The $70 Trillion Dollar Opportunity
Understanding the Implications of Multigenerational Wealth Transfer
The $70 Trillion Dollar Opportunity

The financial services industry is on the verge of one of the greatest transfers of wealth of this century, as Baby Boomers, the nation's wealthiest generation, begin to shift their focus from accumulating assets to retirement. Following the longest bull market on record and buoyed by strong stock performance, U.S. households have accumulated more personal wealth than any previous generation.

By year-end 2042, an estimated $70 trillion will change hands from aging households passing their wealth on to their heirs and to charities. This shift in wealth will reshape the wealth management landscape over the next quarter century and will force advisors to alter their existing business models and services.

Sizing the Wealth Transfer

Roughly $61 trillion of the transfer will be passed on to heirs—mainly that of the households' children, presenting attrition risk to practices that are not adequately prepared for this transition. It can be dangerous to assume that the practice will simply retain these assets because they worked with the parents. In fact, the majority of heirs typically do not keep their parents' advisor once they receive the inheritance. The top reason why firms lose assets is due to clients passing away and their beneficiaries subsequently opting to bring money to different advisors. The $61 trillion will not only transfer from aging households to younger ones, but so too will it transfer from wealth managers that do not adequately prepare to those that do.

Death/inheritance is the primary reason clients leave their advisor

HNW Practices: Primary Reasons Why Clients Leave, 2019

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and the Financial Planning Association® (FPA®)

Analyst Note: Respondents were allowed to select more than one choice. Other responses include, “Self-directed investor” and “Client spent investable assets.”

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Client passed away/beneficiaries left after inheriting assets</td>
<td>53%</td>
</tr>
<tr>
<td>Client had relationship with another advisor</td>
<td>33%</td>
</tr>
<tr>
<td>Client was unhappy with investment performance</td>
<td>25%</td>
</tr>
<tr>
<td>Client felt fees were too high</td>
<td>20%</td>
</tr>
<tr>
<td>Client was unhappy with the service provided</td>
<td>20%</td>
</tr>
<tr>
<td>Asked client to leave (e.g., pruning)</td>
<td>18%</td>
</tr>
<tr>
<td>No clients have left the firm</td>
<td>16%</td>
</tr>
<tr>
<td>Key advisor or partner left practice</td>
<td>14%</td>
</tr>
<tr>
<td>Client followed family or friend to a new advisor</td>
<td>12%</td>
</tr>
<tr>
<td>Client was dissatisfied with advisor interactions, product menu, and/or advice tools</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
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Over the course of the 25 years from 2018 through 2042, Cerulli projects that nearly 45 million U.S. households will transfer $70 trillion in wealth to heirs and charity. Advisors that neglect the next generation of clients will fall victim to the massive demographic shift in wealth that is expected to occur over the next 25 years.
Tactical Tips

Adopt a new norm of viewing clients’ wealth from a generational perspective by offering services to children and potential heirs.

Develop a team-based approach that positions next-generation advisors to grow alongside younger clients and builds a stronger connection with clients and their heirs.
Some practices tend to focus too narrowly on first generation “wealth creators,” often at the expense of developing relationships with their spouses or children. While serving this segment of the market may not prove to be profitable initially, advisors must be willing to sacrifice short-term profitability in order to generate sustainable growth over the long term.

The Cerulli Wealth Transfer Model shows that, beginning in 2032, Baby Boomers (ages 54-72) will begin to pass on a noteworthy amount of their wealth. So much so that by the end of the 25-year period, Baby Boomers will be replaced by Generation X (ages 38-53) as the generation with the greatest wealth. Overall, Baby Boomers will be passing on upward of 73% of the total amount of wealth transferred in the coming two and a half decades (a total of $51 trillion) with almost all of it in the later portion of that period.

According to Cerulli data, Generation X households will most likely be the primary beneficiary from the wealth transfer. Generation X investors stand to inherit $31 trillion or 44% of the total wealth transfer. This group will increasingly face more complex and nuanced life events, including planning for children, buying a home, getting married, and receiving an inheritance.

Although it will take considerable time for Generation X households to outgrow asset totals held by Baby Boomers, building genuine and longstanding relationships with this cohort of inheritors needs to be top-of-mind.

Gen X will replace Baby Boomers as wealthiest generation

**Wealth Inherited by Generation, 2018-2042E**

*Sources: Cerulli Associates, Federal Reserve, U.S. Census Bureau, Internal Revenue Service, Bureau of Labor Statistics, Social Security Administration*

*Analyst Note: Ages as of 2018. Figures may not add up to $70 trillion due to a portion of assets that are estimated to go directly to charities.*

In 2018, only 13% of affluent investors reported that they choose to work with the same advisor whom their parents used.

Of the remaining 87% of investors who reported not using their parents’ advisor, 88% of them indicated that they had never even considered doing so.

HNW practices indicate that they currently have limited interactions with their clients’ children (48%) and grandchildren (57%).
Timing is a critical element. Don't wait to have wealth transfer conversations only once clients’ children are set to inherit wealth, as this often appears disingenuous.

Consider adding scalable technology that can also help attract younger, more tech-savvy employees, who, in turn, are more likely to cultivate relationships with clients’ children.
Most-Effective Methods to Engage the Next Generation

As Baby Boomers begin to retire and a significant portion of their wealth is transferred to younger generations, practices will be presented with both a major opportunity and a significant threat. Practices that want to keep pace and effectively strengthen their relationships with their clients' children must fully understand the importance of encouraging parents to include their heirs in financial decisions, attracting younger professionals, and adding scalable technology.

**Ask parents to get involved.** Many HNW families are reluctant to address the topic of wealth transfer with their children; however, putting off the inevitable conversation is often counterproductive and is one of the primary reasons why clients fail to pass on their wealth effectively.

**Start involving children early.** While many HNW clients often think their children are too young to discuss receiving an inheritance, instilling central money values at an earlier age is key to ensuring they are adequately prepared.

**Hire next-generation advisors.** Pairing younger advisors with more experienced senior advisors helps practices better connect and build trusting relationships with next-generation clients.

**Incorporate scalable technology.** As more clients begin to pass their wealth down to the next generation, it will become increasingly important to provide younger investors with greater access to information “on demand” through a wider range of technology solutions.

Proactively involve clients’ children to strengthen multigenerational ties

**HNW Practices: Strategies to Strengthen Relationships with Clients’ Children, 2019**

*Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute (formerly IMCA) and the Financial Planning Association® (FPA®)*

*Analyst Note: Respondents were asked, “What has proved to be the most effective means to develop business relationships with your clients’ children?” “My organization has expressed little concern regarding the next generation” was an option but was not selected. Other responses include “Meet with them regularly” and “529 plans.”

- Ask clients and spouses to get their children involved: 73%
- Seek to involve future generations from the outset of the client relationship: 50%
- Hold informational sessions with children of current and potential clients, focusing on understanding and managing wealth: 42%
- The use of irrevocable trusts: 35%
- Hire more younger employees and involve them in these conversations/events: 31%
- Add scalable technology platforms to service small balance clients: 23%
- Become involved in family foundations: 15%
- Hold social networking events with children of current and potential clients: 8%
- Other: 8%

Families fear demotivating their children by discussing wealth transfer, but if advisors help instill healthy wealth practices, clients’ children may be less inclined to lose motivation.

According to surveyed HNW practices, 73% indicate that asking clients and spouses to get their children involved is the most effective method to develop relationships with their clients’ children.

HNW practices find education on budgeting and saving, and basic investing concepts to be most important when communicating with client’s children.
Tactical Tips

Engage children of clients by hosting events specifically for younger family members, such as networking/cocktail hours, tickets to sporting events, and golf trips.

Help organize and orchestrate family meetings for clients by providing unique approaches to gathering and including the entire family (e.g., family trips, summer camp, financial literacy seminars).
Best Practices: Wealth Transfer Strategies

Having a comprehensive wealth transfer strategy in place provides clients with the confidence that their heirs will be prepared to preserve their families’ legacy.

Cerulli identifies several key considerations for practices looking to implement successful wealth transfer strategies:

**Family meetings/regular communication.** Family meetings are one of the best ways families can involve the next generation and ensure that family members are proactively addressing sensitive issues while adhering to their values.

**Inclusive charitable planning/philanthropy.** Advisors can help families navigate and research causes that both the parents and children care about and help their clients set up shared philanthropy goals while involving their children in the process.

**Planned succession hierarchy.** Deciding how much each child/heir should receive along with the best method to receive it can be an extremely sensitive topic. However, planning specific roles for individual family members is an important practice if families want to effectively provide the next generation with the knowledge and capabilities to manage their wealth once they pass away.

**Business succession planning.** Preparing the next generation to take over and operate a family business can be key to preserving wealth across multiple generations. Teaching children valuable business lessons and entrepreneurial skills can not only increase family interaction, but also allow children to feel like they are making an impact with their wealth.

**Family mission statement.** A family mission statement serves as a set of principles for families and conveys to each of its members a sense of purpose. Families who take the time to create a mission statement often enjoy the benefits of having a principle-based decision-making process.

Transferring wealth requires structured and purposeful planning

**Most Effective Wealth Transfer Strategies, 2019**

*Source: Cerulli Associates*

Analyst Note: Respondents were asked, “Among your clients that have implemented a multigenerational wealth transfer strategy, which of the following actions have been taken?” Data represents only the top five responses. Respondents could select more than one option.

- **Use of trust vehicles** (e.g., revocable/living trusts): 84%
- **Family meetings/regular communication**: 59%
- **Educating family members on the purpose of wealth**: 44%
- **Inclusive charitable planning**: 31%
- **Business succession planning**: 24%

While half of surveyed HNW practices indicate that their clients’ spouses/significant others are already established clients, only 35% are actively involved in the planning process.

Clients’ discomfort with sharing financial information with their children poses a challenge during the wealth transfer process, according to 59% of HNW practices.

Over half (53%) of practices indicate that fear of their children not being prepared to inherit the wealth is a significant challenge.

Discomfort with the concept of their own passing and the fear of upsetting family members (e.g., unequal dispersion) can prevent HNW families from planning for wealth transfer.
Tactical Tips

Involve clients’ children from the outset of a relationship by hosting information sessions focused on financial literacy.

Set aside time with clients to create a family mission statement, which establishes a set of principles and conveys a sense of purpose for families.
The Cerulli Wealth Transfer Model

The Cerulli Wealth Transfer Model starts by drawing upon the Federal Reserve’s triennial Survey of Consumer Finances (SCF) data from its most recent publication. Using SCF data as a starting point, Cerulli models economic growth, household income and expenditures, and many other household trends and tendencies that affect wealth to capture the amount of assets that would be gifted, donated, and passed on to heirs over the course of the next 25 years.

For sake of getting a greater understanding of the total transfer and to effectively implement the effect of taxes, Cerulli defines wealth transfer as any shift of assets that occurs from one household to an heir or to a charitable cause either while alive or at death. Therefore, the $70 trillion dollars can be broken down into four means of transfer: gifting to heirs inter vivos (while alive); bequeathing to heirs (at death); donating to charity inter vivos; or bequeathing to charity. As expected, a large majority of wealth will be transferred at death, nearly 93%. The remaining 7% of the transfer will be given inter vivos and will be split two-to-one in favor of charitable donations.
Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli’s research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

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