Getty*

THE TREMENDOUS INCREASES in wealth since 1999 for the wealthiest 10 per cent of Canadian families cries out for an explanation. The dollar increases since 1999 have been dramatic for the most affluent, but they have been quite modest for the middle class.

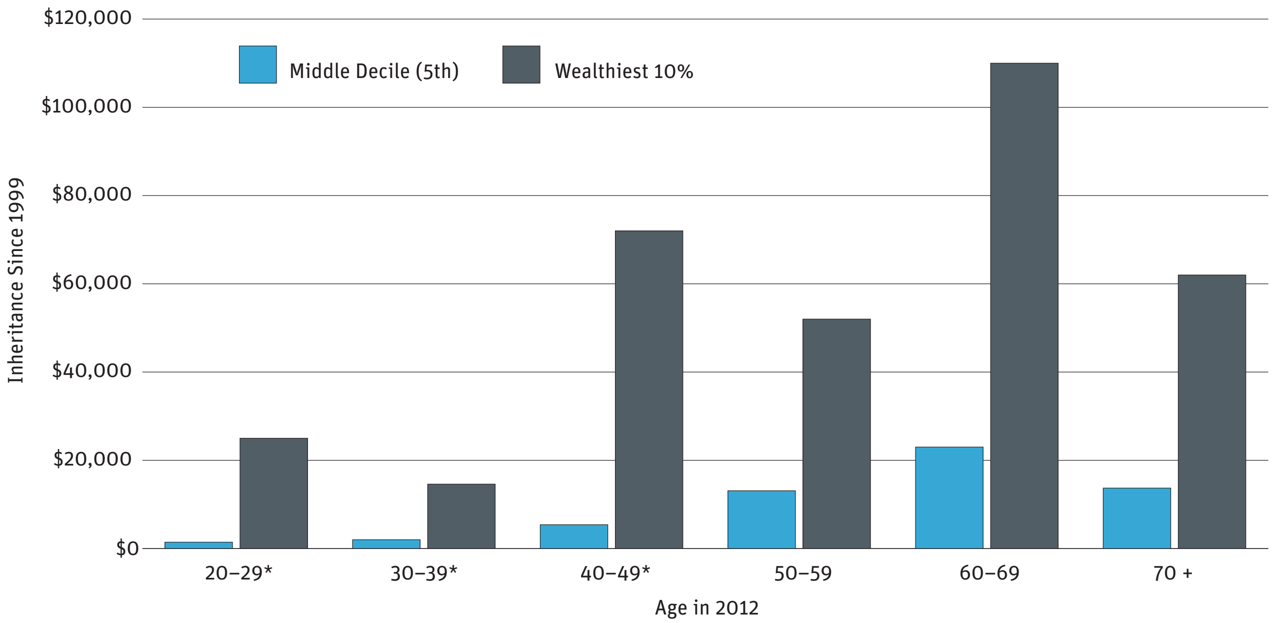
Inheritance

One of the hypotheses is that the wealthiest have larger inheritance, thereby increasing their wealth since 1999.

Figure 7 shows the inheritance received since 1999 for the middle class and wealthiest by age group. It should be noted that small samples sizes with high variability for inheritance reduces the data quality and conclusion that can be reached here. Only broad conclusions should be drawn from much of the data from *Figure 7*.

Broadly speaking it is true that those in the wealthiest decile receive more in inheritance than those in the middle class. It also appears that irrespective of decile, inheritance for families in their twenties and thirties are much smaller than those of older age groups. Inheritance seems more

FIGURE 7 Inheritance Since 1999 by Age Group



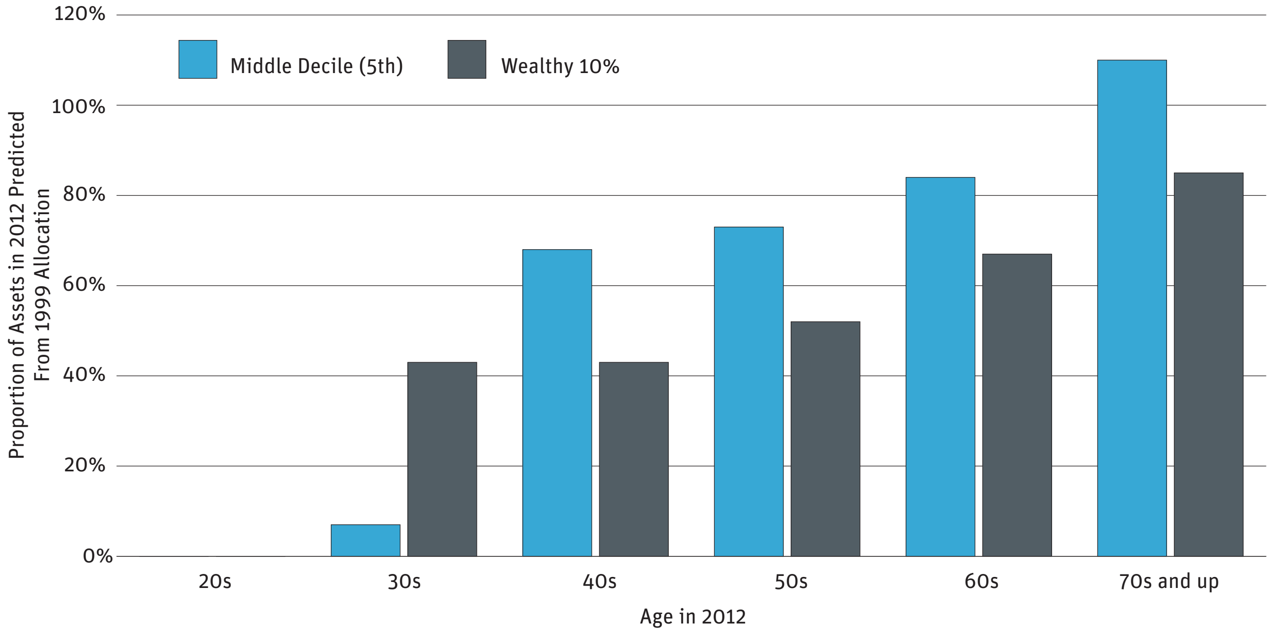
Source SFS 2012 Custom tabulation
* values should be used with caution (CVs fall between 16.6 per cent and 33.3 per cent)

focused in older age groups. This makes some intuitive sense in that those in their seventies are passing on assets to partners. When both parents die, inheritance is passed on largely to their children, who will be in their forties through sixties. Little of that inheritance seems to filter down two generations to the grandchildren in their twenties and thirties. Inheritance seems to be passed one generation down, not two. Thus, inheritance seems to make for a poor explanation of the wealth increase for those in their twenties and thirties since 1999.

The broader conclusion from the inheritance data is that, on average, it is quite small compared to the overall increases in wealth since 1999 for both the middle class and the wealthiest. If we take the age group with the largest average inheritance — the wealthiest families in their sixties — it amounts to only $110,000 since 1999. However, the total wealth increase for this group since 1999 was $1.6 million (in 2012 dollars). Inheritance would only make up 5 per cent of the increase. These findings mirror earlier findings concluding similarly that inheritance is playing a small part in wealth inequality.[12]

Irrespective of the poor data for inheritance, it is unlikely to be a driving force in the dramatic increases in wealth for Canada's most affluent families since 1999.

FIGURE 8 Predicted Amount of Assets Based on 1999 Allocation



Source SFS 2012 Custom tabulation, SFS 1999 PUMF, see Appendix 2.

Initial Allocation

A second hypothesis is that the wealth increase since 1999 is merely due to the initial allocation of wealth (including inheritances) simply being allowed to sit there for 13 years increasing in value with no additions and no withdrawal. The TSX Composite between 1999 and 2013 increased by 48 per cent (including reinvested dividends).[13] Canadian residential real estate values were up 126 per cent over that period.[14] These increases are substantial and could significantly increase the value of assets.

Figure 8 examines how much of the asset value increase since 1999 can be explained by simply letting assets from the previous age group in 1999, plus inheritances, appreciate over 13 years. This assumes that families stay in the same decile and that the decade age groups are the same even though thirteen years have elapsed, not ten years. It separates assets into two categories — real estate and non-real estate — and then increases those values by the Teranet and TSX composite returns respectively. The appreciated assets are compared to the next age group up. For more details see Appendix 2.

The simple asset appreciation model behind *Figure 8* does a commendable job in predicting what the middle class will have in 2012 based on what the middle class from the previous age group had in 1999. For the middle class, the growth in assets since 1999 (particularly for those in their forties and up) is fairly well predicted by what the middle class had 13 years earlier times the appropriate rate of return on stocks or housing. Roughly 70 per cent of the middle class' assets can be predicted by just letting them gain value over 13 years. For the middle class in their seventies and up, the model over-predicts what they will have in 2012, likely because of withdrawals in retirement are not taken into account.

The asset appreciation model is not very accurate at predicting what middle class 30-year-olds would have had, largely because the middle class in their twenties had close to no wealth on which to base a prediction.

For the wealthiest, the model is less predictive, although its predictive power rises with age. For the wealthiest in their thirties and forties, simply taking the assets the wealthiest had 13 years earlier and ramping them up based on stock and real estate returns only explains roughly 40 per cent of the increase in wealth since 1999. For families in their fifties and up, at least half of the wealth increase since 1999 is essentially the rate of return on the assets the wealthiest owned 13 years earlier.

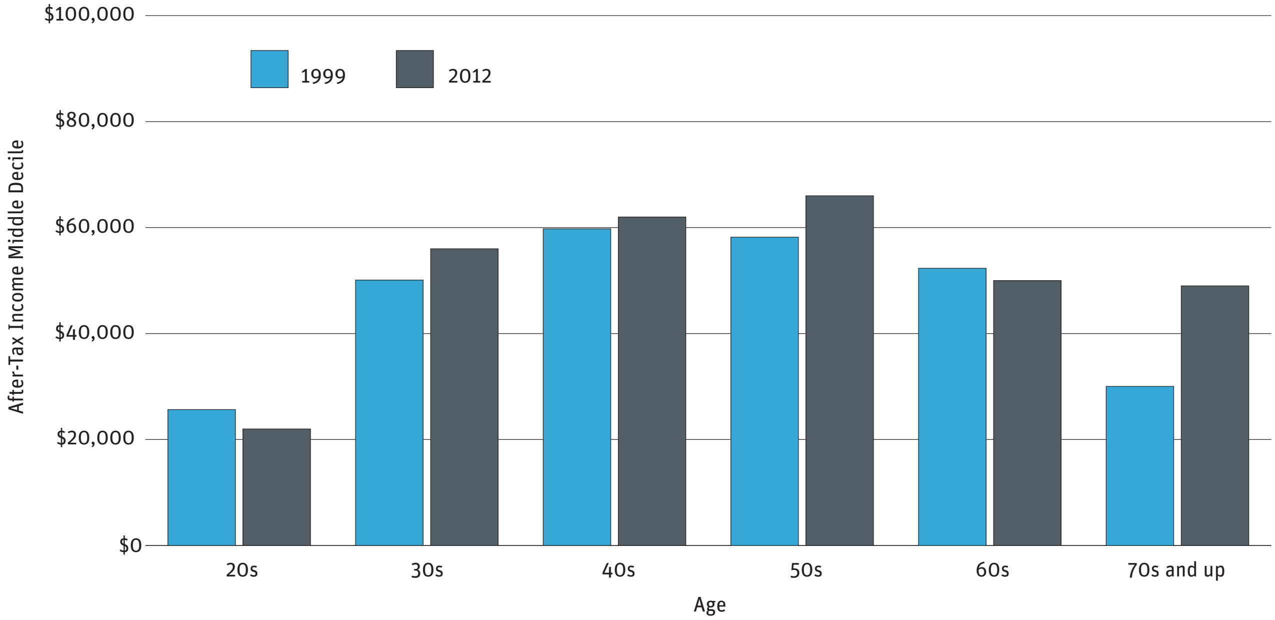
It should not be surprising that assets, if left untouched, will increase in value over time. The last 13 years have yielded some very strong returns on assets, particularly in real estate. The appreciation of assets explains about three quarters of the increase in asset values for the middle class.

For the wealthiest, simple asset appreciation explains roughly half of the substantial wealth increases at the top, particularly those in the younger age groups. This may be due to differential rates of return on assets. The wealthiest may be able to obtain better professional advice and invest more knowledgeably in order to obtain higher rates of return, compared to those in the middle class. Rates of return for what the wealthiest invest in, particularly in private businesses, may be inadequately reflected in the TSX Composite. For more discussion on this point see Appendix 2.

Income Inequality

Looking at asset appreciation alone excludes the fact that Canadians are, in fact, adding to and withdrawing their assets and debts all the time. The ability to buy more assets directly, or obtain better leverage to increase returns on real estate, for instance, likely plays a significant role in the increase in wealth since 1999.

FIGURE 9 After-Tax Family Incomes of Middle Class (5th Decile) by Age Group ($ 2012)



Source SFS 2012 Custom tabulation, SFS 1999 PUMF

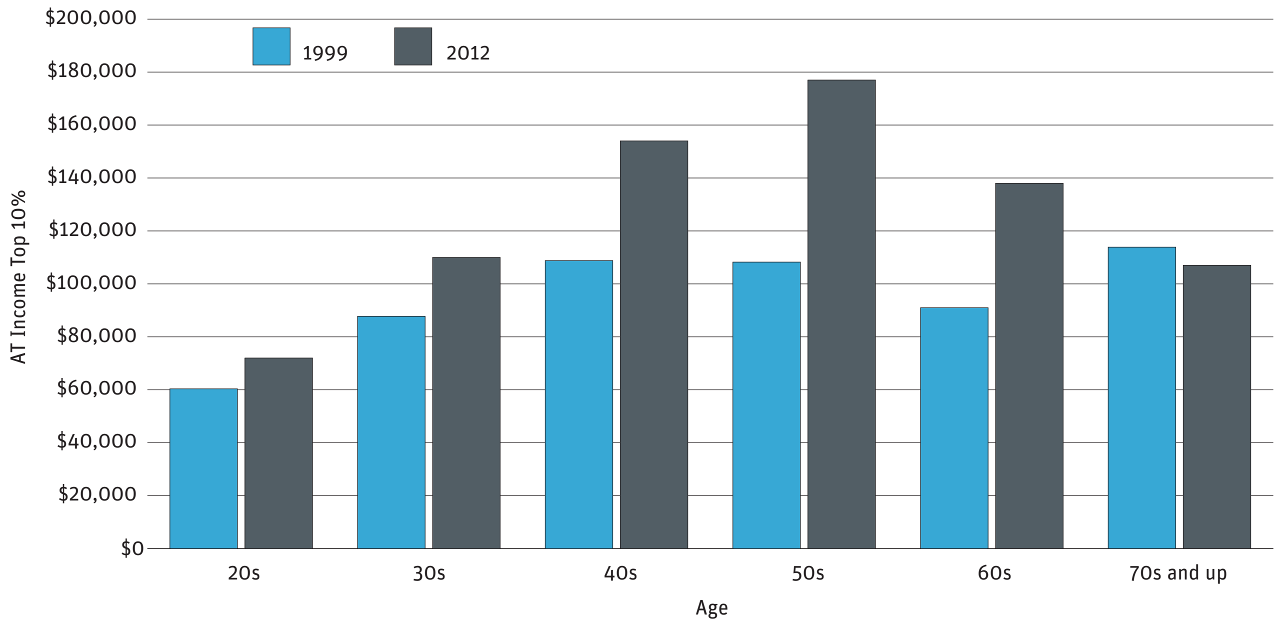
It is through the accumulation of assets that wealth inequality and income inequality are linked. Higher incomes for the wealthiest families can provide them with more to save from, if their expenses don't rise proportionately.

The after-tax family income available to put into assets grows predictably for the middle class. In their twenties, incomes are $26,000 a year. In their thirties, once school is completed and some experience gained, family incomes rise to $56,000 a year. Incomes remain at around $60,000 in the forties and fifties age groups. After-tax incomes drop off for the middle class in their sixties. As RRSP withdrawal and pension payments count as income, we continue income for those in their seventies and up, although at a lower level.

There has been little real change after-tax incomes for the middle class compared the same age groups to 1999. There is a slight fall in income for those in their twenties compared to that group in 1999, but there are increases for those in their thirties, forties, and fifties. The one substantial change applies to middle class families in their seventies who saw a large increase in income compared that group in 1999. This may be due to the middle class working well beyond age 65, the age they might have been more likely to retire at in 1999.

Canada's wealthiest families not only hold more wealth, but they also enjoy much higher incomes. In their twenties, the wealthiest families were

FIGURE 10 After-Tax Family Income of Wealthiest by Age Group ($2012)



Source SFS 2012 Custom tabulation, SFS 1999 PUMF

already making $60,000 in 1999, which increased to $72,000 by 2012 (inflation adjusted). The middle class was only making $26,000 in their twenties and saw a small decline in income since 1999. As with the middle class, the wealthiest decile's income in their thirties was higher than those in their twenties. However, unlike the middle class, incomes continue to be higher for those in their forties. Since 1999, there have been large increases in incomes for the wealthiest in their forties, fifties and sixties. In 1999, the wealthiest saw family incomes peak at $110,000 in their forties. Those peak incomes are now $180,000 a year for those in their fifties. However, wealthy families in their seventies saw a small income decrease between 1999 and 2012.

Canada's wealthiest not only make much more than the middle class, but they've seen much more substantial pay increases in real after-tax income since 1999. If expenses for the wealthiest didn't increase, this provides much more resources to put towards the purchasing of assets such as real estate and businesses, which could appreciate in value. Having more money left over at the end of the month because of big raises is another large piece of the puzzle explaining the substantial increases in net worth for the wealthiest over the past decade.

What About Wealthy 20-Year-Olds?

The returns on pre-existing assets have some explanatory power when it comes to explaining the wealth gains for Canada's most affluent families since 1999, as do large pay raises. However, this approach has little utility for those in their twenties who would not have had any assets 13 years earlier, as they would have been in their teens.

Despite the lack of assets to start from, there has nonetheless been a substantial increase in net worth for the wealthiest 20-year-olds between 1999 and 2012. Inheritance, which has little explanatory power in general, has even less for those in their twenties. Family after-tax income is certainly higher for the wealthiest 20-year-olds, hitting $72,000 in 2012 vs. only $22,000 for the middle class. However, using income alone, it would take a savings rate of 75 per cent for a decade to accumulate the $540,000 in wealth that the most affluent in their twenties had by 2012. Not to mention the fact that the first five years in one's twenties are often spent in school making little to nothing.

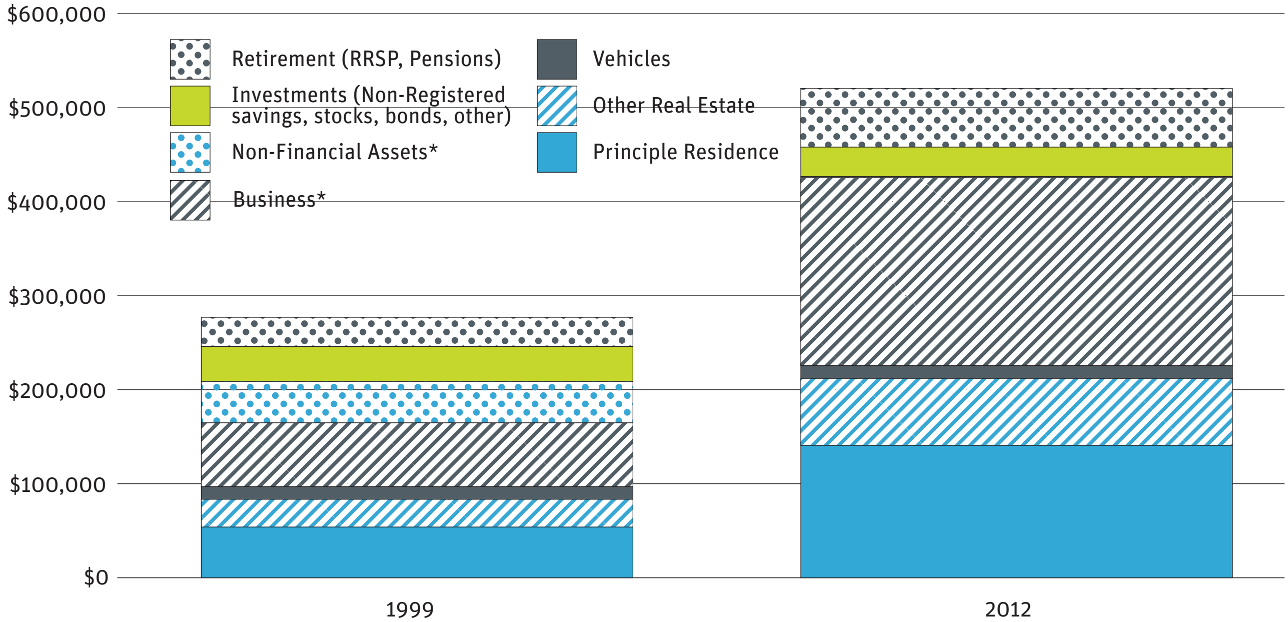
As shown in *Figure 11*, the growth in different types of assets since 1999 is instructive. The three largest growth areas are in principle residence, other real estate, and business values. Principle residence is the net value of a family's primary residence (house price minus mortgage and lines of credit). The net value of the wealthiest families' homes tripled in real terms between 1999 and 2012 from $54,000 to $140,000. The value of their secondary real estate holdings (condos, cottages, etc.) more than doubled from $30,000 in 1999 to $71,000 by 2012. Non-financial assets (the value of jewellery, house furnishings, etc.), dropped precipitously from $44,000 to only $1,100.[15]

The value of businesses, like a private family business, rose substantially between 1999 and 2012 from $68,000 to $200,000, although this category suffers from a small sample size with high variability. This increase may be a statistical artefact rather than a real increase.[16]

Examining the details of wealth for the wealthiest 20-year-olds reveals the importance of real estate and businesses to the increase in their net worth. Although inheritance contributes little to the wealth increase, other non-inheritance help from parents may be at play.

Real estate values rose by 126 per cent between 1999 and 2012. Non-financial supports from parents in the form of co-signing mortgages could make a substantial difference by age 29. If rental income, combined with the high pay levels for the wealthiest 20-year-olds, can cover the mortgage payments, this arrangement would have yielded very good returns between 1999 and 2012.

FIGURE 11 Net Value by Category of the Wealthiest in their Twenties ($2012)



Source SFS 2012 Custom tabulation, SFS 1999 PUMF, Values are net of associated debts, Credit card debt, student debt and other debts were subtracted from non-registered investments, Line of credit debt was subtracted from net principle residence value.
* values should be used with caution (CVs fall between 16.6 per cent and 33.3 per cent)

Direct financial support in the form of a house down-payment, tuition, or monthly support from parents (which is not technically inheritance) might also provide a significant leg up in getting into the housing market early or avoiding debt early in life.

The value of private businesses is the final piece of the puzzle. Small sample sizes with high variability restrict how much can be said about this topic. However, private family businesses are an important part of the net worth picture for the wealthiest. The creation of business worth $200,000 in your twenties seems like quite a feat, but these businesses may be portions of pre-existing family businesses or offshoots of those businesses.

While inheritance, per se, has little explanatory power in the gains of the wealthiest 20-year-olds, other help from family is likely important — as is the social capital they may acquire from growing up in affluence. Non-financial help in the form of backing loans or spinning off family businesses may have played an important role in doubling the net worth of the wealthiest in their twenties since 1999.

Conclusion

THE PATH TO accumulating wealth is very different depending on where Canadian families sit along the wealth and income spectrum. Middle class families see higher net worth largely by paying down a mortgage and slowly buying larger houses. Middle class twentysomethings have nothing but those in their sixties have managed to build up half a million dollars in wealth. However, the maximum wealth for the middle class after working and savings for 40 years is the starting point for affluent twenty year olds. The wealthiest in their twenties start with half a million dollars. The most affluent in their sixties have managed to accumulate $3.4 million by the time they are ready to retire.

Despite having the most educated generation in Canadian history hitting the labour market in their twenties today, it is difficult to see how it would ever be possible to overcome a half-a-million dollar wealth advantage that Canada's affluent families enjoy starting in their twenties.

The path of the wealthy is paved with investment opportunities, and that is contributing to Canada's Growing Wealth Gap between the affluent and the middle class. Wealth has doubled in almost every age bracket between 1999 and 2012 for the wealthiest. This doubling even applies to families in their twenties in 2012. The tremendous head start for Canada's wealthiest families in their twenties, prior to any substantial experience in the working world, provides what is essentially an entirely different life for the wealthy in Canada.

One of the items not captured in the wealth survey is the role that differential taxes play in wealth accumulation. Assets in Canada are not generally directly taxed (although municipal property taxes can act as small wealth tax). Taxes levied on assets only apply upon their sale and on the difference between the purchase and sale price called the "capital gain." Canada's capital gains inclusion rate of 50 per cent means that only half of the gain made on the sale of assets like real estate and businesses are taxed (although primary residence capital gains are untaxed).[17] Put another way, if one person made the exact same amount of money selling a condo as someone else made working, the working person would pay twice the amount of tax.[18]

Paying half the tax on asset sales, compared to income, facilitates the accumulation of assets through the tax system. Given the rate at which those assets are accumulating, particularly since 1999, it may be time to revisit the capital gains inclusion rate. For the middle class, their primary asset is their primary residence, whose sale does not incur taxes. For the wealthiest, their assets are more broadly dispersed between other real estate, private businesses, and investments — all of which can incur capital gains upon sale. Paying half the tax on the sale of these types of assets disproportionately benefits those who hold them, namely the wealthiest.

An alternate proposal from the Alternative Federal Budget,[19] but originally from the Carter Commission, is that income from asset sales should be taxed the same as working income. That means the inclusion rate should be 100 per cent, with an offset for inflation. Such a change would significantly reduce the governmental shoring up of wealthy families who have already seen incredible gains over the past decade. The new revenue generated from a fairer capital gains inclusion rate could be used to invest in public services and supports that benefit everyone, but particularly Canada's middle class and the poor.

Appendix 1: Notes On Methodology

THROUGHOUT THIS PAPER, the levels of wealth, income, debt and asset types are averages by economic family, not individuals. The Survey of Financial Security records wealth at the economic family level and not individually. An economic family is any grouping of people living in the same household related by blood, common-law, marriage or adoption. It allows for extended families to be considered one economic family. For instance, a grandmother living with her child and grand children would be considered one economic family. All assets and debts across all the generations of this example would be combined to create a single economic family unit in the Survey of Financial Security.[20]

In this paper, the age of the household is represented by the age of the oldest in the household. In previous Statistics Canada publication and data releases, the household age was represented by the age of the highest earner.[21] For families where the major earner is in their twenties and thirties, enough cases existed where the oldest person in the family was much older that the wealth results for the wealthiest were skewed upwards. For instance, seniors with significant wealth accumulated over their lifetimes were living with children or grand children who made more than they did, as the seniors are retired. This paper reports the average net worth of the wealthiest decile as $540,000 using the age of the oldest approach. Using the age of the major earner, that figure would jump to a million dollars as it

TABLE 1 Average Age of the Eldest in the Family (2012)

Wealth Decile	20s	30s	40s	50s	60s	70s and up
Poorest	26	35	44	55	64	78
2	25	34	45	54	64	79
3	24	34	44	54	64	79
4	24	34	44	54	65	78
5	25	34	44	54	64	79
6	24	35	45	55	64	78
7	26	35	45	55	64	78
8	26	35	45	55	64	78
9	27	35	45	55	64	78
Wealthy 10%	27	36	46	55	64	77

Source SFS 2012 Custom tabulation

is grouping in retired seniors that live with those in their twenties and thirties with families where the eldest is in their twenties and thirties. The primary impact of this change was on the top deciles of those in their twenties and thirties. There was much less impact on other age groups.

Throughout this paper, results are presented for the 5th (representing the middle class) and wealthiest decile by decades of age. Data for the remaining deciles is provided in Appendix 3. Irrespective of what is being measured is being averaged, whether debt, assets, income etc, the grouping remain the same based on decade of age of the eldest and decile of net worth.

Given that significant subdivision was required to create deciles by age decade and by decile of net worth, data quality due to small sample size may become a problem. Unless otherwise specified, the figures presented have coefficients of variations below 16.6 per cent at which point Statistics Canada advises caution.

The 1999 and 2012 Survey of Financial Security are not longitudinal studies that track individuals or families over time. Those in the wealthiest decile of those in their twenties in 1999 are not necessarily the wealthiest in their thirties in 2012. The level of wealth mobility over time in Canada is unclear. The level of mobility between income groups, instead of wealth groups, is better studied in Canada.[22] For income groups, the bottom quarter of the population and the top one per cent have much more mobility with much less mobility outside of these zones. Wealth being a stock and income being a flow variable may mean that there is less wealth mobility over time. However, this hypothesis requires further study.

One of the primary goals of this paper is to remove the predictable relationship between age and wealth. However, those patterns may well still exist within the decades of age created. For instance, it may be that the wealthiest in their forties are all 49 and the poorest are all 41. More detailed age analysis elsewhere does show a correlation between age and asset levels.[23]

To examine this possibility *Table 1* calculates the average age of each decile. The average age of the wealthiest decile is generally higher than that of the fifth decile. The wealthiest are 2 years older than the fifth decile in the twenties, thirties and forties age groups. They are one year older in the fifties age group, the same age in the sixties age group and two years younger in the seventies age group.

Interestingly, those in the poorest wealth decile are generally older than those in the fifth decile. There does not appear to be a clear linear relationship between wealth decile and average age of that decile.

Appendix 2: Model for Asset Estimation

FIGURE 8 USES a simple asset rate of return model based on the 1999 data to predict asset levels in 2012. Note that debts are not included in this model. It is assumed that no withdrawals or additions are made between 1999 and 2012 save for inheritances.

Assets are separated into two groups, real estate assets and non-real estate assets. Real estate assets are appreciated at a rate of 126 per cent, the average real estate return between 1999 and 2012.[24] Non-real estate assets are appreciated at a rate of 48 per cent, the rate of return for the TSX composite between 1999 and 2012.[25] Inheritances between 1999 and 2012 are assumed to have been invested in the TSX composite in 1999, an optimistic assumption although inheritance values are relatively small.

The asset value of an age group in 1999 multiplied by the appropriate rates are return are compared to the next age group up in 2012. For instance, the assets for the wealthiest decile in the twenties age group in 1999 is used to predict the asset value of the wealthiest 30 year olds in 2012. For that reason, there is no prediction for those in their twenties in 2012 in *Figure 8* as they would have been in their teens in 1999.

This approach assumes that those in a particular decile in 1999 continue to be in that same decile in 2012. It also assumes that families will be in the next decade wide age group in 2012 compared to 1999 although thirteen years have elapsed.

This is a simple model and more robust micro models may provide more robust results. The simplicity of this model has several drawbacks. The type and location of assets will clearly matter to their rates of return. A one bedroom condominium in Toronto will have a different rate of return from a four bedroom home in Calgary. The type of real estate is not recorded in the SFS. The same is true for financial holdings, like stocks, that will return vastly different results depending in which stocks are held.

A thornier issue to the construction of a more robust micro model is the correct rate of return on private businesses between 1999 and 2012. An appropriate index for small business appreciation is hard to come by. However, this remains an important asset type particularly for wealthy Canadians.

One of the reasons why the model may be more predictive for the fifth decile is more of the asset value is in real estate. The wealthiest have more diversity of holdings and may be more liable to seeing compositional rate of return differences not adequately captured by using the TSX Composite.

Appendix 3: Underlying Data

TABLE 2 Average Net Worth by Decile in Age Groups 2012 (Termination Basis)

	20s	30s	40s	50s	60s	70s and up
Poorest	-$42,000	-$21,000	-$8,700	-$7,400		
2	-$7,800	$1,000	$14,000	$18,000	$32,000	$57,000
3	$550	$8,700	$54,000	$99,000	$150,000	$170,000
4	$3,800	$29,000	$120,000	$210,000	$300,000	$280,000
5	$8,200	$63,000	$190,000	$340,000	$470,000	$380,000
6	$14,000	$110,000	$300,000	$510,000	$640,000	$500,000
7	$30,000	$160,000	$450,000	$710,000	$850,000	$640,000
8	$62,000	$250,000	$630,000	$1,000,000	$1,100,000	$870,000
9	$130,000	$400,000	$920,000	$1,400,000	$1,700,000	$1,200,000
Wealthy	$540,000	$980,000	$2,500,000	$3,300,000	$3,400,000	$2,800,000

Source SFS 2012 Custom tabulation, data in blank cells is suppressed due to high coefficients of variation.

TABLE 3 Change in Net Worth by Decile in Age Groups 2012–1999 ($2012)

	20s	30s	40s	50s	60s	70s and up
Poorest	-$18,000					
2	-$2,800	-$4,500	-$30	-$16,000	-$4,800	$22,000
3	$4	-$11,000	$1,900	$1,500	$49,000	$80,000
4	$1,300	-$10,000	$21,000	$41,000	$110,000	$130,000
5	$1,600	-$4,900	$41,000	$96,000	$200,000	$170,000
6	$1,700	$5,800	$93,000	$160,000	$270,000	$220,000
7	$6,800	$22,000	$160,000	$230,000	$350,000	$280,000
8	$16,000	$53,000	$240,000	$380,000	$480,000	$380,000
9	$50,000	$120,000	$370,000	$560,000	$800,000	$510,000
Wealthy	$260,000	$240,000	$1,200,000	$1,700,000	$1,600,000	$1,400,000

Source SFS 2012 Custom tabulation, SFS 1999 PUMF, data in blank cells is suppressed due to high coefficients of variation.

TABLE 4 Percentage Change in Net Worth 1999–2012 ($2012)

	20s	30s	40s	50s	60s	70s and up
Poorest	75%					
2	55%	-82%	0%	-46%	-13%	64%
3	1%	-56%	4%	2%	49%	92%
4	55%	-27%	23%	24%	61%	90%
5	25%	-7%	28%	40%	72%	78%
6	14%	6%	45%	47%	75%	79%
7	30%	16%	56%	49%	71%	77%
8	36%	27%	61%	60%	75%	78%
9	63%	43%	67%	64%	90%	75%
Wealthy	95%	33%	100%	105%	93%	102%

Source SFS 2012 Custom tabulation, SFS 1999 PUMF, data in blank cells is suppressed due to high coefficients of variation.

TABLE 5 Average Debt by Decile in Age Groups (2012)

	20s	30s	40s	50s	60s	70s and up
Poorest	$60,000	$55,000	$29,000	$13,000	$11,000	$5,900
2	$29,000	$7,100	$21,000	$17,000	$33,000	$18,000
3	$4,600	$26,000	$53,000	$110,000	$65,000	$19,000
4	$6,100	$45,000	$140,000	$130,000	$68,000	$37,000
5		$150,000	$130,000	$120,000	$61,000	$36,000
6		$160,000	$190,000	$95,000	$55,000	$39,000
7	$33,000	$170,000	$180,000	$140,000	$67,000	$45,000
8	$69,000	$210,000	$180,000	$120,000	$85,000	$21,000
9	$150,000	$230,000	$220,000	$130,000	$65,000	$47,000
Wealthy	$240,000	$280,000	$310,000	$190,000	$120,000	$75,000

Source SFS 2012 Custom tabulation, data in blank cells is suppressed due to high coefficients of variation.

TABLE 6 Average Inheritance by Decile in Age Groups Since 1999 (2012 Dollars)

	20–29*	30–39*	40–49*	50–59	60–69	70 +
Poor	***$25***	***$2,100***	***$510***	***$60***	***$1,870***	**$840**
2	***$430***	***$1,080***	***$1,500***	***$3,000***	***$4,300***	$1,580
3	***$61***	***$840***	$2,200	***$6,700***	***$9,900***	**$4,600**
4	***$11,800***	***$1,200***	***$3,300***	$4,900	$10,200	$3,600
5	***$1,440***	***$2,000***	$5,400	$13,100	$23,000	**$13,700**
6	***$910***	***$7,800***	$3,300	$10,600	$15,600	**$13,700**
7	***$1,430***	***$3,100***	***$7,700***	$26,000	$23,000	$13,200
8	***$1,890***	$6,600	$8,900	$26,000	$54,000	$16,900
9	***$860***	$14,200	***$26,000***	$30,000	$52,000	$14,400
Wealthy	***$25,000***	***$14,600***	***$72,000***	$52,000	***$110,000***	$62,000

Source SFS 2012 Custom tabulation
Note Bold italic highlighted cells should be used with caution as data quality is poor, CVs exceed 16.6%

TABLE 7 Average After-Tax Income by Deciles in Age Groups (2012 Dollars)

	20s	30s	40s	50s	60s	70s and up
Poor	$25,000	$36,000	$32,000	$25,000	$22,000	$25,000
2	$24,000	$26,000	$38,000	$30,000	$32,000	$29,000
3	$19,400	$40,000	$53,000	$53,000	$44,000	$34,000
4	$20,000	$46,000	$52,000	$58,000	$52,000	$41,000
5	$22,000	$56,000	$62,000	$66,000	$50,000	$49,000
6	$23,000	$58,000	$75,000	$79,000	$58,000	$49,000
7	$37,000	$67,000	$81,000	$85,000	$71,000	$54,000
8	$46,000	$77,000	$95,000	$95,000	$74,000	$62,000
9	$56,000	$87,000	$112,000	$115,000	$95,000	$80,000
Wealthy	$72,000	$110,000	$154,000	$177,000	$138,000	$107,000

Source SFS 2012 Custom tabulation

Notes

1 For previous work looking at wealth by age in Canada see: Sharanjit Uppal and Sébastien LaRochelle-Côté, "Changes in debt and assets of Canadian families: 1999 to 2012," Statistics Canada, April 2015.

2 Amélie Lafrance and Sébastien LaRochelle-Côté, "The evolution of wealth over the life cycle," Statistics Canada, June 2012.

3 Milligan, K. (2005), Life-cycle asset accumulation and allocation in Canada. *Canadian Journal of Economics/Revue canadienne d'économique*, 38: 1057–1106. doi: 10.1111/j.0008-4085.2005.00316.x

4 Venti, Steven F. and David A. Wise. "Aging And The Income Value Housing Wealth," *Journal of Public Economics*, 1991, v44(3), 371–398.

5 Venti, Steven F. and David A. Wise. "Aging And The Income Value Housing Wealth," *Journal of Public Economics*, 1991, v44(3), 371–398.

6 Milligan has argued that the SFS doesn't include the terminal value of the Canada Pension Plan, as it does for private pension plans. It also doesn't include the values for the Guaranteed Income Supplement or Old Age Security that will be accessible particularly, to the lower deciles, upon retirement see: Milligan, K. (2005), Life-cycle asset accumulation and allocation in Canada. *Canadian Journal of Economics/Revue canadienne d'économique*, 38: 1057–1106. doi: 10.1111/j.0008-4085.2005.00316.x

7 The value of $13,000 in debt for the middle decile of those in their twenties was suppressed in Figure 3 as being somewhat inexact. Specifically it has the data quality rating of "e" given its high coefficient of variation meaning that the figure should be "used with caution"

8 Similar conclusions are reached in: Césaire Meh, Yaz Terajima, David Xiao Chen, and Tom Carter, "Household Debt, Assets, and Income in Canada: A Microdata Study", *Bank of Canada, Discussion Paper 2009–7*, June 2009 (www.bankofcanada.ca/wp-content/uploads/2010/01/dp09-7.pdf).

9 Although the age grouping was different at 28–34, median net worth for this group stagnated since 1977: Amélie Lafrance and Sébastien LaRochelle-Côté, "The evolution of wealth over the life cycle," Statistics Canada, June 2012.

10 For previous work looking at the GINI coefficient of wealth in Canada see: Rene Morissette and Xuelin Zhang, Revising Wealth Inequality, Perspectives on Labour and Income, Statistics

Canada, December 2006. And the earlier: Rene Morissette, Xuelin Zhang, Marie Drolet, The Evolution of Wealth Inequality in Canada, 1984–1999, Statistics Canada, February 2002.

11 Armine Yalnizyan, *The Rise of the Richest 1%*, Canadian Centre for Policy Alternatives, December 2010.

12 Rene Morissette and Xuelin Zhang, "Revising Wealth Inequality," *Perspectives on Labour and Income*, Statistics Canada, December 2006

13 TSX Composite as calculated by the author from Yahoo Finance (^GSPTSE) December 1999 to December 2012 https://ca.finance.yahoo.com/q?s=%5EGSPTSE

14 House Price Index © Composite 11 created by Teranet and the National Bank of Canada, 1999 through 2012, http://www.housepriceindex.ca/

15 While there is a data quality issue with non-financial assets, there does appear to be a large fall in this category. The mean was 1,130 with a standard error 1,210, which suggests that either way, this value is small.

16 The mean was 200,000 with a standard error of 139,000. The SE this large suggests a significant amount of statistical noise in the mean value of family businesses for this particular grouping.

17 http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/rtrn/cmpltng/rprtng-ncm/lns101-170/127/rsdnc/menu-eng.html

18 Assuming both people were in and remained in the same tax bracket

19 *Alternative Federal Budget 2015: Delivering the Good*, Canadian Centire for Policy Alternatives, Chapter: Fair and Progressive Taxation, pg 23, April 2015.

20 See Statistics Canada definition here: http://www.statcan.gc.ca/concepts/definitions/fam-econ-eng.htm

21 For instance, the Public Use Microdata files list the age of the major earner as the age of the family. The same approach is taken in Rene Morissette and Xuelin Zhang, Revising Wealth Inequality, *Perspectives on Labour and Income*, Statistics Canada, December 2006

22 Brian Murphy, Sylvie Michaud and Michael Wolfson , Income Trajectories of High Income Canadians 1982–2005, Statistics Canada, IARIW 30th General Conference, August 2008.

23 Milligan, K. (2005), Life-cycle asset accumulation and allocation in Canada. *Canadian Journal of Economics/Revue canadienne d'économique*, 38: 1057–1106. doi: 10.1111/j.0008-4085.2005.00316.x

24 House Price Index © Composite 11 created by Teranet and the National Bank of Canada, 1999 through 2012, http://www.housepriceindex.ca/

25 TSX Composite as calculated by the author from Yahoo Finance (^GSPTSE) December 1999 to December 2012 https://ca.finance.yahoo.com/q?s=%5EGSPTSE

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