

# How to Manage Intergenerational Wealth Transfer

## Three critical strategies for advisors



This paper explores critical strategies investment advisors can undertake to increase the likelihood of retaining assets when clients leave their wealth to heirs.

### A historic transfer of wealth is underway

Ever since 2011, when the first baby boomers turned 65, they have been retiring at a reported rate of around 10,000 each day. During the COVID-19 pandemic, however, the pace of boomers leaving the workforce jumped considerably, more than doubling from 2019 to 2020, according to Pew Research Center. As of the third quarter of 2021, nearly 67% of people between 65 and 74 were retired.<sup>1</sup>

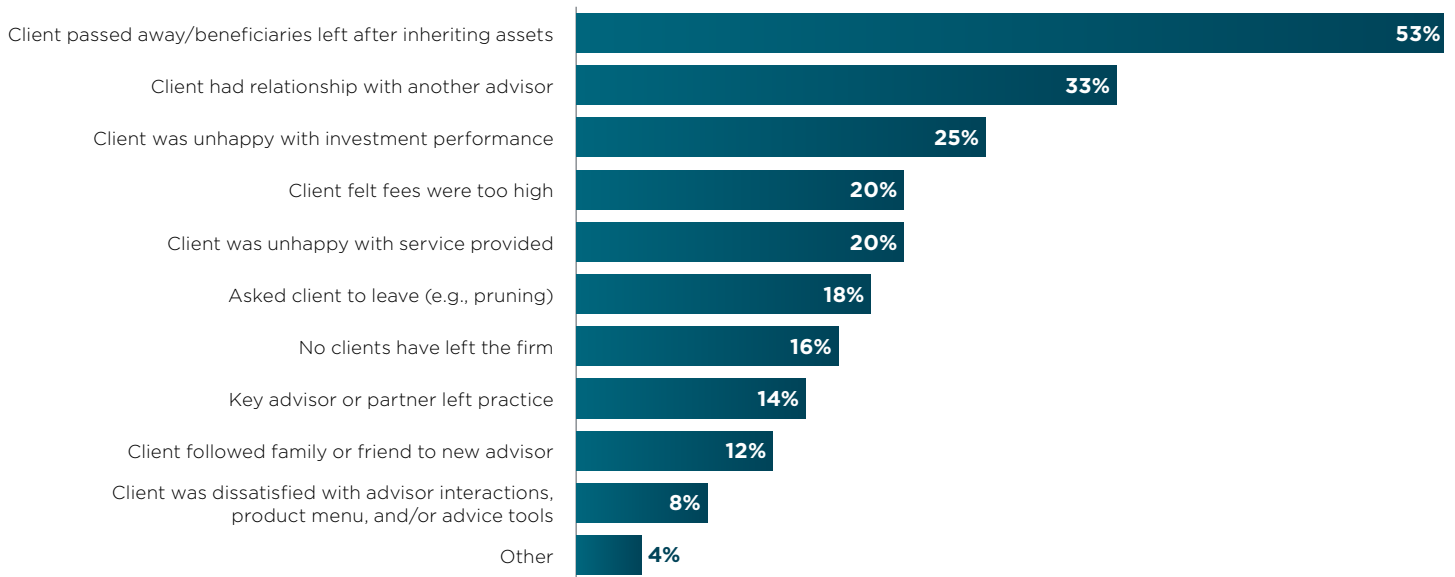
Historically, the demographic born between 1946 and 1964 has been a gold mine for financial advisors, as baby boomers were the largest and wealthiest generation in U.S. history. While most boomers will still need help managing their assets to support their golden years, they will not live forever. As a result, according to analyst firm Cerulli Associates, the older generation will transfer an estimated \$70 trillion to heirs and charitable organizations by year-end 2042.<sup>2</sup>

As many advisors have spent most of their careers providing financial advice to baby boomers, the aging client base poses a considerable risk to the

long-term viability of independent practices. For example, the Cerulli report cites the number one cause of client attrition for HNW financial advisory practices as client death and beneficiaries taking assets elsewhere.<sup>3</sup> If advisors don't have strong existing relationships with their clients' heirs, the chances of retaining assets are low.

Meanwhile, the rise of interactive technology in virtually every aspect of life coincides with the aging of the baby boomer population. Many adult children of high net worth clients are "digital natives" who have experienced the prevalence of technology most of their lives. Not only do they take to it intuitively, they often prefer it to human interaction for obtaining information or conducting business. Today, these potential clients are completely comfortable making airline reservations, transferring money, or buying concert tickets on their smartphones without talking to a live person. Online reviews, recommendations, and "likes" have replaced word-of-mouth. These characteristics have significant implications for how a client's heirs will collect information and make decisions around inherited wealth. Indeed, today's tech-savvy generation of wealth builders and heirs to the baby-boom fortune is one of the key drivers behind the rise of robo-advisor platforms.

## An unfortunate consequence of an aging client base is the prevalence of losing clients due to death



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.”

The convergence of these trends puts many advisors in a predicament where the future of their business could change instantly. Wealth transfer between generations is always a challenge—studies show as many as 88% of heirs don’t consider their parents’ financial advisor after receiving an inheritance.<sup>4</sup> Still, it also presents an opportunity for a firm to strengthen its foundation and substantiate its market value for succession or acquisition conversations. Strategies for long-term retention of inherited assets should be a key priority for every RIA.

If financial advisors connect with beneficiaries early, provide relevant advice, and position themselves appropriately, they can significantly increase the likelihood of managing assets for families across multiple generations. Moreover, the strategic use of technology can play a crucial role in helping advisors connect with heirs. It’s not too late to ensure your technology capabilities measure up to the standard to which emerging investors have become accustomed.

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## Three key strategies for turning heirs into clients

### 1: Get to know them now

While their parents are still active, advisors should be proactive in establishing relationships with their clients’ heirs and make them feel important, appreciated, and understood. Here are some ways advisors can start cultivating the next generation early:

- Start with the parents. Be sure you are in tune with their wealth transfer desires and helping to shape their plans. Show that you care about their children by asking about them, seeking updates in review meetings, and identifying opportunities for benefit reviews, 401k opportunities, and other initial savings and investing opportunities.
- Keep track of heirs’ birthdays, anniversaries, graduation dates, contact information, and general interests in the firm’s customer relationship management (CRM) database. Check and update these records regularly.
- If they already have some savings or investible assets, suggest ways to engage them as clients now. Consider waiving any account minimums for direct descendants of clients and consider a separate fee structure.
- Meet with heirs to discuss their financial and personal goals and the importance of financial planning.

- Assign firm associates who are closer in age to your clients' sons or daughters to own and manage the primary relationship with them. Encourage and support peer connection. Enable heirs to establish their relationship with the firm independently of their parents.
- Host events for younger family members, such as networking cocktail hours, tickets to sporting events, golf trips, and other opportunities for the children of clients to meet one another.

Don't wait to have meaningful conversations with the people set to inherit your clients' wealth. Sincerity is also essential. People can easily sense disingenuous behavior and makeshift conversation. Therefore, advisors should take a genuine interest in the lives of their clients' offspring.

Once you establish a relationship with younger clients, work to maintain it:

- Set proactive reminders in the CRM system to maintain a communication cadence for each individual and keep notes on preferred communication methods such as text, email, or phone calls.
- Gain a deep understanding of the inter-family relationship dynamic. Does everyone get along? Do any of them not get along? Go above and beyond financial advice to help family members navigate sensitive topics.
- Learn what is important to your clients' heirs as individuals, both financially and personally. For example, environmental, social, and governance (ESG) considerations are a top concern for many next-generation clients. Are they primarily interested in making a lot of money or more interested in doing something they love, regardless of pay? Would an heir rather live on the inherited assets and donate time or money to charities or use the assets to grow the estate? Would one person feel inclined to take care of other family members?

Most children do not follow in their parents' exact footsteps. Often, they choose different professions, industries, political candidates, and definitions of success. The key is working with them to achieve their goals, which may be completely different from their parents' goals. One of the financial advisor's primary responsibilities when managing wealth transfer in the form of assets is also helping to transfer the knowledge and principles required to create wealth. Advisors who understand the importance of true intergenerational wealth transfer are in a position to have a multi-generation relationship with their clients.

## 2: Make yourself invaluable

Once advisors create relationships with heirs and establish plans to have ongoing, meaningful communications, they must continually work to position themselves as invaluable to the client. Setting up contact reminders and getting to know family dynamics are easy initial steps. The next step requires real creativity—understanding what clients value most. Is it on-demand availability? Is it pure investment performance? Is it frank and friendly coaching? Whatever it is, the advisor must pinpoint it and do everything to enhance and solidify it in the client's life.

If you specialize in a particular area, such as tax effectiveness or sustainable investments, make sure clients understand the value that specialty offers

them. In many cases, that specialty was the reason the parent initially established the relationship. Heirs must understand why that specialty was important to their parents, too.

What can you do for them now to make your firm integral to their financial lives and personal growth? Determine what decisions are most critical to heirs at this stage in their life. Do they need help to pay off student loans? Do they need help saving for a down payment on a home? Providing pro bono advice on issues like these could pay dividends in the future.

A few ways advisors can distinguish themselves include:

- Providing education and advice on financial literacy and skills such as budgeting, saving, credit, and more. Explain how you can help and offer to create personalized financial plans.
- Offering a portfolio mix that isn't readily available elsewhere, such as exposure to specific asset classes or fund managers.
- Assembling a team of experts provides value in several facets of a client's life, such as tax preparation, legal advice, insurance, and more.
- Serving as the conduit to valuable professional and social networks.

When clients view an advisor as irreplaceable, the likelihood of retaining their assets increases. In other words, never stop proving to clients why your professional advice is worth whatever fees they pay. If they ever feel like the advice isn't worth the price, they are a potential flight risk.

## 3: Elevate your technology game

Advisors know that technology helps save time, keep overhead costs low, and scale their businesses. However, to gain the next generation's confidence, how you use technology is of critical importance. Firms must demonstrate that they can provide seamless, on-demand, comprehensive, digital client experiences on par with online services that people interact with every day. They must also be prepared to cater to each client's preferred interaction channel. With a view to the long term, your technology choices should ideally achieve two interrelated goals: enhancing the client experience (and thereby strengthening the relationship) while enabling you to serve these clients as efficiently as possible.

From the initial planning through ongoing reporting, technology can support virtually every aspect of the client relationship. An integrated, client-centric technology platform includes:

**Portfolio management, accounting, and reporting.** This is the hub of your operation, your core platform for managing, tracking, and reporting on client portfolios. Reporting capabilities should be highly customizable, so you can clearly explain your strategies and tell a compelling story that demonstrates your value. You should also be able to refer very quickly to the information that is of most interest to each client. The next generation has become accustomed to instant information, so you must provide on-demand access to portfolios and account data through an interactive client portal. Augment your high-touch service with as much self-service capability as your clients want.

**Financial planning software.** Offering to create financial plans for clients' heirs is an excellent first step in establishing an intergenerational relationship. Choose an intuitive tool that allows you or your associates to create dynamic plans with clients in a collaborative manner. The software should allow ease of integration with other applications to minimize manual data entry. A flexible financial planning solution serves as an excellent way for associate advisors to show value and drive the conversation in creating plans for younger family members.

**Portfolio analytics software.** Understanding and balancing risk is a critical component of successful investing. By assigning a "risk number" to each client and their heirs, it becomes easier for advisors to discuss risk with each individual. Many clients overestimate their risk tolerance, while others underestimate the amount of risk in current portfolios. By going through a Risk Tolerance Questionnaire (RTQ) with younger clients, advisors demonstrate they are seeking to understand the client. The initial risk conversation becomes an educational opportunity that ultimately strengthens the relationship.

**CRM software.** No matter how personalized a firm strives to be, growth inevitably makes it difficult to remember every detail for every client, which is the primary reason CRM software exists. Besides allowing advisors to keep notes on every client, it also enables firm members to access the same information, so the client experience is seamless regardless of who is interacting. The CRM system is an essential tool in preparing for an impending transfer of wealth. Create profiles for each client's beneficiaries and keep them up to date so the CRM can serve as a strategic planning tool for advancing the relationship and tracking referral opportunities. Then, when the new generation receives the transferred assets, they are already well established among the existing client base.

**Separately managed accounts.** Investment professionals should focus on the areas that add the most value. Some advisors are very hands-on in portfolio management, while others focus on an overall wealth management strategy. If you believe you add the most value by nurturing the client relationship, providing guidance toward goals, educating clients, and being available and responsive, then it may benefit your business to outsource the actual investment selection. You can use managed accounts or model portfolios that suit the strategy for each client. Your ability to translate the client's goals into a plan of action is what sets you apart from other advisors and positions your firm as genuinely irreplaceable.

— With SS&C's Black Diamond® Wealth Platform as the hub of your advisory business, you'll be better able to navigate the challenges associated with intergenerational wealth transfer.

## The inescapable conclusion: You are their best option

The distribution of a family's estate is a highly personal and sensitive matter. An advisor who wants to sustain the family relationship should be involved with the heirs from the beginning, showing the right balance of pragmatic planning and thoughtful consideration. Properly cultivated, heirs should feel that the transition is seamless and natural. Ultimately, they will decide to stay with your firm, not because of family loyalty or tradition but because you have demonstrated that you are, in fact, their best option.

## About the Black Diamond Wealth Platform

With the Black Diamond Wealth Platform as the hub of your advisory business, you'll be able to navigate the challenges associated with intergenerational wealth transfer. In addition to performance reporting, rebalancing, and client billing functionality, the platform encompasses daily reconciliation services, an award-winning client portal with mobile access, and smart integrations to several complementary solutions, including financial planning, portfolio analytics, and CRM software, as well as access to traditional and alternative managed account strategies.

## For more information

To learn more about how Black Diamond can support your unique business, visit [blackdiamond.advent.com](https://blackdiamond.advent.com), call 1-800-727-0605, or email [info@advent.com](mailto:info@advent.com).

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2. "The \$70 Trillion Opportunity," Cerulli Associates, 2020. <https://info.cerulli.com/rs/960-BBE-213/images/2020-The-70-Trillion-Dollar-Opportunity.pdf>
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4. Burroughes, Tom, "Inheritors Highly Likely To Fire Parents' Advisors," Family Wealth Report, May 9, 2019. [https://www.fwreport.com/article.php?id=183571#\\_YYmz7S2ZM\\_V](https://www.fwreport.com/article.php?id=183571#_YYmz7S2ZM_V)

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