ADVISOR INSIGHTS

The Great Wealth Transfer

How to position your firm for success

Now is the time to start preparing your firm for the impact of the Great Wealth Transfer that will occur over the next few decades.

The largest wealth transfer in American history will occur over the next quarter century when up to $68 trillion passes from baby boomers to members of Generation X and Millennials, according to Cerulli Associates.[1] To put this number in perspective, the entire gross national product (GDP) of the United States is about $22 trillion, or less than one-third of this amount.

Dubbed the Great Wealth Transfer, this financial shift is going to have an enormous impact on the financial advisory industry by dramatically changing the wealth management landscape. The stakes couldn't be higher for financial advisors — the long-term viability of your firm will depend on your ability to navigate this transition successfully.

Successful firms will be the ones that can help older clients create strategic estate plans while welcoming younger clients on the receiving end of this transfer into the world of wealth management and investing.

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How wealth will be transferred

According to the U.S. Census Bureau, there are currently about 73 million baby boomers in the United States.[2] (Baby boomers were born between 1944 and 1964.) Collectively, boomers hold between $30 trillion and $40 trillion in assets and constitute the majority of most advisory firms' clientele.[3] Gen Xers (born between 1965 and 1980) are expected to inherit a little over half (57%) of the assets during the Great Wealth Transfer with the rest going to Millennials (born between 1981 and 1996).[3]

The financial circumstances of these younger generations are different from those of their parents. For example, Millennials and Gen Xers combined control just over one-third (36%) of the nation's wealth, compared to the 50% controlled by baby boomers. (Members of the Silent generation born before 1946 control 14% of the nation's wealth.)[4]

Millennials are also less likely to own their homes than older generations and have lower levels of financial literacy. Importantly for advisors, they are also less interested in investing in the stock market, and most Millennials have never worked with a professional financial advisor.[3]

The average age for inheriting wealth from grandparents is 29 while the average age for inheriting wealth from parents is 44, according to RBC's Wealth Transfer Report.5 Unfortunately, many parents and grandparents have avoided conversations with their heirs about how their assets will be distributed, which leaves heirs largely unprepared for the financial impact of the Great Wealth Transfer on their lives.

This impact could be substantial. Based on the current population of about 136 million Gen Xers and Millennials, the average heir will receive an inheritance of about $500,000 during the transfer.[6] In reality, most of the assets will be transferred within wealthy families, so this number could be much larger among your client base.

Retaining assets after they're transferred

The biggest potential threat the Great Wealth Transfer poses to financial advisors can be summed up in one statistic: Between half and three-quarters of "Next Gen" Americans (people aged 45 and under) will fire their parents' or grandparents' financial advisor, according to projections.[7] This makes it critical to plan now for how you will retain your clients' assets once they are transferred to heirs.

The key is to be proactive in establishing relationships with your clients' children, grandchildren, and other potential heirs. Unfortunately, 75% of financial advisors haven't even met their clients' heirs, according to a survey performed by MFS Investment Management.[8]

Being proactive means not waiting until a client's wake to introduce yourself to their children and grandchildren. These introductions can happen while children are in their teens or even earlier in the right circumstances. Finding common interests is one way to break the ice. For example, if a client's teenage son plays golf or tennis, you could invite him to join you and his dad for a round of golf or a tennis match. You could also invite your clients' children to attend sporting events or concerts together with you and the client.

Your goal should be to start building relationships with heirs, not trying to "sell" yourself or your firm to them. This will be a

long-term process over years or maybe even decades. If you're successful, heirs will be much more likely to leave assets with you instead of switching them to another financial advisor. At the very least, they will talk to you first and give you a chance to retain their assets before meeting with other financial advisors.

It's important to understand your clients' family dynamics as you start building relationships with their heirs. For example, what are their values and goals? Do parents want to create wealth for future generations? Are they seeking to build a legacy by establishing charitable foundations or other philanthropic endeavors? Discuss these and other issues together with your clients and their heirs, if appropriate.

Appealing to next gen clients

You may need to upgrade some of your firm's technology and processes in order to appeal to Next Gen clients. Millennials, in particular, are sometimes referred to as the "digital generation" because they grew up in a world where digital technology like smart phones and the internet were ubiquitous. Therefore, you should implement a robust digital strategy designed to assure Millennials and Gen Xers that your firm is on the digital cutting edge.

This starts with communication. Many Millennials and Gen Xers are comfortable with a virtual relationship with their financial advisor and prefer communicating electronically via text, email, FaceTime or Zoom video, or even social media to meeting in person. So, plan on beefing up your communication technology capabilities and presence on social media sites commonly used by young clients (such as Instagram and Snapchat) and using these platforms to share useful information and interact with them.

Millennials and Gen Xers have come to expect on-demand service in practically every area of their lives, from instant downloads of music and movies to free overnight shipping from Amazon Prime. This carries over to service providers,

including their financial advisor, from whom they expect fast (even immediate) response. They aren't willing to play phone tag for days on end. If you aren't prepared to communicate with these clients in this way, they will probably look for another advisor who is.

Broadening your firm's service offerings in order to become a more holistic financial advisor is another way to appeal to Next Gen clients. According to The New State of Advice, a study conducted by Accenture, 91% of Millennials and 85% of Gen Xers say they expect to receive banking and insurance services from their financial advisor.[9]

You also should be transparent with Millennials and Gen Xers about your investment recommendations and fees. These generations place a high value on transparency, especially when it comes to their finances, so be upfront and honest when explaining how you are compensated for your services. For example, tell them if you receive a commission on investment products you recommend. And be flexible with your fee structure — for example, by charging an hourly rate for financial or investing advice instead of a percentage of assets under management.

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Help clients with estate planning

Another way to prepare your firm for the Great Wealth Transfer is by helping your clients with estate planning to ensure that their assets are passed on to heirs in the most efficient way possible. While older Americans control more of the nation's wealth than ever before, nearly four out of 10 (39%) of them lack a comprehensive estate plan.[3] This presents a tremendous opportunity for financial advisors to fill a potentially unmet but urgent need.

Start by asking your clients if they have a formal estate plan. If they are among the nearly 40% who don't, explain why creating a plan is so important. For starters, if they die intestate a judge will likely decide how their assets are distributed, which may or may not coincide with their wishes. A number of wealthy, high-profile celebrities have died intestate — including Prince, Jimi Hendrix, Aretha Franklin and Martin Luther King, Jr. — which led to years-long court battles among heirs over the rights to their property.

Having a formal estate plan is especially critical for clients whose estates are larger than the current estate tax exemption of $12.06 million, or $24.12 million for married couples. Without expert estate planning, their heirs could face transfer taxes of up to 40% of the value of the estate that exceeds the exemption amount. Recent legislation also requires that money from inherited pre-tax IRAs be withdrawn over a set period of time. This could have significant tax ramifications on heirs.

By assisting your clients with estate planning, you can help them minimize or even eliminate some of these negative tax consequences. For example, clients can take advantage of the annual gift exclusion to give away up to $15,000 a year (or $30,000 for a married couple) to heirs tax-free, thus reducing the value of their estate. Setting up an irrevocable life insurance trust (or ILIT) can also lower the value of wealthy clients' estates and thus the transfer taxes owed by heirs.

An added benefit of assisting clients with estate planning is that it presents an opportunity to meet with their heirs and bring them into the conversation. For example, you could suggest a meeting with a client couple and their adult children to discuss how strategies like these can help reduce transfer taxes and preserve more of the inheritance for the heirs. This would give you an opportunity to get to know the heirs personally and start building a relationship with them.

Start preparing now

Many experts believe that the Great Wealth Transfer will dramatically alter the financial planning industry over the next few decades. Now this makes the time to start preparing your firm for these changes. Being proactive can help position your firm for success as these changes manifest in the years to come.

Elite RIAs and holistic planning

Many Millennials came of age during the Great Recession, which helped shape the way they view investing. As a group, Millennials' views about investing differ from baby boomers' views in significant ways. Wealth and Asset Management 2021: Preparing for Transformative Change, published by Broadridge and Roubini ThoughtLab, identified the following viewpoints of Millennials when it comes to investing:[10]

- **They are risk averse.** Many Millennials saw their parents lose much of their retirement savings during the Great Recession, so they tend to have a lower risk tolerance.
- **They are clear-eyed about their goals.** Rather than passively benchmarking returns, many Millennials are focused on meeting a holistic set of life goals.
- **They are socially conscious.** Millennials tend to be more interested in socially responsible investing (SRI) than their parents and are often willing to sacrifice investment returns for social benefits.
- **They are open to a wide range of investment options.** Millennials are more open than their parents to considering alternative investment funds and using fintech firms and non-traditional financial services providers like Google and Alibaba.
- **They are sensitive to investment costs.** Many Millennials understand that investment costs have an impact on returns and understand the cost benefits of using index funds.
- **They have a global perspective.** More than half (52%) of Millennials indicated that they would select financial services providers for their global reach.

1 https://info.cerulli.com/HNW-Transfer-of-Wealth-Cerulli.html
2 https://www.census.gov/library/stories/2019/12/by-2030-all-baby-boomers-will-be-age-65-or-older.html
3 https://www.justvanilla.com/blog/the-great-wealth-transfer
4 https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:119;series:Net%20 worth;demographic:generation;population:all;units:levels
5 https://www.futurevault.com/blog/3-things-for-financial-advisors-to-consider-to-prepare-for-the-great-wealth-transfer
6 https://www.ajc.com/news/business/taking-advantage-of-the-coming-great-wealth-transfer/YQMO4JJW7NBSHEM72QC4TARVZU/
7 https://www.fa-mag.com/news/the-next-gen-redefines-retirement-59988.html?print
8 https://www.thinkadvisor.com/2016/03/01/how-advisors-can-stop-losing-clients-heirs-as-clients/
9 https://www.accenture.com/_acnmedia/PDF-162/Accenture-Wealth-Management-Consumer-Report-New-State-of-Advice.pdf
10 https://www.broadridge.com/_assets/pdf/broadridge-the-great-wealth-transfer-is-coming.pdf

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