Adviser Home
DEVELOPMENT PLATFORM

INTERGENERATIONAL MARKETING

An Adviser Guide

In association with

AEGON JUSTFA octopus

With around **£5.5 trillion** expected to pass between the generations between 2017 and 2042[1], and the inheritance tax (IHT) nil rate band frozen at £325,000 since 2009, intergenerational wealth transfers and IHT planning are affecting an increasing number of clients – not just the wealthy.

This transfer of wealth provides a real opportunity for advisers to build relationships with the different generations and incorporate intergenerational wealth planning into their business model, however a quarter of inheritance beneficiaries, walk away from their parents' or grandparents' financial adviser due to a lack of relationship[2], leading to potential retention risks.

Understanding how to incorporate intergenerational wealth planning into your business model, as well as how to engage emerging generations, can maximise the opportunity for you and your business.

At Aegon, we're dedicated to working in partnership with advisers and their business - providing insight and support to help you maximise opportunities. So, we're delighted to collaborate with Adviser Home on this guide. You'll find practical suggestions to identify advice opportunities, insight into the threats and tax implications of wealth transfers as well as how to use behavioural economics to build relationships with the different generations.

With our innovative individual and workplace platform solutions, investments and support, together we can help your clients get closer to their financial goals.

To find out more visit
aegon.co.uk/advisers

Visit >

[1] Passing on the Pounds: the rise of the UK's inheritance economy, Research paper 1, page 2. Data source, Kings Court Trust, February 2017.

[2] Wealth transfer in the UK – the continuing story of the inheritance economy. Research paper 2, page 9. Data source, Kings Court Trust, February 2017.

JustFA is all-in-one advice & investment platform for financial advisers to run and grow their businesses online.

We combine proprietary technology for streamlined digital advice workflow with custody and investment management.

Advisers have access to a full suite of tools for client onboarding, fact-finding, risk profiling, and recommendation reports. Our streamlined, simple interface allows easy navigation via dashboards, document downloads, e-signatures, and much more.

JustFA offers all the main functions of a modern investment platform, with multiple tax wrappers, payments and transfers, all easily managed at the click of a button. The platform gives access to a selection of managed portfolios which cater to a variety of client risk profiles and investment preferences.

JustFA client engagement tools allow advisers to communicate with clients through chats, audio and video calls, and screen-sharing and co-browsing, giving the feeling of a virtual presence. Clients have access to a fully-developed portal, co-branded with the adviser firm logo and colour scheme, where they can input their personal details, upload ID documents, fill in a risk profiling questionnaire, set up their goals, review and sign documents, and access their accounts valuation.

All the processes on the platform are compliance-ready with built-in client onboarding and checks throughout the systems. Within this framework, advisers can also use their own client documents and templates, set up fee structure and customise the workflow.

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octopus investments

Founded in 2000, Octopus Investments set out to be a financial services company with a difference, and one that put its customers first. A part of Octopus Group, today across all our entities we manage more than **£12.8 billion*** on behalf of over 63,000 investors and have over 750 employees.

From the very beginning, we've invested in the people, ideas and industries that aim to change the world and unlock a brighter tomorrow.

We built our expertise in spaces that make a real difference in financial planning. And we've designed investments that drive money into those sectors we truly believe in.

The Octopus Inheritance Tax Service gives investors the opportunity to invest in the shares of one or more unquoted UK companies that are having a positive impact on the growth of the UK economy. The Service targets a steady, predictable, but modest level of return.

We select companies that we expect to qualify for Business Relief (BR), a government-approved relief from inheritance tax. Provided the investment has been held for at least two years at the time of death, it can be left to their beneficiaries free of inheritance tax.

Please remember, the value of an investment, and any income from it, can fall as well as rise. Investors may not get back the full amount they invest. Tax treatment depends on individual circumstances and tax rules could change in the future. Tax relief depends on portfolio companies maintaining their qualifying status. The shares of unquoted companies could fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

Find your local BDM

Find your local business development manager for a quick and easy way to stay connected with us. Follow the link below to find the phone number for the dedicated team serving your area.

Find your local contact

* Octopus as at 31 December 2022

Funds under management data includes undrawn commitments, funds under advisory mandates, funds monitored and the Octopus Cash service. It also includes funds under the management of Octopus Renewables Limited.

CPD

Intergenerational Adviser Guide
April 2023

ZISHI have accessed this material for CPD Eligibility. As an accredited CPD provider, ZISHI have assessed this material as 45 minutes of unstructured learning with the following learning outcomes.

Learning outcome

1. Understand the overall landscape of where wealth sits in the UK and the importance of the legacies this will create including what impact this may have on your business/future growth and/or income.
2. Understand the benefits of targeting younger clients and the commercial benefits planning holistically with families rather than just existing clients in isolation.
3. Be able to describe the opportunities that exist in term of wealth distribution and identify shortfalls in product or knowledge gaps.
4. Appreciate the opportunities that exist in forming a strategy for intergenerational advice against a backdrop of other firms not yet doing this.
5. In relating to a client’s legacies and inheritance, evidence the changing landscape to clients to feedback to them where growing liabilities/risks are.
6. Identify relevant sources for statistical updated information that can be used with clients or for the above, for strategic planning and/or CPD purposes.

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INTRODUCTION

A challenge and an opportunity

Welcome to the Adviser Home guide to **intergenerational advice**. We all know that financial advice and financial planning are built on foundations of saving, insuring and investing to build up assets.

Those assets, in turn, underpin a client's financial goals and wellbeing to the huge benefit of them and their families. It brings, among other things, financial certainty and significant freedom and choice to their lives.

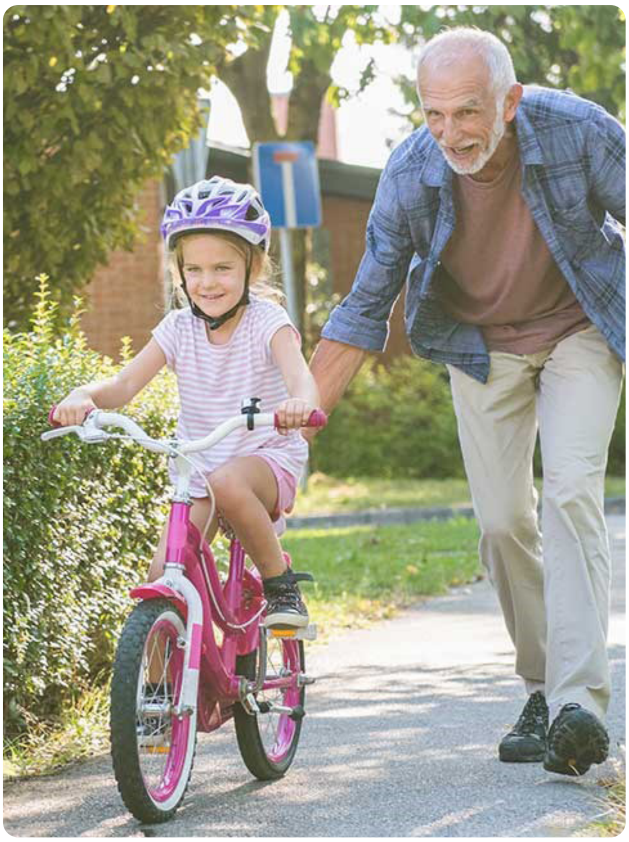
In general, and in regulatory terms, financial advice is still approached and discussed, as being about advising one person.

Hence descriptions such as individual advice, bespoke advice and face-to-face to advice that are so frequently used to describe what financial advisers do.

However, advisers know that this isn't quite the full story.

Many clients do not rely entirely on their own income to build wealth and receive financial help often at important life stages.

Many receive family help to climb on to or even occasionally to move higher up the housing ladder. They sometimes receive support for education costs for their children or even for starting a business with funds often provided by older family members.



Perhaps even more frequently, they will receive an inheritance at some stage in their lives which can, again, provide a significant boost in terms of assets and/or income opportunities.

All of this takes place in the context of significantly rising asset wealth.

That has led many advisers to change their mindset, their approach and, in some situations, adjust their services or even their business model at least to a degree.

It can involve the promotion of services such as estate planning and with greater attention paid to the opportunity provided by pensions to pass on wealth. It is likely that many advice practices will have developed and evolved in this direction in any case.

Other specialist services may require a great deal of focused advice such as business succession planning with families' financial interests usually at its heart by facilitating a business sale or surety of future income.

There are wider investment options for clients with significant wealth and, following investment advice, understanding and appreciation of risk around assets that might, for example, attract business relief.

At the other end of the wealth scale – there is the provision of advice and guidance for younger family members.

Advisers, again, have adopted a range of approaches. It can include specific service design ranging from the promotion of mortgage and protection advice, formalised inclusion of younger family members in advice discussions around wealth and inheritance through to platforms which offer services to younger individuals in terms of investing, pensions and provision of knowledge.

There are challenges including simple capacity issues in terms of advising clients, approaches which focus very strongly on minimum assets and even regulatory concerns regarding lighter touch contact where full advice cannot be justified or financially supported. Anything short of full advice may worry some advisers in terms of future liabilities.

The advisers we have spoken to are alive to many of these issues.

There is, of course, a commercial issue as well. The retired in the UK represent a huge store of asset wealth and can make up a considerable proportion of an adviser's client base.

However, advisers, especially those who are looking to sell and realise a capital sum or perhaps retain a degree of ownership and an income from the profits of business, also need to pay some attention to the age profile of their client book.

Acquirers may want to see some evidence of the recruitment of younger clients or at least processes for ensuring that a lot of the wealth under advice continues to be advised upon by the firm as wealth passes to a partner and/or younger family members.

One clear message from the conversations we conducted in the creation of this guide, is that advisers are engaging with these issues. It involves a focus on people as well as on assets and, to varying degrees, adaptation.

The good news overall is that many clients and potential clients hold very significant levels of wealth. That wealth will inevitably pass down the generations – so at heart this guide outlines an opportunity for advisers to help their clients, and the next generation of clients, continue to prosper.

THE ECONOMIC CONTEXT

Where is the UK's wealth in broad terms?

There is a very significant amount of family wealth in the United Kingdom across a wide range of assets.

We wanted to take a brief look at some of the key statistics to illustrate the situation.

Important sources for statistics about such wealth range from governmental bodies, the tax authorities, and economic and fiscal advisory bodies with some useful often detailed analysis from thinktanks, campaigners but also financial companies.

Much of the debate, perhaps understandably, focuses on the distribution of wealth between the top decile or quartile and groups towards the bottom of the income scale.

That is likely a concern for many in terms of society, but our main motivation here is to set out the amount of wealth and even, to a degree, the opportunity.

HOUSEHOLD
wealth

PENSION
wealth

ISA
wealth

UK HOUSING
wealth

UK INHERITANCE
tax

Continue

HOUSEHOLD WEALTH

The latest Office for National Statistics survey for household wealth was published on 7th January 2022 covering 2018 to 2020 for Great Britain excluding, in this case, Northern Ireland.

Office for National Statistics

Median household net wealth in Great Britain was £302,500, a **20%** increase compared with July 2006 to June 2008, after adjusting for inflation.

The wealth of the richest 1% of households was more than **£3.6 million for each**.

Median wealth was highest for households whose head was aged from 55 years to under State Pension age (£553,400). The wealth of this group was **25 times higher** than those aged 16 to 24 years.

Household median wealth was highest in the South East of England at £503,400, having **risen 43%** since 2006. It was lowest in the North East of England at £168,500.

Country-wide, households where the head of the household was retired represented the wealthiest group with **£489,300 on average**.

In the absence of household wealth figures, according to the Northern Ireland Statistics and Research Agency, the Gross Domestic Household Income (GDHI) estimate for Northern Ireland for 2020 was £32,794 million, representing **£17,301** per head of population.

NISRA

The 2020 Northern Ireland GDHI per head of population figure was **80.7%** of the corresponding UK figure.

Continue

PENSION WEALTH

The same survey showed the top decile of savers held **64%** of the country's private pension wealth, while the bottom half held less than 1%, between April 2018 and March 2020.

Median pension wealth for the top 10% was £637,500. Median pension wealth for people aged 55 to 64 was £107,300, with around two-thirds of people in this cohort still paying into a pension.

In good news for society, 57% of people were actively saving for a retirement during this period, up from 43% before auto-enrolment was introduced in 2012.

An Institute for Fiscal Studies report looking at the Gender Gap in Pensions Saving published in March 2023 found that on average, across all working-age people, women had average total annual pension contributions of £2,600, compared with £3,400 for men. The most important driver was differences in average earnings: averaged across all people participating in a pension scheme. Yet the report found that women contribute a higher proportion of their pay into their pension (15%) than men (13%).

While this may not be good news, there are suggestions, considered later, that overall, women are set to control significant and even the majority of wealth, particularly as **housing wealth** passes between couples.

Continue

ISA WEALTH

According to the 'Annual Savings Statistics: June 2022' published by HMRC, at the end of 2020 to 2021, the market value of adult ISA holdings stood at £687 billion. That represented an 11% rise compared to the value at the end of 2019 to 2020 period.

HM Revenue & Customs

This was driven by a **31% increase** in the market value of funds held in stocks and shares ISAs, accounting for 58% of the market value of ISA funds.

Cash ISAs account for **42%** of the market value, a decrease from 51% in 2019 to 2020.

The median ISA holder (by income) had annual income of between £20,000 and £29,999, with an average ISA market value of **£21,996**. At higher earnings levels the number of ISA holders declines, due to fewer people in higher income bands, but was accompanied by a large increase in average ISA savings values. For ISA holders with incomes of £150,000 or more, the average market value of ISA holdings was £74,928.

Looking at more recently established savings product, **50,800** account holders withdrew from their LISA in order to purchase a first-time property in 2021 to 2022, an increase of around 15,000 on the previous tax year.

UK HOUSING WEALTH

The total value of UK homes reached **£8.68 trillion** at the end of 2022 according to a Savills analysis. With outstanding mortgage debt standing at £1.66 trillion, according to Bank of England records, Savills calculated that net housing wealth stood at more than £7 trillion.

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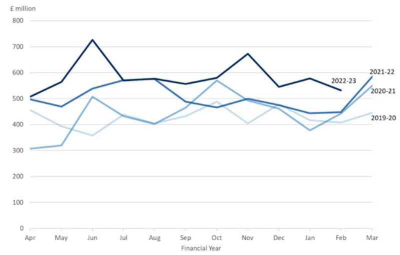
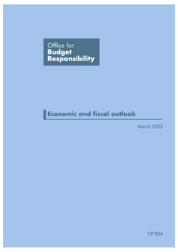
UK INHERITANCE TAX

The amount of inheritance tax paid may also give an **indication of wealth** in the UK as well.

The inheritance tax take for 2022-23 to the end of February stood at **£6.4bn**. IHT receipts for February totalled £531m, according to the latest HMRC release for tax receipts and National Insurance contributions for the UK, published in March 2023.



The record-breaking IHT total follows the Office for Budget Responsibility latest assessment of the public finances (accompanying the recent budget. It calculated likely future IHT totals, with estimates that between 2022-23 and 2027-28, the Treasury will receive nearly £3bn more than was previously forecast.



The projected total IHT tax take by 2027-2028 sits at **£45bn** according to the OBR.

By 2027-28, the OBR estimates that **6.7%** of deaths – around 47,000 deaths – will trigger an inheritance tax charge, up from an estimated 4.1% in 2020-21.

WHERE IS THE WEALTH TRANSFERRING TO?

A new report from the IFS was entitled 'Who gives wealth transfers to whom and when? Patterns in the giving and receiving of lifetime gifts and loans.'

Again, we need to point out that many of these reports tend to focus on inequality, but they give us some very interesting facts and figures for understanding the potential advice needs for families.

It has some very useful statistics.

It found that £17 billion is gifted or loaned informally each year, almost all from parents to their adult children.

Over a two-year period, around 5% of adults receive a substantial gift and 2% receive a substantial loan, from friends or family.

Over an eight-year period in adults' 20s and early 30s, around 30% receive at least one transfer. Gift receipt has become slightly more common since 2017 but there is no strong trend of larger amounts being transferred over time.

The median gift and median loan received are both around £2,000 but the 10% largest transfers are over £20,500. The largest 5% of transfers made up more than half of the total value of transfers received over 2018–20.

Substantial transfers during life are mainly gifts, rather than loans. The annual flow of gifts is around four times the value of the annual flow of loans. In total, these lifetime transfers are around a fifth of the size of the annual flow of inheritances.

These transfers overwhelmingly represent gifts from parents to their adult children, with parents giving 83% of the value of gifts. Some parental giving could be inheritances passed straight on to children, but only 3% of the value of inheritances directly received is matched by a contemporaneous gift being given.

Half of the value of gifts received is reported as used for property purchase or improvement. Those using transfers for this purpose received over £20,000, on average.

Although a little dated, research by Family Building Society with the London School of Economics in 2018 found some interesting characteristics for financial help related to property purchases.

It found that at the time and among its own members, the median parental contribution was £30,000, while the mean was much higher at £59,200 in the higher-cost areas of London and the South East.

KEY STATISTICS UNDERPINNING THE OPPORTUNITY

We believe that the key academic report detailing the opportunity is 'Inheritances and inequality over the life cycle: what will they mean for younger generations?' by **Pascale Bourquin**, **Robert Joyce** and **David Sturrock**. It is published by the IFS, and supported by the Nuffield Foundation and the Economic and Social Research Council and published in April 2021.

Again, the report is mostly concerned with inequality, but it does clearly outline the opportunity as well. It found the following:

→ Inheritances received by households over their lifetimes are set to grow in importance across subsequent generations from averaging about £150,000 (in today's terms), or 9% of lifetime household income, for those born in the 1960s to around £320,000, or 16% of lifetime household income, for those born in the 1980s.

→ Those with higher incomes are, on average, set to inherit more than twice as much as those with low incomes - the median lifetime inheritance receipt for households in the top lifetime income fifth amongst the 1980s generation will be around £390,000, compared to around £150,000 amongst the bottom fifth.

→ It estimates that inheritances will increase lifetime consumption by 8%, on average, for the 1960s generation, rising to 14% for those born in the 1980s.

It is also clear that the tax position has shifted significantly amid rising property prices and often thresholds frozen for the long term.

Camilla Wilkes

Senior business line manager for IHT

octopus investments

"There are 980,000 property millionaires in the UK now, a huge number. They're pretty much a mass affluent group, particularly in the southeast. But last year, there were probably more millionaires created outside London than there were in London for the first time ever.

Then we have the frozen tax allowances. It's not just the nil rate band. The gift exemption on marriage has been frozen since 1975. That's £5000. If that was inflation adjusted, it would be £50,000. The annual gift exemption of £3000 has been locked up since before the Falklands War. It's been frozen since 1981. There are a lot of people who go to bed without an inheritance tax bill and wake up with one, because their property prices increased, even though they might not feel rich because they haven't changed their lifestyles.

Continue

Recent societal shifts have also arguably shifted perceptions and could even bring an advice-sceptical generation to advisers and advice.

Camilla Wilkes

Senior business line manager for IHT

octopus investments

> The pandemic made everyone feel much more mortal. People don't know how long they're going to live. Living has got so much more expensive. So, gifting has become a lot harder.
>
> I think the liquidity of your assets is super important. If you see HMRC are now charging 6% on late IHT bills and if you're trying to start to sell something that's relatively illiquid and that might take years, you can rack up a significant bill. That is where business relief works well. But I think from an adviser point of view, as well, the opportunity of intergenerational planning has been well spoken about over the last five years and it presents an amazing opportunity to share the value of financial advice with what is typically an advice-sceptical generation.

Wilkes added:

> Inflation is forecast to stay high. But wages aren't expected to rise in line with inflation. With the various tax rates effectively going up, real wages will fall. So many people will be called into paying more tax than they expected but won't feel better off. Then if you look at the actual inheritance tax receipts reaching several billions, from our perspective, we feel that justifies advisers considering the full suite of solutions. Of course, use up all the allowances, the resident nil rate band, gifting, what you would call the standard things. But we would also say think about using business relief for a percentage of assets.
>
> I think that times are changing. Thinking about inheritance tax isn't just for the very wealthy anymore. I think there was a preconception that if you were just a normal person, who maybe just had a house and a few other things, you didn't need to look at the bigger picture.

She says there are other factors to be considered. BPR has paid out with no significant issues for those inheriting and is liquid – pensions have restrictions, gifts are, in theory at least, non-returnable.

Continue

Camilla Wilkes

Senior business line manager for IHT

octopus investments

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Sadly, we’ve had over 5000 investors die holding our products. And as far as we’re aware, there hasn’t been any problem with anybody being able to claim business relief. And I think that probably gives the most comfort to advisers and their clients. Business relief is assessed at death.

You have to take a step back and say: ‘Okay, so we’ve used the resident nil rate band. We’ve looked at the family, and we’ve worked out who we can give specific things to. We’ve done that now. But my clients is only 65 or 70 and in good health. No care needs at the moment. What can I do with the money that doesn’t give it away?’ That you could mitigate 40% IHT with some of that money seems pretty significant.

WHERE ARE ADVISERS IN TERMS OF THEIR APPROACH?

A research paper produced by AKG entitled 'NextGen or LostGen? The need to develop new client acquisition strategies', sponsored by Schroders and published last year, revealed some very interesting statistics about where advisers are focused.

In terms of considering what age groups were being targeted by the firms seeking new clients, it found the following. Responding advisers could select from more than one category.

Some 93% of advisers were interested in recruiting clients between 46 to 54 and 91% those aged from 36 to 45. Some 41% selected the 55 to 64 group but with very few advisers interested in 65 to 74 age group of 5% and a mere 2 per cent for those aged 75 and above.

By contrast, 68% of advisers were interested in recruiting clients aged 18 to 35 years of age. In response to a question about what clients were being targeted, it was interesting that 17% identified family units 17% and 15% children/grandchildren of existing clients.

A report by NextWealth for Fidelity, also published last year, found that 21% of advisers said they had a specific strategy in place for wealth transfer while 40% said that it was currently under consideration.

The numbers with a specific strategy increases to 44% in larger firms with 11 or more advisers.

Just over a third of advisers or 34% said that they advise the family rather than the individual.

Continue

Yet only 9% said they have a separate proposition for working with the children of current clients.

The advisers suggested that the challenges included defining the options for intergenerational transfer as well as engaging younger generations with financial planning, trusts and estate planning.

Research from Octopus Investments found that 46% of financial advisers aren't confident they would retain assets under advice when wealth is transferred to clients' family members, with only 10% very confident. The research also found that the majority (59%) don't yet have a strategy to address this potential loss of assets.

Additionally, the research identified a perception gap between advisers and those inheriting wealth. While financial advisers lacked confidence in retaining assets, 67% of those inheriting a significant sum of money said they intended to seek financial advice and 75% were open to using the same adviser as their family.

THE SITUATION REGARDING WOMEN AND WEALTH

One of the interesting aspects of the discussion centres on partners where sadly one of a couple dies. In the majority of cases, although certainly not all, the surviving partner will be a woman, and this has been the focus of a lot of attention and debate.

Any appraisal of the national level statistics will show that in very broad terms, women are generally less well off in wealth terms and that worries policy makers. There are also predictions, particularly centring on the baby boomer cohort, that women will come to influence the majority of decisions regarding wealth.

We can put this into investment terms to a degree.

A McKinsey survey in 2022 found that women in Western Europe control around €4.6 trillion in assets under management with €3.6 trillion—78%—held by women who are married or in partnerships and are the main financial decision maker in their household. Single and divorced women hold the remaining 22% of AUM.

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By 2030, women's share of investments is expected to reach 45% of AUM and a total of €10 trillion.

There is an oft-cited report from the Centre for Economic and Business Research suggesting that because of the wealth concentrated among the baby boomer generation, that around 60% of the UK's wealth will be in the hands of women by 2025 [though the report making this original assertion dates to 2005].

Yet whatever the current situation, advisers will be aware that an increasing amount of wealth is held and influenced by women.

Consultant Next Wealth managing director **Heather Hopkins** says:

“ *"Typically women live longer than men and typically the wife is younger than the husband. We ought to think about feminisation of wealth - so wealth transfer not just intergenerational wealth transfer."*

THE IMPORTANCE OF AN INTER-GENERATIONAL APPROACH/BUSINESS PROFILE

An intergenerational transfer of wealth is of course inevitable. Experts acknowledge that it presents challenges for advisers, but one that many are grappling with effectively.

Fairstone managing director of partnerships **Anna Pollins** says that the profile of the client book is part of the due diligence on any business which they are reviewing for potential acquisition.

“ *"There is a hygiene factor around client age, concentration of wealth etc to ensure it's a sustainable business model. You don't want to acquire a businsss with revenue that disappears within a year. Of course, a lot of businesses are pretty good and will have a strategy in place, but when we're looking at firms to potentially buy you need look at their client book and ensure it has longevity,"* she says.

"Even from a client point of view, there's a challenge there if your advisers are retiring at the same time as you - that can't be too appealing if they want their wealth to be managed across generations. We encourage our advisers to do client segmentation and to audit their client book - not just by age, but also relationships - i.e. how the wealth may shift and where that money's going, and manage accordingly.

There is this £5.5 trillion number for wealth that is thrown around, but it is not going to happen overnight. It's a gradual shift over 10 to 15 years. Ultimately, it's just about getting good planning in place with common sense tactics, ones that I've seen advisers use.

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"That means involving the family, introducing themselves and ensuring they're front and centre for the family for all things wealth. You don't necessarily have to do lots of whizz-bang stuff, with apps and videos to focus on the next generation, although there will be some people who want to really focus on that."

"Ultimately good financial planning should incorporate intergenerational planning at its core anyway."

Debbie Dry

Head of business development

JUSTFA

> I think if you're trying to have, or to initiate a new relationship with a potential client, at the point of the reading of the will, that is incredibly difficult. They've already got their own preconceptions about what financial advice is; they may or may not have had those conversations with their parents, there is a perception that their parents adviser is not of their generation, and not how they want to engage. The stats show that a large percentage of assets are lost at that point. So, if you have already engaged and have that trusted adviser relationship, already then you are increasing the likelihood of retaining that that relationship at the point when they when they need it, and they inherit the wealth.

Focus on the client – not the wealth

Hopkins also considers some important distinctions. She says:

"Financial planners focus on supporting the client, not the wealth. While IHT is important, too much intergenerational wealth transfer content focuses on asset retention rather than planning.

"For example, if a client dies and his/her wealth is divided into four - the right thing to do for the inheritor might be to pay off a mortgage or loan or help a child buy a house. The adviser advises the client - not the wealth - so it's not about wealth retention but financial planning."

Syndaxi Financial Planning director **Robert Reid** says:

"There are risks to an adviser practice if an inter-generational approach isn't built into to a business. Because ultimately, when granny and grandpa and mom and dad pass away, the children are going to inherit funds. If you can extend the period of time in which your firm is advising the family as a unit, as opposed to as individuals, then that has to make sense."

"You have to realise the population of your clients is ageing. If you don't have that kind of strategy, and I'm coming along to buy your client base, I'm not going buy it when I know that you have no idea who will inherit the funds. Those funds could dissipate everywhere. So, it's about trying to create a better longevity for a client base and to deliver a level of service is appropriately valued."

Continue

Taras Rybak

Strategy Director

JUSTFA

"Probably 80 to 90% of advisers see a need to engage with the children of their clients. Mainly we will be looking for long term investments and pensions, and to provide that. They might be putting aside reasonable amounts like £500 or £1000 a month, but won't have a large lump sum to invest. In the traditional face to face models it still won't be profitable enough or economical enough for adviser firms, so they can do it in a hybrid mode from onboarding to client review in one streamlined workflow, everything is done kind of automatically or remotely. That saves a lot of time, because they can still engage with these clients profitably, and ultimately build up the relationship, so when there is a wealth transfer, they can easily choose to stay on with the adviser.

A dissenting view

Consultant and CWC director **Clive Waller** suggests that such services are really only for the very rich where they are crucial.

"Hence family office and serious wealth management with a typical assets under management of greater than £5m where money will cascade down whatever the circumstances.

"For the rest, it rarely works. The under 50s need advice on mortgages, debt, savings, income protection and life cover.

"Most IFAs have boomer clients, - pre, at, or beyond retirement. They need none of those products or services. Most boomer type advisers we've interviewed believe they will receive plenty of income from drawdown etc portfolios to keep them in comfort."

DISCUSSING A FAMILY APPROACH WITH YOUR ESTABLISHED CLIENTS

It is interesting in terms of having those conversations that **Aegon** has found that clients tend to be more positive about having those conversations with what it calls inheritors than might be thought.

Dr Thomas Mathar

Insight manager at the Aegon Centre of Behavioural Research

AEGON

> The first piece of good news is that if you asked clients to be introduced to their inheritors with a view to offer them financial advice, more would feel positive about you asking this question than negative. And a majority would be open to discussing wealth transfer jointly with you and their inheritors in the same room. So, the door is open anyway.

Aegon found that 8% and 13% are respectively very reluctant or reluctant to discuss these issues. However, that is more than balanced by the 38% and 19% who are open or very open to these conversation and 23% who are neutral. Advisers may wish to make a judgment about particular clients and families.

Mathar also suggests that it is important to normalise such conversations.

> You can refer to other clients of yours where you've had similar intergenerational discussions, where you got in front of inheritors prior to the wealth transfer. In that way you normalise the behaviour and make it easier for clients to find it acceptable.

When asked to select their priorities for these discussions, the clients with the inheritance selected tax efficient asset management at 63%, holistic financial advice at 53%, wealth maximisation at 51% and financial education at 50%. **Mathar** says:

> It is interesting to see that there are quite utilitarian reasons for why donors think their inheritors would benefit from financial advice including tax efficient asset management but there are softer reasons as well.

Aegon, drawing on its behavioural insights, suggests the right approach is to make it easy, attractive, social and timely under the acronym **EAST**.

Dr Thomas Mathar

Insight manager at the Aegon Centre of Behavioural Research

AEGON

> When seeking to convert people to do something, we tend to think of economic incentives. We need to acknowledge that most decisions aren't taken on the back of rational cost-benefit analysis. Hence, we need think harder about irrational or subconscious reasons that may encourage / discourage people from doing something.

Advisers themselves now suggest that people are more open to these conversations.

Cavendish Ware associate director **Roy McLoughlin** says:

"We are in a unique situation, because I think people are now having more open conversations with family about finances, because they're either in a situation where the parents are nearing retirement, and therefore looking at their kids and saying you want to be in a nice situation when you retire like we are in. Or you've got the kids asking themselves, how am I ever going to buy a house?

"I think families are having those chats where it's appropriate. Then you've got the parents looking upwards to their to their parents saying, we're significantly worried about long term care costs. So you've got this sort of perfect storm - your 50-year-old looking downwards to their kids, having conversations about make sure you start saving and planning adequately equally looking up was to the parents who are now living for 30 or 40 years and often moving into long term care.

"Rather than the advice being specific to that generation, it transcends all of those generations, because they're all affected."

Although preceding conversations are important, it doesn't mean it is too late, when someone has passed on.

Camilla Wilkes

Senior business line manager for IHT

octopusinvestments

> Because as Brits, we're typically not very good at preparing people for that event, we felt we have a duty to the investors who trust us with their money, so we set up this team to support people right the way through the journey, so we get a great insight into the challenges that advisers, executors and beneficiaries face at the point somebody does pass away. We help them with that in a really proactive way in terms of getting in contact with financial advisers. The need for financial advice during probate is huge.

ADVISING GENERATIONS

There are a range of approaches to reaching younger generations. Most advisers acknowledge that it does not fit into the established model.

Smith & Wardle Financial Planning founder **Helena Wardle** says:

"I don't think the approach [of reaching younger family members] works that well within a traditional advice business unless they have a specific look and feel to make the service feel more approachable with the typical services that clients under 40 may use day to day.

"As an example, very few might make the time that an adviser would typically need to spend with a client if the process is not heavily supported by technology. The 'suits and tie' formality is intimidating. Office hours only are restrictive, so it needs to be much more digitally focused in my view. The time it takes can also be disengaging; waiting 1 month plus to get a recommendation will be challenging, which is why I think open banking and finance will play a big part in this."

Some advisers suggest help for children that may even be free.

Syndaxi Financial Planning director **Robert Reid** says:

"What you got to remember is that the kids are not going to have a lot of money. It's not worthwhile charging them. Because it's probably going to cost you more money to track getting that payment through, than you'll actually make. It's not a sensible thing to do. You are far better not charging them at all, at least until they finish university and are in the first job."

Waller, again is sceptical. He says:

"Boomer advisers do not have the skills to manage younger clients. You have to know the mortgage and protection markets backwards. Despite protests to the contrary, it is a different world, different people with different providers, different IT, systems and apps.

"Kids do not use their parents' advisers typically. They simply do not. Doesn't happen often, except where wealth has to cascade and they have no choice.

"Most estates when split between the children, are used to buy property, repay mortgages or other debt and/or is passed to grandkids etc. in essence, spread far and wide."

! *The key lies in timing – making sure that a relationship is built well before the point of wealth transfer so that the adviser is the natural source of trust and authority for all generations.*

MAIN LINKS

Government and official sources

Commentary for Annual savings statistics: June 2022 - GOV.UK
HMRC annual savings statistics (www.gov.uk)

The gender gap in pension saving | Institute for Fiscal Studies
The Institute for Fiscal Studies (ifs.org.uk)

Inheritances and inequality over the life cycle: what will they mean for younger generations?
The Institute for Fiscal Studies (ifs.org.uk)

Gross Disposable Household Income | Northern Ireland Statistics and Research Agency
Northern Irish Statistics and Research Agency (nisra.gov.uk)

Household total wealth in Great Britain - Office for National Statistics
ONS Household Wealth Survey (ons.gov.uk)

Sources and research involving commercial companies

NextGen or LostGen?
AKG/Schroders (schroders.com)

Savills UK | UK housing value hit a record high of £8.68 trillion in 2022 with gains favouring owner-occupiers rather than landlords
Family Building Society

Wake up and see the women: Wealth management's underserved segment | McKinsey
McKinsey

"You can't take it with you": How advisers are managing intergenerational wealth transfer - NextWealth
NextWealth/Fidelity

Other press links

Women 'will own 60% of UK's wealth within two decades' | Business | The Guardian
The Guardian

Guide author
John Lappin

John Lappin is a financial journalist who reports and commentates on financial services, financial advice and sustainability. Among other things, he is the former editor of Money Marketing, consumer investment title Mindful Money and specialist investment website Global Investment Megatrends.

Adviser Home
DEVELOPMENT PLATFORM

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