Bridging the multi-generational wealth gap: Innovative strategies for securing future clients and business growth

Introduction

In wealth management and financial advice, preparing for intergenerational wealth transfer has become more than just a strategic move – it's a necessity for safeguarding client assets, ensuring their seamless passage to future generations, and growing the business. The imminent wealth transfer from Baby Boomers to younger generations marks a critical juncture in the industry. This shift presents a unique opportunity for advisors to guide families in effectively managing their wealth across generations – for many years.

The essence of successful wealth transfer lies in meticulous planning and the right technology. Advisors with advanced tools can engage in more comprehensive discussions with clients, maintain wealth continuity across generations, and customize investment strategies to suit diverse family needs.

Yet, a striking challenge emerges: 62% of wealth managers say they cannot confidently understand and cater to Millennials, which may be the reason at least 80% of Millennial heirs will seek a new financial advisor after inheriting their parents' wealth.[1] Advisors who can bridge this understanding and meet these evolving needs will not only gain a significant competitive edge but also secure a growth trajectory in their practice.

As we delve into the intricacies of wealth transfer, it becomes clear that efficient intergenerational wealth management is a cornerstone of exceptional financial advice. The role of financial advisors extends beyond mere wealth preservation; it encompasses fostering meaningful, multi-generational family dialogues underpinned by robust technology.

Here, we explore how advisors can navigate this complex landscape, meet the demands of up to five generations, and ultimately, master the art of multi-generational planning and wealth transfer.

Shifting demographics and the great wealth transfer

Changing demographics continue to play a role in how advisors engage with their clients and the types of advice they can offer at different life stages. The youngest Baby Boomers are still a few years away from full retirement age, which is good for advisors who serve that particular demographic or niche.

However, the future of financial advisors may lie with their children and grandchildren: Gen Xers and Millennials. Trillions of dollars in assets are set to flow from Baby Boomers to the next generation through the Great Wealth Transfer.

Establishing relationships with heirs now could produce greater returns – since individuals under 40 are investing earlier than their elders, seeking advice for the long haul, and are willing to pay for it.[2] They're also three times more likely to give referrals, prefer to consolidate their business with a single firm, and expect more personalization, services, investment options, and more technology.[2]

That's why staying ahead of the curve in capturing the younger client base could be a key business accelerator for wealth managers.

$540B+

is inherited each year by investors under 40 – about 30% of the total wealth transferred annually today.

Source: Fidelity

The Great Wealth Transfer

About **$84T** in multigenerational wealth is expected to be transferred through 2045.

$72.6T in assets will be transferred to heirs, while **$11.9T** will be donated to charities.

$53T+ will be transferred from households in the Baby Boomer generation – representing **63%** of all wealth transfers.

Silent Generation households and older will transfer **$15.8T** primarily over the next decade.

$35.8T – or **42%** of the overall total volume of transfers – is expected to come from HNW and UHNW households, together only making up 1.5% of all households.

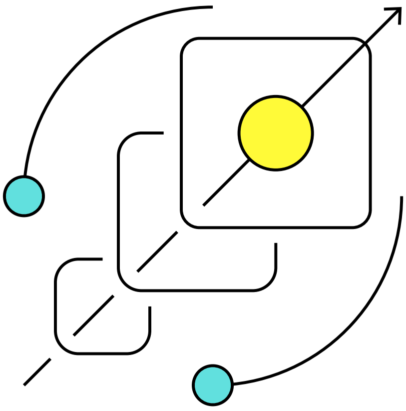
Only **26%** of future bequestors believe they have provided enough information to their heirs for them to be deemed "very well informed" and **41%** "somewhat informed."

Source: Cerulli Associates

Younger investors are more likely to switch to active investments during volatility, with 50% of respondents increasing allocations compared with 22% of Baby Boomers.[3]

In addition, women represent the next phase of growth in wealth management. Women now control a third of U.S. wealth; by 2030, that number is expected to balloon to about $30 trillion.[4] As part of the great wealth transfer, women are expected to inherit much of the $68 trillion in wealth that Baby Boomers are passing down.[5]

Whether your focus is demographic, value-based, professional, or technical, different technologies can help your ability to serve your niche. Technology can allow advisors to reach a wider audience of potential clients, regardless of location, by offering their services online or through mobile apps, making it easier for clients to get the advice they need when they need it.



Growing downstream: Opportunities in underserved and new markets

To grow and succeed, wealth advisors will need to be able to capture a broader customer base. Wealth management is no longer limited to HNW and UHNW individuals. In recent years, there has been an influx of affluent Millennial clients seeking assistance on investments, insurance, and tax planning in the private wealth space.[6]

Staying ahead of the intergenerational wealth transfer curve by capturing the younger client base could be a key business accelerator for RIAs.

In addition, women represent the next phase of growth in wealth management.

While women seek healthy returns and purpose-driven investments like other investors, goals such as connection, meaning, next-generation legacy, and making a social and environmental difference are also important. In addition, today's HNW women demand value-added services around retirement (75%), inheritance planning (75%), legal support (71%), and tax consultation (76%).[1]

intelliflo redblack

The family office role model: What they're getting right

Family offices have historically demonstrated a long-term vision for multi-generational wealth through all-in-one convenience and hyper-personalized services. Today, they are emerging as sophisticated players in the wealth ecosystem as investors seek investment diversification, customized service, and a personal touch.

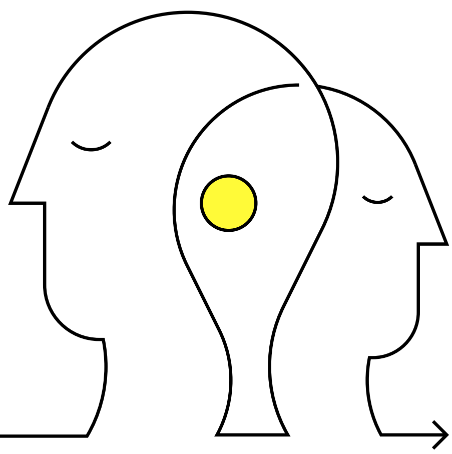
By 2026, the world will have 40% more millionaires.[7] Currently, family offices manage an estimated $5 trillion in assets. And their demand is growing.[8]

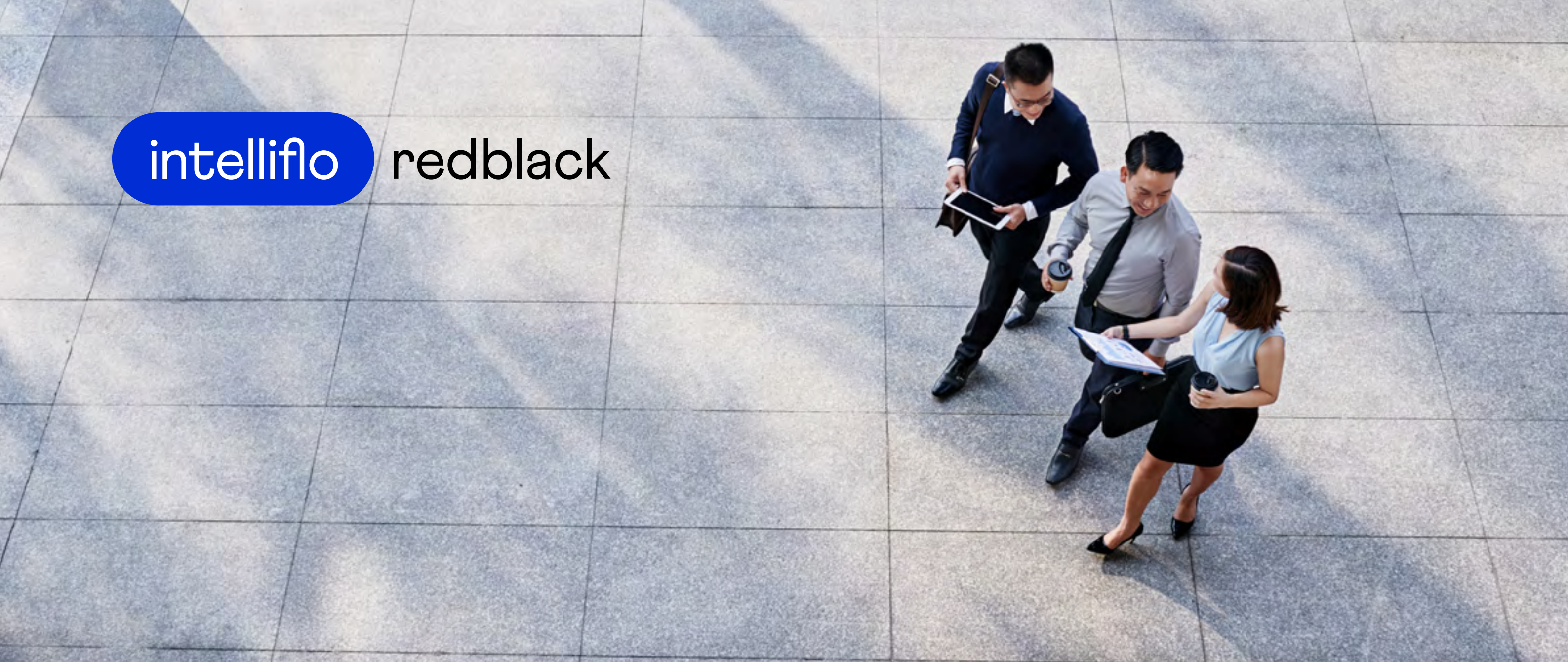
As asset owners plan to increase allocations to emerging markets debt, private debt, infrastructure, and real estate investments, they are increasingly drawn to the OCIO model to manage sleeves for alternatives and private asset classes.

For example, Forbes reported this year that 20% of family offices are investing in cryptocurrencies, even though crypto makes up only 1% of portfolios' value and younger UHNW cohorts are less likely to sign off on larger crypto allocations.[8] In the past 12 months, family offices have increased their private equity investments by 63% and made more direct investments than ever.[8] The younger generation is driving another new trend, as the firepower within family offices enables them to rival VCs as they compete to fund startups.[8]

In preparation for the great wealth transfer, many UHNW families are increasingly pursuing multi-generational strategies that address future generations' needs and investment objectives. In a recent Goldman Sachs Family Office Investment Insights Report, 39% of families reported involving younger generations in their investment decision-making – including succession plans for investment portfolios or operating businesses.[8]

Additionally, institutional family offices often pursue high allocations to alternatives to grow and preserve their wealth. With their long-term investment horizons and ability to bear more illiquidity risk, they hold more than 40% in private asset classes on average.[8] Private equity is the largest allocation, at 27%.[8]





Here's what they're getting right:

Estate taxes

The great wealth transfer could cause many clients to potentially face a federal estate tax rate of 40% to 50%.[9]

Advisors must be able to assist clients who receive a substantial inheritance, ensuring they understand the tax consequences, strategize for retirement, handle their tax obligations and estate planning, and offer additional services that add value in the context of transferring wealth.

Downstream markets

Aspects typically associated with more premium services are expected to gradually extend to broader markets, assuming they can be scaled effectively. These services, including tax and intergenerational planning, will likely become more widespread and standard.[10]

Separate accounts, historically reserved for more affluent clients with sophisticated needs, are moving down-market behind reduced minimum account sizes, allowing advisors to make use of the lower fees, tax advantages, and flexibility.

Household relationships

As fee-based financial advice combined with financial planning becomes the industry standard, financial advisors must find new ways to differentiate their practices.[11]

One way family offices are doing so is by aggregating client relationships on the household level rather than focusing on individual account-level relationships. Cerulli expects that "householding" will become more common beyond 2023, as it gives financial advisors greater opportunities to customize portfolios and can allow for more efficient tax outcomes.[12]

Householding also offers advisors an extra chance to tailor their services to match their clients' needs. Advisors who can implement a household-level view have a better chance of standing out from their peers and retaining client assets.

Five essential strategies for effective multi-generational planning

In an evolving financial landscape, advisors face the challenge of meeting diverse client needs while staying ahead of industry trends. From optimizing time for financial planning to personalizing strategies across generations, these five approaches can help advisors enhance client relationships and adapt to the changing dynamics of wealth management.

1. Free up more time for financial planning

Investment and financial planners are currently the largest advisor practice segment. That number is expected to grow as advisors work more closely with clients – 82% of advisors' clients are expected to receive targeted or comprehensive financial planning services in 2023.[13]

In addition, 68% of Americans (68%) say a personalized financial plan based on their goals would be an extremely or very important factor if they were considering a financial advisor.[14] But financial planning can be time-intensive and quickly become unprofitable in standard asset-based fee arrangements, particularly when working with less affluent investors and next-generation inheritors.

One potential area of consideration for rebalancers is the ability to incorporate tailored portfolios to client goals in financial planning.[15] Researchers say the industry's slow and steady transition toward a financial planning-oriented service model will be a powerful impetus for adopting model portfolios.[16]

2. Support ESG, thematic, and value-based investing

Wealth managers and financial advisors can capitalize on the environmental, social, and governance (ESG) investing megatrend and the momentum of values-based investing.

The next generation of investors share similar investing priorities as the wealthy. In fact, 37% of Millennials hold value-aligned investments and 34% have thematic investments, compared to 7% and 4% for Baby Boomers and older generations, respectively.[17]

RIAs poised to offer ESG options and opportunities for their clients may look to their portfolio models and investment management platforms to help drive a disciplined approach and make rebalancing and trading simpler and more efficient. By integrating customized ESG themes into models using an advanced rebalancing and trading platform, advisors can shift seamlessly to fully satisfy their clients' ESG preferences and requirements.

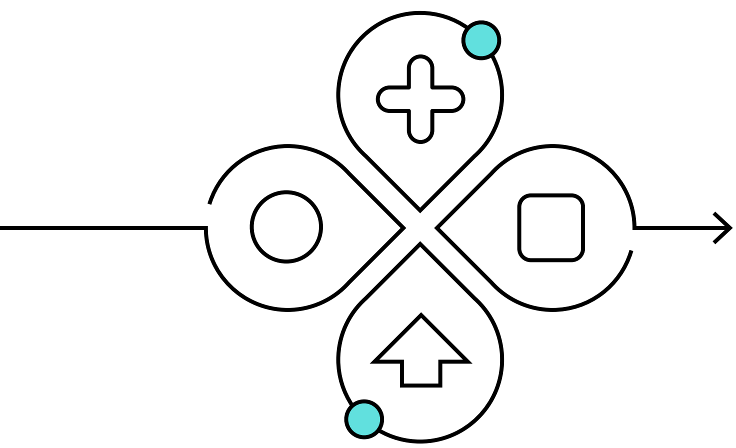
3. Minimize inheritance tax burdens

Inheritance tax continues to be top-of-mind for wealthy clients and their financial advisers. Multigenerational families often worry about how to fairly transfer wealth, including property, while minimizing tax implications.

Taxes come in many forms and evolve with the political season, and managing wealth amid changing tax laws can be complicated.

Clients must be educated on their assets, income and wealth transfer rules, and what they want to do with their money. But many inheritances get lost, sometimes in months, not because the younger generation is bad with money but because they make mistakes that cost them dearly in taxes. An improperly set-up inheritance can trigger a 50% windfall taxable event.

Continuous, tax-aware rebalancing can position you effectively for year-end tax planning, keeping you in sync with your clients' investment and tax-saving goals. This forward-thinking approach not only aids in achieving long-term financial success for your clients but also plays a crucial role in minimizing multi-generational wealth transfer or inheritance tax burdens. It's a strategy that can significantly impact your clients' financial well-being over time.



4. Focus on personalization and financial literacy

Financial advisors who focus on their clients and provide connected, customized experiences can strengthen trust and enrich their financial relationships – requiring consistent time and effort to develop. With rising competition and changes in priorities and generational wealth, it's increasingly important to provide clients and their families with a smooth, high-quality experience.

On average, advisors in the independent RIA channel spend the least amount of time on client-facing activities (48%) and the greatest amount on operations (10%), practice management (9%), and investment research (16%).[18]

As increased competition, shifts in priorities, and generational wealth continue, it becomes more urgent to seamlessly deliver a high-touch experience to clients and their families. But first, advisors need to truly understand their clients' financial understanding and skill levels.

Where younger generations put their trust

- **37%** of consumers say a fintech firm is their most-trusted financial services brand – compared with **33%** who named a bank and **12%** who named a wealth management firm.
- **51%** of Gen Z and **49%** of Millennials named a fintech as their most-trusted financial brand.
- **31%** named a fintech as their primary financial relationship, up from just **6%** in 2019.
- **53%** of those consumers now set up direct deposit with a fintech, compared with **91%** of consumers who have established direct deposit with a bank.

Source: EY

4. Focus on personalization and financial literacy (cont...)

Investopedia asked 4,000 U.S. adults – 1,000 each from the Generation Z (18-25), Millennial (26-41), Generation X (42-57), and Baby Boomer (58-76) generations – about their financial know-how, habits, worries, and retirement plans:[19]

- Just one in three across all generations say they have advanced investing knowledge.
- Gen Z said they are the least educated when it comes to taxes, borrowing, insurance, and retirement.
- 34% of Gen Z say learning more about taxes is the most important financial skill they could learn today.
- Gen Z expects to stop working and retire at a median age of 57.
- 28% of Millennials expect to use cryptocurrency to financially support themselves in retirement.
- 45% of Gen Z use YouTube, and 30% turn to TikTok for investing and financial education.
- 47% of Millennials prefer Internet searches, but 40% also lean on YouTube.

Clients expect tailored solutions that meet their unique financial goals and speak to them in the right tone and style. Wealth managers who truly understand them and excel at personalization can enhance customer satisfaction and generate substantial revenue growth.

5. Tailor needs and strategies across generations

Today's diverse, multi-generational workforce is more diverse than ever, creating challenges when managing client needs across a wide spectrum of ages and generations.

For the first time, employers have as many as five generations in the workplace. By 2026, about two-thirds of people aged 55-64 are expected to remain on the job, and about 30% of people ages 65-74 will likely still be employed full- or part-time.[20] Meanwhile, with some 90 million Gen Z'ers expected to enter the workforce this year, there have never been more generations working together.[21]

Baby Boomers, Generation X, and Millennials typically lead very different lives, have different expectations, and have different resources. They have different financial needs as a result.

The younger generation typically has a distinct perspective on money and spending compared to their elders, and might be less open to advice on long-term saving and investing. This difference in viewpoints can lead to intergenerational tension and complicate financial planning.

Different service models can enable all clients to engage and get the information they want. This is especially crucial since Millennials (1981-96) are more likely to use someone unconnected to the family.[22]

Deteriorating financial health

30% of consumers say their household finances are worse today than before the COVID-19 pandemic.

33% report that their personal savings and investments have decreased or been depleted.

46% of consumers either are struggling or expect to struggle with making required loan payments.

Source: EY

The critical role of modern technology

The Great Wealth Transfer will be impacted by big swings in the economy, technology, and culture. The ability for financial advisors and wealth managers to compete will depend on how prepared they are to address inevitable changes. As large banks – who already house the money of heirs' parents and grandparents – with unrivaled budgets invest heavily in digital transformation, technology's ability to recalibrate, rebalance, and mitigate tax exposure will be important to help families manage their estates effectively. Meanwhile, fintechs are rapidly gaining market share among younger generations.

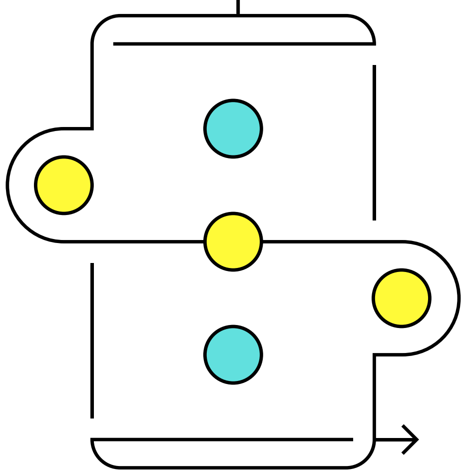
Younger generations are already showing a preference for tech-focused brands versus traditional institutions. More than ever, the goal for advisors is to create holistic, personalized, and connected experiences that meet customers seamlessly where they live, work and play.

Firms that can remain on the cutting edge of complex investment management, rebalancing, and planning solutions will be invaluable to clients as they look to minimize their tax liability, maximize wealth transfer, preserve family legacy, improve financial security, and comply with regulatory requirements.

The channel conundrum

- **35%** of consumers expect to increase usage of mobile channels with their primary financial relationship in the post-pandemic world.
- More than half of Gen Zs and Millennials expect their mobile usage to increase.
- Only **24%** of consumers expect to visit a branch less often in the future.
- But **82%** view the presence of a local branch as extremely or very important.

Source: EY



A pivotal moment for financial advisors

As we stand on the cusp of the largest wealth transfer in history, the financial landscape is poised for a monumental shift. The next generation of investors, wielding unprecedented capital, is set to redefine the industry. Financial advisors who hesitate to engage with this emerging demographic risk missing out on significant opportunities.

Technology has undeniably secured its role as a cornerstone in this endeavor. In an era of rapid transformation, it's not just an enabler but a critical differentiator for RIAs and wealth managers. Legacy methods and manual processes fall short in navigating the complexities of the modern global financial system. The new generation of investors demands more automation, transparency, diverse asset classes, and a focus on ESG criteria, impact investing, and global perspectives.

RIAs must now gear up to navigate new investment paradigms as demographics and expectations shift. Comprehensive technology solutions become indispensable as they empower advisors to make complex decisions effortlessly, manage investment risks, and capitalize on emerging opportunities. Without integrated and timely data, investment advice cannot be effectively coordinated with estate planning, risk management, philanthropy, banking, family governance, and other client objectives. The risk of managing assets in isolation is high, leading to potential tax inefficiencies and other financial missteps.

RIAs can draw valuable insights from family offices that have mastered the art of serving sophisticated, multi-generational clients. Exceeding client expectations in this landscape requires a blend of bespoke investment and portfolio services, underpinned by advanced rebalancing and trading technology. This approach not only addresses complex needs but also simplifies them, enabling efficient scaling across diverse client portfolios.

The financial advisory landscape is at a pivotal point. Three-fifths of Americans including 71% of Gen Z and 72% of millennials, say they don't know where to turn for financial advice.[14] They need you.

Modern, tax-savvy rebalancing and trading technology offers the advantage of enhancing your team's ability to entice a new generation of clients and solving the problem of complexity and customization for your clients across generations.

intelliflo redblack

[1] The World Wealth Report 2022, Capgemini

[2] It's Time to Change Your Mind about Young Investors, Fidelity 2023

[3] 2023 EY Global Wealth Research Report, EY 2023

[4] Morgan Stanley

[5] https://www.cnbc.com/2023/12/12/why-the-68-trillion-great-wealth-transfer-is-an-opportunity-for-women.html

[6] Wealth management—key trends for 2023, Acuity Knowledge Partners, January 5, 2023

[7] https://finance.yahoo.com/news/number-millionaires-spike-40-globally-140000391.html

[8] https://www.wealthmanagement.com/high-net-worth/how-family-offices-can-adapt-shifting-client-priorities

[9] "Taxes Will Make the Great Wealth Transfer Tricky," FA Magazine, May 24, 2022: https://www.fa-mag.com/news/taxes-will-make-the-great-wealth-transfer-tricky-68037.html

[10] Cerulli: U.S. Advisor Metrics 2021 Client Acquisition in the Digital Age: https://www.cerulli.com/reports/us-advisor-metrics-2021

[11] "The Next Advancement in Aggregation: 'Householding'" – National Association of Plan Advisors (NAPA), Feb. 6, 2023

[12] The Cerulli Edge – U.S. Advisor Edition, 1Q 2023 Issue

[13] https://www.planadviser.com/advisers-adopting-technology-model-portfolios/

[14] https://www.prnewswire.com/news-releases/nearly-3-in-5-americans-59-want-financial-advice-but-are-not-sure-where-to-get-it-according-to-intelliflo-survey-301494402.html

[15] Opportunities to Differentiate Portfolio Management Systems, Javelin, February 2022

[16] Advisor Demand for Model Portfolios Predicted to Grow, National Association of Plan Advisors, October 13, 2022

[17] Study: 77% of Millennials have made an impact investment, but only 53% of advisors understand the concept well, Fidelity Charitable, September 18, 2019

[18] Wealth Management Top Trends 2022. Capgemini

[19] https://www.investopedia.com/financial-literacy-survey-5223919

[20] Bureau of Labor Statistics

[21] https://www2.deloitte.com/us/en/insights/focus/human-capital-trends/2020/leading-a-multi-generational-workforce.html

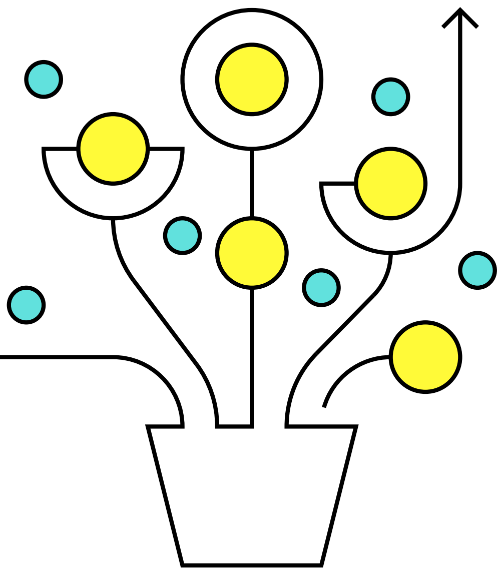
[22] https://www.moneymarketing.co.uk/features/why-advice-firms-need-an-intergenerational-wealth-transfer-strategy/

intelliflo redblack

→ About intelliflo

intelliflo widens access to financial advice through leading technology powering the financial advisory experience. We use open software architectures combined with unmatched industry experience to simplify a complex digital landscape to help advisors compete and grow.

Our solutions support over 30,000 financial advisors worldwide, representing over three million end-investors, with over $1 trillion serviced across our platforms.



intelliflo.com | 800-970-9080