

Wealth and Asset Management Services | Point of View

# The "Greater" Wealth Transfer

Capitalizing on the Intergenerational Shift in Wealth



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# While the “Great Transfer” from the Greatest Generation to the Baby Boomers is still taking place, a second and even larger wealth transfer from the Boomers to their heirs is starting now and will continue over the next 30 to 40 years.

While the “Great Transfer” will see over \$12 trillion shift<sup>1,2</sup>, the “Greater” wealth transfer is much larger, estimated at over \$30 trillion<sup>3</sup> in financial and non-financial assets in North America (See Figure 1). At its peak between 2031 and 2045, 10 percent of total wealth in the United States will be changing hands every five years<sup>4</sup>. The accelerating pace of this transfer, combined with the generational differences in the demands and expectations of wealth management service providers, makes this massive transfer of wealth between generations a defining issue for the wealth management industry.

Besides the scale of the transfer, what makes this transfer strategically difficult to manage is that firms cannot rely solely on their advisors to manage this transfer of assets between generations. With the average age of advisors at just over 49 in the US<sup>5</sup> and 54 in Canada<sup>6</sup>, many current advisors are nearing retirement and might be less motivated to build foundational relationships with their clients' children.

Capturing the heirs and earning their long-term loyalty – even though many of these prospective clients are not yet in what are seen as desirable client segments – is going to be crucial for firms as they navigate this transfer. Firms can gain this loyalty by understanding and acting upon the heirs' needs and expectations, including creating client experiences in both advisor-led and direct channels that can profitably meet those needs and expectations today. The result is an opportunity to increase the chances of retaining the assets eventually transferred.

**Figure 1. US Investable Assets Transferred by Year**



Source: Cerulli Associates: Cerulli Quantitative Update – Retail Investor Product Usage 2011 (based on data from Cerulli Associates, Federal Reserve, Center for Disease Prevention and Control, Current Population Study, Internal Revenue Service)

All transfers of assets create risks and opportunities for wealth management firms. However, the scale of the “Greater” transfer and the generational gap in expectations raises the stakes significantly. Firms that focus on deliberate strategies and effectively implement their plans will be in the position to capture a huge base of assets. Conversely, firms that fail to act or miss the next generation's expectations of wealth service providers run the risk of losing assets at an accelerating rate.

**Greatest Generation:** those born in the 1920s and 1930s

**Baby Boomers:** those born between 1946 to 1964

**Heirs:** those born in the late 1960s and later



## Yes, the Boomers Are Different

Addressing the needs of the Boomers remains vitally important, as Boomers are still making decisions about the wealth they have accumulated, as well as the wealth they still stand to inherit. All the capabilities firms have developed and continue to refine to meet this group's demands remain integral to medium-term profitability. In the context of the wealth shift, there are some key points that firms should be mindful of regarding the Boomers and their attitudes towards investing:

### They will be around for a long time

Boomers turning 65 now can expect to live another 18 years on average (a little over 16 years for men and more than 20 for women)<sup>7</sup> and will retire later in their lives than previous generations. What's more, affluent Boomers' attitudes toward aging are different from their parents' generation. Affluent Boomers expect to remain healthy, travel and continue working (for fulfillment, if not necessity), which means that their heirs will be older when they receive the transferred assets.

Meanwhile, some Boomers are expected to "spend down" some of their wealth as they progress from an "accumulation" period to an "income" period. The implications of longer life expectancy and different attitudes towards retirement means that firms must adequately respond to the Boomers' changing needs for advice as well as to the reality that some heirs will not stand to inherit the full value of the Boomers' current portfolios.

### They may distribute their wealth differently

Depending on the needs of their children and grandchildren, Boomers may make gifts of assets while they are alive to enjoy and influence how they are used. In addition, they may plan on leaving lump-sum bequests to institutions and charities that are important to them. The advice they seek to maximize their independence and individuality while minimizing tax exposure will be increasingly sophisticated. The strategies Boomers use for gifting or distributing wealth will be influenced by tax and estate transfer laws. The various methods Boomers may choose to distribute wealth create the need for firms to step up their estate planning offerings within all business models.

### Boomers' attitudes toward advisors are more like those of their parents, and less like those of their children

Like their parents, Boomers tend to have strong existing relationships with their financial advisors and they are relatively comfortable with the advisor-led model. We do not see a massive shift in their expectations taking place, though some will continue to push for greater value and more control and transparency within those relationships. The next generation of investors, however, is showing different preferences and is questioning the traditional value propositions. Keeping up to date with the Boomers' client experience expectations is important, but firms cannot assume that the heirs will share these same expectations.

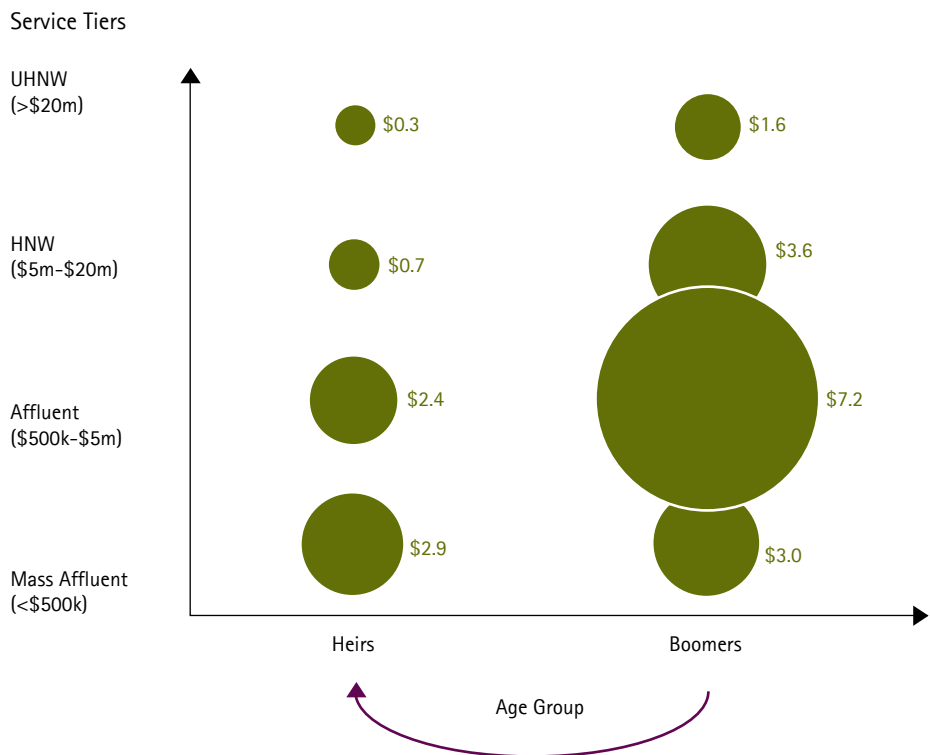


## Getting Ready for the Big Shift

In the face of this large-scale shift, there is evidence that most wealth management firms are unprepared. Many firms struggle to effectively manage the estate execution process on a one-off basis today. In fact, only 6 percent of households use estate planning services with their primary advisor and the primary cause of attrition is a client passing away and assets leaving as estates are executed<sup>8</sup>. Wealth management firms face a two-part challenge: retaining the loyalty and the assets of the Boomers, while also developing a value proposition that is relevant to the next generation of inheritors.

In order to attract and serve specific customer segments, firms and advisors should properly address new and unique preferences. Much of the messaging concerning value propositions in wealth management, however, is based on the assumption that different generations will have similar experiences. Offerings are still customized by asset tiers, and the assumption still seems to be that clients will "graduate" value propositions as they accumulate wealth. Figure 2 summarizes the scale of the wealth transfer across both dimensions in the United States – age groups and asset tiers<sup>9</sup>. In Canada, the scale of the transfer will be smaller, but we believe the overall distribution between the groups will be similar due to the demographic parallels that can be drawn between the impacted age groups.

Figure 2. US Investable Assets by Service Tier and Age Group (trillions)



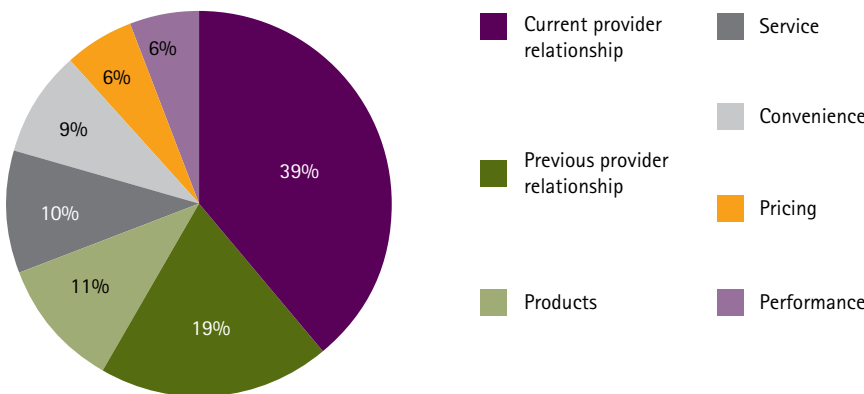
Source: Cerulli Associates: Cerulli Quantitative Update-Retail Investor Provider Relationships 2011 (based on data from Cerulli Associates, Federal Reserve, Current Population Survey)

The heirs have different attitudes towards investing: they expect transparency and control; they readily share information with peers through a variety of social media forums; and they are not tied to traditional sources of investment advice or service<sup>10</sup>. By the time they inherit the assets, they will likely have selected various wealth management options for themselves. If their providers meet their current expectations and can provide

the necessary solutions as the heirs accumulate wealth, they will be unlikely to move to their parents' chosen provider. Unless there is some sort of intervention, they will pull the assets out of the firms that their parents had relationships with at the point of inheritance.



Figure 3. Reason for Leaving Previous Provider, 2011



Source: Cerulli Associates: Cerulli Quantitative Update-Retail Investor Provider Relationships 2011 (based on data from Phoenix Marketing International, Cerulli Associates)

## What Wealth Management Firms Should Be Doing

To succeed in retaining and capturing assets during the coming intergenerational wealth transfer, firms should develop end-to-end strategies rather than disconnected solutions, focusing on the following key areas:

### Build capabilities to enable family estate planning at scale

Family estate planning is critical during the wealth transfer period and will be an effective tool in attracting and retaining clients. The more a firm knows about the Boomers' and their heirs' plans, the more they can do to proactively retain their assets. Firms have been investing in advancing their wealth planning tools

and customer relationship management (CRM) systems. While the primary focus of these systems is to support the proposal process and improve the depth of current relationships, some of the same information can be leveraged to increase client engagement on topics related to estate planning. Firms can move beyond basic house-holding and use strong predictive modeling capabilities to identify the "most valuable families" and to detect assets with high attrition risk. This is common practice within Private Banking and Ultra High Net-Worth (UHNW) family offices, but is not currently well executed across the Mass Affluent, Affluent, and even HNW service tiers. We believe that firms should make family estate planning a priority to prepare for both sides of the wealth transfer, and, in the process, become the brand of choice for the heirs. The goal is to enable advisors to offer valuable advice, which will help create a more holistic and effective portfolio management conversation.

Since workforce licensing requirements influence who can offer estate planning advice and how firms incorporate estate planning into their offerings and client interactions, firms will have to increase the development of teaming capabilities and firm-wide referral programs to encourage collaboration. Improving planning tools and client data solutions is a start, but putting the operating model and business process elements in place is just as important and, in some cases, the harder piece to get right.

### Establish go-to-market strategies to "catch" heirs now

Matching the heirs with their offerings of choice and "wowing" them is an important step towards retaining assets transferred across generations. According to research done by Phoenix Marketing International and Cerulli Associates, dissatisfaction with current and previous provider relationships is the main reason investors left their providers (see Figure 3), and only one out of every two wealth management clients in the 30-49 age group, which stands to inherit from the Boomers, is satisfied with their primary wealth provider<sup>11</sup>. To strengthen the relationships with the heirs, firms can consider multiple approaches in catering their offerings including creating collective allocation models that enable managing self-directed assets alongside managed assets, bundling products around life stages, and expanding the product set to include cash management, debt management, and insurance.



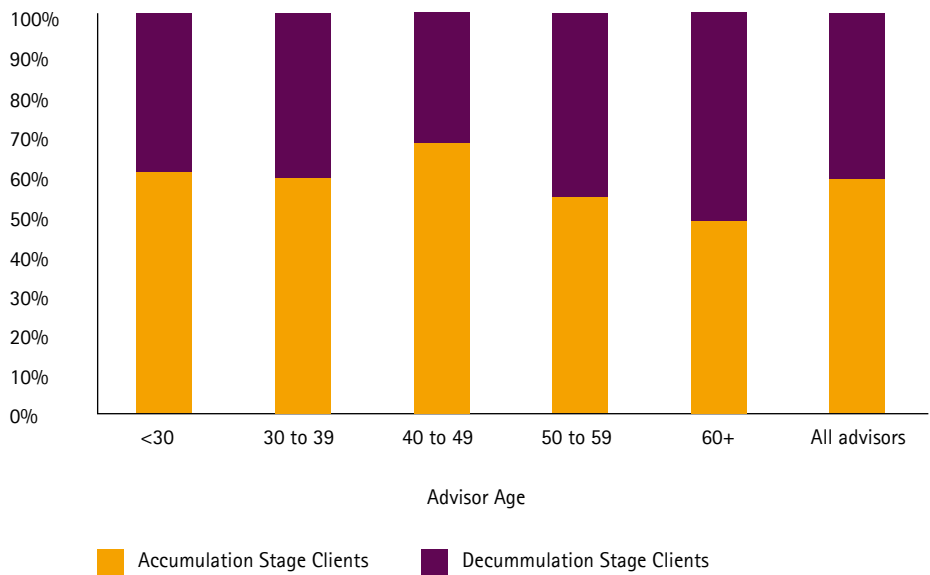
Another step that firms can take to attract heirs is to draw younger advisors to their practices, as there is a strong correlation between the ages of advisors and their clients (see Figure 4). Getting the right rookies on board and ensuring the training and compensation model in place for them is sustainable in the future should be considered.

Younger investors in the 30 to 39 age bracket typically will not have much in the way of financial assets for a number of years, but to capture the Boomers' heirs, firms will first need to deepen relationships with the heirs as early as possible. Firms that do this within their higher-cost, full-service models might have to sacrifice short-term profitability for long-term gains. On the other hand, firms that use low-cost direct models need to consider how to meet the changing needs of the heirs as they come into more wealth.

### Make deliberate plans to help clients navigate their inheritances

A Canadian study shows 39 percent of Canadians whose parents have a will have not explicitly reviewed it with their parents, and 61 percent who have deceased parents stated they never discussed it with their parents before they passed away<sup>12</sup>. By supporting the heirs during the difficult experience of a death in the family and making the process less stressful, firms can solidify existing relationships or establish new ones with

Figure 4. Client life stage by Advisor age range, 2011



Source: Cerulli Associates: The Cerulli Edge-U.S. Asset Management Edition, April 2012 (based on data from Cerulli Associates, College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, Morningstar)

the heirs. Firms should enable and reward their advisors to execute on the transfer with operational excellence, even when the assets may move to other service models. Firms may consider establishing client-facing operational groups that specialize in the transfer process and support their clients in navigating this unfamiliar and unpleasant exercise.

The richness of the client interactions can be improved by investing in mobility capabilities that increase the convenience to the client. Whether it is led by an

advisor or a specialized workforce, the experience should be a high-touch, branded, and personalized service that wows the clients, generates trust and makes them want to continue a relationship with the firm – regardless of the value proposition they prefer.

# Accenture believes that the “Greater” transfer of wealth will force wealth management firms to make difficult decisions about the right business model for long-term success.

With the wide array of models that can be used to compete in the wealth management industry (i.e. traditional banks, private banks, direct and full-service brokers, etc.), firms should decide how they can differentiate themselves in a converging market. Many firms will cater to both sides of the wealth transfer – the Boomers and heirs. However, to be successful, they must clearly define their competitive positions and strategies for each of these investor groups.

A primary factor in the internal assessment would center on the current relationships they have with the Boomers and the heirs. Firms that have a strong base with the Boomers can leverage those relationships to connect with the heirs. These firms may choose a “retention” strategy to hold onto the Boomers’ assets as they are transferred by optimizing the firm’s wealth management capabilities and lines of business while taking a deliberate, family-oriented approach. On the other hand, firms that already have relationships with the heirs can circumvent the Boomer relationship and focus instead on serving their core client base. These firms will see the transfer as an opportunity to take over inheritor clients and their newly acquired assets by creating a “catching” strategy to attract those prospective clients who are not satisfied with their parents’ wealth management provider.

Some firms may choose alternate strategies, such as a combination of both “catching” and “retention” strategies through launching new brands across different offerings or acquiring complementary competitors. Other players may make a dramatic push for the population of heirs, and these players would likely come from non-traditional wealth players who are willing to test the boundaries of existing business models by pursuing disruptive strategies that reshape the industry.

Accenture believes, however, that no matter which course a wealth management firm pursues, its chances of success will increase if they begin planning now for the “Greater” transfer. Ultimately, wealth management firms can opt to change course through various approaches. Firms with a coherent strategy and the supporting capabilities in place to implement that strategy can build a significant competitive advantage over firms that scramble to define themselves in a rapidly changing marketplace.

## Notes

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