Adviser Home
DEVELOPMENT PLATFORM

In partnership with Schroders

A practical guide to

INTERGENERATIONAL WEALTH TRANSFER

for financial advisers

Welcome

The airwaves in the financial advice market are full of discussion on intergenerational wealth transfer with around 80% of advisers believing that this is a significant business opportunity.

Last year, research and anecdotal evidence also suggested that a key concern for financial advisers was finding new clients.

Perhaps these new clients are simply on the 'not yet engaged' list? Could they be sitting within the family of existing clients? Many advisers admit that they struggle to put a proper, well structured wealth transfer strategy in place. Why is this? A widely held view is that this next generations are unprofitable to service and that financial advisers don't have a proposition that fits with their current requirements.

However, failure to address this significant business opportunity and continue to focus on increasingly elderly, more wealthy clients could be short sighted as many inheritors indicate that they will change adviser at the point of wealth transfer. This could result in a flow of assets out of the business and impact its future valuation. So could a well structured wealth transfer strategy help to future-proof the business and also generate new clients?

But where to start? We are delighted to be working with Adviser Home to explore this challenge and deliver some practical suggestions for financial advisers to consider as they look at how they can practically address the 'great wealth transfer' opportunity.

Gillian Hepburn
Intermediary Solutions Director,
Schroders

Introduction

The coming years will see trillions' worth of investable assets and housing wealth move primarily from the baby boomer generation to their children, the millennial generation.

This transfer of family wealth between the generations will be a defining and enduring trend for the financial adviser market in the decades ahead.

It presents a vast opportunity for financial advisers, but also a significant risk for firms who fail to capitalise on this trend.

Current research indicates that 65% of inheritors do not intend to use their parents' financial adviser after they receive an inheritance. If this is correct and firms do not put into place strategies to mitigate this loss, this represents an almost existential threat for firms.

Over 80% of advisers believe that intergenerational planning is the biggest opportunity in the industry currently. However, many haven't yet put specific strategies and propositions in place to address this, with only 9% of advisers reporting that they're currently facilitating family conversations to help manage this transfer[1].

This issue is vital for financial advisers to consider, especially if they are planning an exit from their firm in the future. Many acquirers are placing increasing weight on the age profile of adviser firm's existing client banks and require to see robust strategies both to retain wealth which is transferred between the generations and to attract younger clients.

65%

of inheritors do not intend to use their parents' financial adviser

The issue in brief

Many financial adviser practices have an ageing client base – and as wealth passes down the generations advisers are faced with a potential loss of assets under advice.

1. Wealth transfer across the generations creates a need for professional advice, not just for the older generation but for the new inheritors
2. Step one is to ensure you have relationships with different generations within a family to help ensure that your services are valued across the generations
3. But the younger individuals may require different propositions, new client segments and different forms of communication.
4. Success will require that you assess the opportunity for a family as a whole.

This guide aims to help you to address the business risk and convert it into an opportunity for enduring success in terms of both practice revenue and potential capital value.

[1]The Generation Game, Sanlam report, 2018

What's the current position?

Many advisers hope to manage their client's assets as they move through the generations. In practice, this doesn't happen by chance. In fact the moment of wealth transfer is a point at which the adviser is in danger of losing the assets. The following statistics highlight the risks:

65% of inheritors do not intend to continue using their parents' financial adviser after they receive an inheritance

Only 9% of financial advisers are currently facilitating conversations around the transfer of family wealth between the generations

67% of financial advisers have clients with an average age of 50-65

Only 21% of financial advisers have a sales and marketing strategy aimed at attracting younger clients

There's clearly an issue for many firms; we suggest a simple audit of your own practice is the best starting point.

Auditing your business -
do I have a problem?

First things first. It's important to find out just how much your business stands to be affected by this looming shift.

A simple starting point is to look at your client bank:

1. Identify clients by **age groups**, for example 60s, 70s and 80s
2. Identify the **assets under management** in each group
3. Identify the **fee income** generated from each

If intergenerational wealth transfer results in 65% of this income leaving your business over the next few years how would you respond? Here is a calculation based on some assumptions:

High level audit

What does your later life segment look like?

Segment by age	60s	70s	80s
Number of clients	80	50	30
Assets under management	£50m	£30m	£15m
Fee Income (1%)	£500,000	£300,000	£150,000

£950,000 income - **£617,500** - 65% lost

This is a simple example, but a more detailed way of doing this is to review a client segment, for example, those in their 70s or 80s and then:

- List their family names, marital status, assets under management, actual fee income and dependents
- Assess your level of engagement with those family members using a simple 'high', 'medium' or 'low' categorisation
- Assuming that those with 'low' and 'medium' engagement move to a different adviser, this will enable you to identify the potential impact on your business.

Audit example

Calculate the amount at risk

Family name	Marital status	AUM	Fee income	Family	Family Engagement	IHT plans	At risk
Jones	Widow	£5m	£18,000	1 daughter	High	Will, trust	Low
Smith	Married	£2.5m	£10,000	3 children	Low		High
Brown	Divorced	£1.25m	£6,250	2 children	High		Low
Green	Single	£0.75m	£5,500	2 children	Medium		High
Etc		**£9.5m**	**£39,750**				

Total AUM	£9.5m
Total fees	£39,750

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Total AUM	£9.5m
Total fees	£39,750
At risk AUM	**£3.25m**
At risk fees	**£15.500**

We've already seen that those inheriting wealth are likely to change adviser after they receive an inheritance, but what could that equate to?

In 2016/17, 15% of adviser firms lost 50% of their value (*CEBR and Kings Court Trust, 2017*) due to losing this business, and not having a strategy and proposition in place to retain the wealth. This is not a trend most advisers can afford to ignore.

Understanding the influence of women

When discussing the upcoming shift of wealth, the tendency is to focus on the transfer to the next generation, yet the reality is, the initial transfer is likely to move the control of wealth from a married couple – or husband – to the surviving widow.

A recent US-based survey conducted by McKinsey & Co, suggests that the vast majority of 'baby boomer' wealth is currently held in joint households and that typically the first transfer will be from husband to wife, before any intergenerational transfer takes place.

Continue

Sadly, the evidence doesn't bode well for an easy ride here for advisers. Research indicates that many women are not satisfied with their current adviser, citing that they often feel 'shut out of the conversation'. An extraordinary 70% of women switched to a new adviser upon inheriting wealth.

While a growing number of firms are developing propositions and communication strategies to specifically cater for female clients, the vast majority have not. Only 9% of advisers stated in a recent survey (*Schroders Annual Adviser Survey 2020*) that they have a specific strategy to attract and retain female clients currently in place.

In terms of your client audit, the basic questions for your business are:

- Do I deal with both partners in a couple?
- What percentage of my clients are women?
- Do I have a clear proposition to embrace both joint households and women?

What if you're planning an exit from your business in the future?

Many advisers are looking for an exit strategy over the next 5 to 10 years which may involve a sale of the business. Acquirers will typically value an adviser business on a multiple of income.

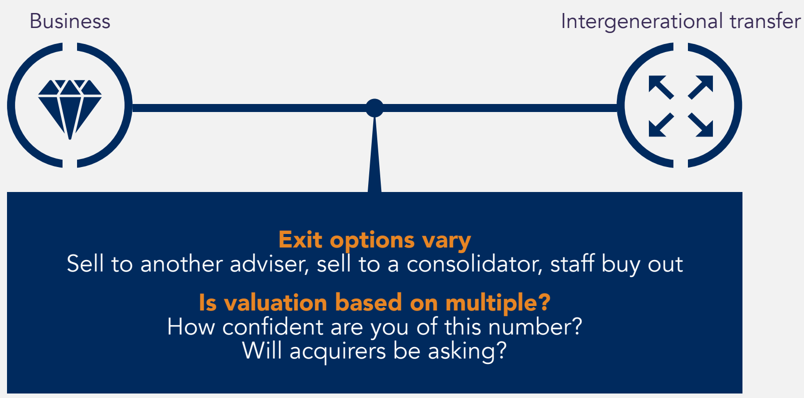
The truth is that if a significant portion of your existing assets under advice are set to drift away as they pass to the next generations in the coming decades, this is likely to have an impact on a potential valuation.

Many acquirers are therefore taking into consideration the age profile of a client bank when assessing a business. A recent survey of 125 advisers by Schroders found that 67% of advisers have clients with an average age of 50 - 65 and 24% have a client bank where the average age is over 65.

Yet only 21% of advisers surveyed have a differentiated sales and marketing strategy targeting younger investors. The point here is not that advisers should target younger investors as such, more that a multi-generational approach requires that you have the right proposition to meet client needs across a range of life stages.

How do these headline figures relate to your own practice? There is a strong case for carrying out an analysis of your own client base and, where necessary, setting in place plans to address the problems of an aging client bank.

Is the value of your business dependant on intergenerational transfer?



The next generation of wealth owners - how are they different?

There are vast differences in outlook and expectations on the part of the millennial generation when compared to their parents, so let's take a look at their expectations and characteristics.

Millennials are a generation of 'digital natives'. They came of age with access to the internet, social media and smartphones, their expectations around communication and access to services are vastly different.

Unless an adviser has integrated the next generation into client conversations or already developed propositions to embrace younger clients then their parents' adviser is not necessarily going to be an automatic or obvious choice.

In terms of existing financial services products, millennial consumers are likely to predominantly interact with retail banking via apps and online banking. The relative success in the UK of challenger banks such as Revolut, Starling, Monzo and the like in this generation shows how easy the shift can be from face-to-face customer service, to ease of access and technological sophistication. This is an important consideration for many advisers when it comes to their existing communication channels and use of technology.

These are of course vast generalisations, but the picture this paints is of a tech-savvy consumer who has lots of options. One who expects the services they interact with to be available on their terms. In light of the intergenerational transfer of wealth, it is worth advisers thinking how their firm currently stands up to these expectations and what they can do to better position themselves to be differentiated and supported by technology.

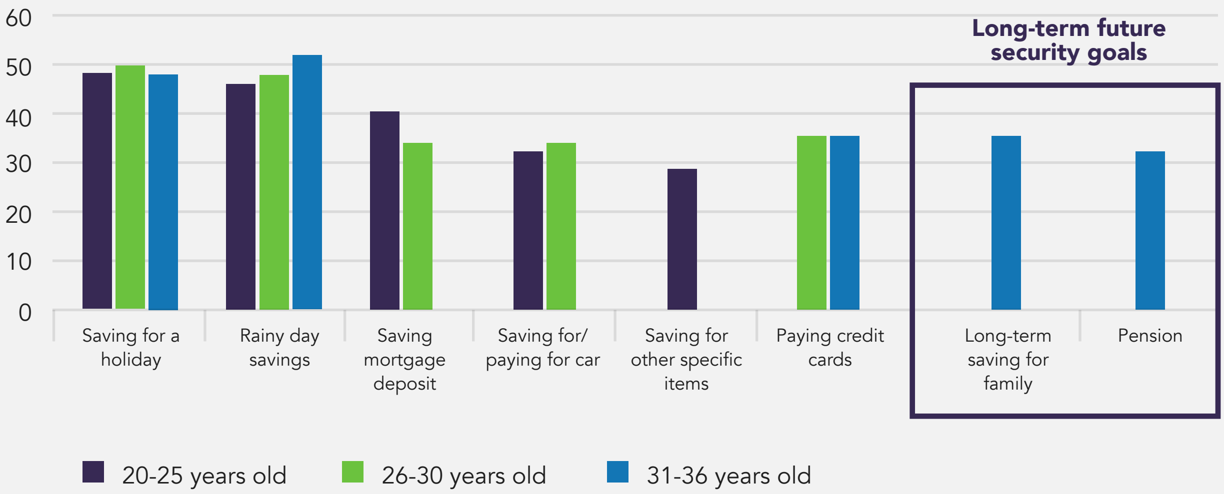
However, while the expectations of those who are set to inherit wealth many be different, the fundamental value of the advice proposition, of course, remains unchanged. The absolute requirement for good and sound financial planning and advice has never been greater and in fact **76% of the under 45s say they will engage an adviser when they inherit wealth**.

The opportunity

Let's consider for a moment that the oldest millennial is now approaching their late 30s. The stats say that their top 5 current priorities after daily living costs are long-term saving for the family and pensions – which suggests immense potential demand for advice – even before we consider their role as new wealth owners.

Millennial money focus

Top 5 current priorities after daily living costs by age



Source: Bdifferent survey of 1005 millennials 2018

When it comes to how they intend to manage potential inheritance, millennials clearly take a responsible approach here also. As we've noted, research indicates that 76% of under 45s who receive an inheritance will be looking to engage the service of a financial adviser.

We know that servicing younger clients hasn't previously been seen as profitable and therefore a priority. However, when we look at the potential threat to a business discussed in part 2, combined with the appetite among younger investors for advice, it's clear that if a business wants to survive, it needs to make fundamental changes.

Developing the proposition

Once you've carried out a brief audit of your business and considered the risks and the opportunities it may be helpful to think about how you can adapt your approach to client segmentation to deliver the appropriate proposition. Below we offer a basic template for inter-gen and life stage-based propositions.

Life stage	Objectives	Communication style	Product	Investment Solutions	Charging structure
At or in retirement	Wealth preservation. Decumulation and income, Inheritance protection and tax planning, care funding and provision	Mostly face to face	Multi Asset, DFM, Drawdown. EIS/ VCT Equity Release LTC plans	Bespoke portfolio or income solution	AUA based
40+	Wealth accumulation, pension planning, protection	Combination – face to face review and online service	ISA regular and capital, Pension/ SIPP	In accumulation – a multi-asset risk aligned solution e.g model portfolio or multi-asset fund	Fixed fee – advice on demand
20+	House purchase, family protection, credit management	Mostly online	Mortgages, Life/Critical Illness and Income Protection	In accumulation – a multi-asset risk aligned solution e.g model portfolio or multi-asset fund	Product based

Multi-stage transfer and the Family Office approach

The development of propositions for each of the three life stages may require a holistic multi–gen view on profitability. The benefit is that you can go some way towards de-risking your practice, achieving a balanced approach across the generations and ultimately creating a stronger, more valuable business.

Where these three segments are part of a single family, the overall proposition can be crafted into a 'family office' with an overarching family financial plan. The adviser can create and nurture a solid relationship with the whole family rather than purely with a specific section of the wider family.

When it comes to planning conversations, the earlier different members of the family can be involved in these, the better. But it's important not to underestimate how sensitive such conversations can be. We cover this under Communications Approach below but needless to say, each family will be different. Step one has to be to ensure that you are known to different members of the family so you can start to assess where any sensitivities may lie. The benefit though rests in a holistic approach with a variety of life-stage based propositions that cater to different segments of the family. This all-encompassing family approach when done correctly should really help 'future-proof' your firm.

One example of involving family members early could be where a Power of Attorney is required. This naturally requires a full explanation of the responsibilities of the next generations. Similarly any conversation around equity release requires a full understanding of the senior generations' attitude to inheritance, and the next generation's full awareness of this and the consequences for their own financial planning.

Investment solutions

At the core of any multi-generational practice has to be a flexible set of investment solutions. For the younger generations. Simple multi-asset propositions will appeal to those in savings or early investment mode, but for the older generations with more complex requirements the use of discretionary vehicles is likely to be required.

Sustainable investments in a multi-gen context have an even greater significance. Attitudes may vary across gender and generation and suitability discussions will need to reflect this. Moreover, next generation clients are perhaps more likely to be retained where the investment solutions are underpinned with a real long-term mindset, informed by a commitment to the future reflected in a genuinely sustainable set of portfolios.

This is clearly a real growth area in years to come and confident communication in this area is a key factor in attracting and retaining clients across the generations.

Communications approach

Solving the intergenerational puzzle is not just about changing your proposition to cater for different client segments, it's as much about communicating differently. With an increase in the use of technology for all client work, this will for many advisers be a natural transition.

It's absolutely paramount that advisers are communicating early and effectively in language and through channels that will resonate with those who will be in receipt of wealth in the coming years and decades.

Start the conversation early

All the evidence suggests that when inheritance is on the horizon there is typically a great desire of parents for their children to speak to an adviser about the impact of potential inheritance, focusing on how they intend to handle the money.

Of those questioned, 40% said they cared about what their family would do with an inheritance, 59% want their children to see an adviser – but only 9% have a conversation about it (*The Generation Game, Sanlam report, 2018*). This is clearly an opportunity for you as the adviser to encourage this conversation to happen ahead of time.

Of course, these sorts of intergenerational family conversations can be extremely difficult. All kinds of issues around the cost and provision of long-term care for older family members, the future of the family home, different levels of wealth among family members must be discussed. Moreover, there is no such thing as the 'typical family'. A nuanced approach is required to establish the requirements of previous spouses, of step-children, and of different attitudes to inheritance.

It's important then to take a look at the skill base within your practice. If extended family conversations can be challenging do you have the soft skills to meet this challenge? Irrespective of the difficulty of these discussions, their necessity cannot be overstated. If you as the adviser can spur on these kind of conversations and facilitate them professionally, most clients will be tremendously appreciative.

> “ *Intergenerational conversations about money can be difficult. If you can facilitate them successfully, most clients will be tremendously appreciative*

It's essential to start this process with an educational foundation – rather than focusing on details of wealth or property value in the initial conversation, the focus should be about overall goals, principles and attitudes to inheritance and of course the basic tax and legal structures that apply.

Continue ▶

From the advisers' seat the aim of this soft communication approach should be to offer genuine value and advice to the children of your current clients, but also establish a relationship well in advance of the transfer occurring, and ideally bring the children of your clients into your practice in some capacity.

Consider offering a free or low-cost financial review or coaching session with your clients' children. This could be offered over zoom or other video conferencing and will also show the children of current clients that they can access advice on flexible terms at their convenience.

Keep the connection going

Once you've made the connection it's important to stay connected across the family.

After an initial session, consider adding the children of your clients to your client email newsletter or other ongoing communications. The aim of this is to cement the relationship and keep you as the adviser, or firm, top of mind. Likewise, if you have high-quality social media communications going out, this also provides useful 'soft' touchpoints.

If you have a portal, especially one with open banking, consider inviting the children of your clients into the portal, ensuring that they have access and that they are connected with the firm in that capacity.

One interesting approach employed by several forward-thinking firms recently is to set up an emergency area in their portal containing digital copies of vital documents should an emergency occur. This is often naturally leads to other members of the family having access to the portal as well as the adviser. Again, this is another clear opportunity for the adviser to add value and forge a relationship throughout their clients' whole family.

The aim of all of this activity is to make sure that once you've established a connection you maintain it through consistent communication: email newsletters, social media and like. As well as integrating your brand into their lives. Apps and portals, especially ones which clients actually like to use can be incredibly effective tools for this purpose.

Your action plan - 8 key steps

While many advisers believe that intergenerational wealth transfer is a great opportunity for their business, many are still considering how to address this, and as a result, potentially impacting the future value of their business. With trillions set to move across the generations, we suggest financial advisers might want to take the following steps:

1. **Quantify the opportunity** – Audit the business and understand the assets under management and fee income which may be at risk if an intergenerational wealth strategy is not in place.
2. **Understand the next generation** – What are their financial requirements and how can you support them?
3. **Review your proposition across the generations** - Consider product and investment requirements, services, adviser charging and the use of technology.
4. **Engage now** - 65% of people inheriting wealth don't continue to use their parents' adviser – how can you engage with the next generation before the transfer of wealth takes place? Turning up at the reading of the Will might be too late!
5. **Widows** – Don't forget that often the first point of transfer is husband to wife. What is your relationship like with her and do you have a female-focused proposition?
6. **Adopt a holistic approach to working with families** – profit from next generation clients might be challenging in the short term but engaging now can future-proof the business – particularly if a future exit strategy involves the sale of your business
7. **Family conversations are difficult** – What do these look like? How can you address them? and do you have the appropriate skills within the business to manage them?
8. Once the family and the next generation is engaged – **keep them engaged**!

Hopefully, this guide has provided some useful ideas, thoughts and practical advice to help your firm thrive in the face of this significant intergenerational transfer of wealth.

Bring together your strengths and ours

We know the strength of the relationship you have with your clients. But we can also bring powerful global investment resources to help you keep their investments on track. From model or bespoke portfolios to multi-asset funds, we're focused on delivering what your clients need.

So, play to your strengths by making the most of ours.

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Please remember that the value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

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