

# ROADMAP FOR A NEW LANDSCAPE

## Managing the transition of wealth across generations

SPDR Practice Management, State Street Global Advisory

**F**inancial advisers today face what is perhaps their most significant challenge yet: helping clients to move from inertia to activity in planning for the transfer of their wealth – while ensuring asset continuity within the advisory practice when the wealth changes hands.

Understanding the forces that shape the agenda – as well as being prepared to adapt to them – will help to better position your clients to reach their goals. It will also help your advisory practice attract the next generation of clients.

By acting as facilitator, you have the opportunity to transform your clients' attitudes about wealth transfer planning, clarify and satisfy their objectives and help to prepare their heirs for the transfer of wealth, all while fostering a loyal clientele encompassing current and future generations.

### The great migration

Money is in motion. We are in a period of the greatest migration of wealth in US history. As Baby Boomers (1946–1964) enter retirement, they are transitioning from accumulation to divestment, and moving money across generations. This shift is a force reshaping the wealth management agenda and is expected to unfold over more than three decades.

The numbers are staggering:

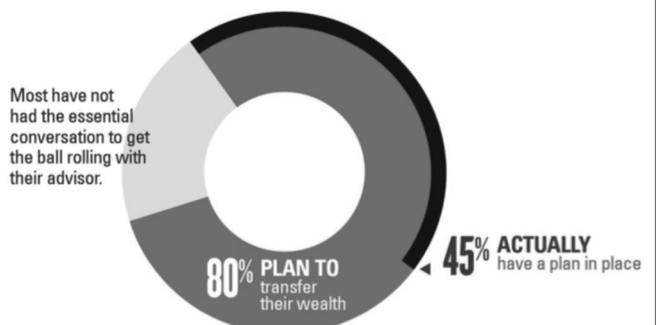
- US\$ 12 trillion in assets has already changed hands in the form of inheritances from the Silent Generation (1928–1945) to Baby Boomers.
- Between 2011 and 2048, Baby Boomers are expected to transfer another US\$ 30 to US\$ 41 trillion to Generation X (1965–1980) and Millennials (1981–2000).

- US\$ 59 trillion – with at least US\$ 39 trillion going to heirs – is the amount projected to change hands if we expand this time frame from 2007 to 2061.

For many advisers, this wave represents an opportunity to build their clientele base. For others, it can mean a loss of assets – a direct hit to their bottom line. Many investors do not keep the same financial professional when navigating life changes, such as a death in the family.

All asset transfers create risks and opportunities. However, the pace and scale of this transfer, combined with the differences in how the generations view wealth management service providers, make this a defining issue for our industry.

Figure 1. Investors who plan to transfer wealth vs. investors with a plan in place



Q: Have you made a wealth transfer/estate plan? Q: Do you expect to transfer wealth/pass on your estate?  
Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

## What can we do better?

With the largest intergenerational shift of wealth now underway, we set out to understand:

1. What perceptions do clients have of the role of advisers in wealth transfer matters?
2. What are some of the barriers preventing clients from taking action?
3. How can advisers engage clients more proactively in wealth transfer planning?

During the first quarter of 2015, State Street Global Advisors conducted surveys and interviews with 400 financial advisers, 560 individual investors and a range of industry experts to explore generational wealth transfer planning and uncover “what are we not doing right yet?” and consider ways to adapt.

What we learned is that advisers have an instrumental role to play in multigenerational wealth management. But some important conversations are simply not taking place, or when they are, confusion regarding key measures often remains.

As an industry, it seems we have done a good job of focusing on prudent financial wealth management, but have been less diligent when it comes to helping investors be more comfortable talking openly about wealth.

### Reconciling client inertia...

Advisers have long known that wealth transfer – and planning for it – is too often thought of by clients as an action to be taken only toward the conclusion of one’s life and career.

For many investors, it is something to be dealt with at the latest point possible, and the prevailing attitude tends to be, “*It’s never too late to do that.*”

This perception means that many clients delay the all-important step of formalising a plan and communicating their intentions.

### ...With Adviser diligence

Advisers have an instrumental role to play in ending this avoidance behaviour, but are not being proactive enough in engaging clients in the wealth transfer process earlier.

Effective preparation for the next generation starts with helping investors expand their definition of wealth to include both financial and non-financial factors.

A lack of due diligence here can have two serious consequences:

- You risk losing the assets of your current client when that client dies
- You are doing your client a disservice by letting them delay wealth transfer planning.

So, for the adviser, the prevailing attitude should be, “*It’s never too soon to do that.*”

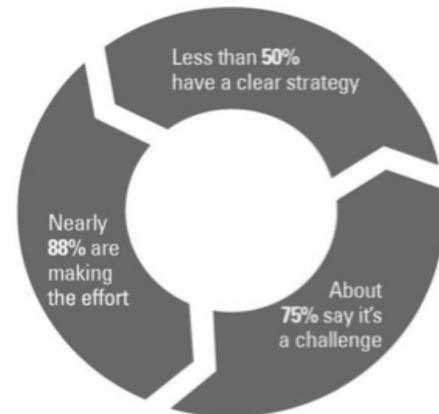
The steps to overcoming wealth transfer planning inertia begin with you playing a supporting role as the facilitator for families, while also maintaining a strong level of sensitivity around the subject. Having a clear understanding of client objectives and ensuring your services align with those goals are critical when it comes to working effectively amidst the demographic shift.

## Generational insights

With multiple generations exercising their financial muscle, your practice now faces a two-fold challenge:

1. Help the Baby Boomers transition smoothly into retirement by providing distribution phase solutions.
2. Connect successfully with the next generation as they grow their asset accumulation and develop into “ideal” clients.

Figure 2. Advisors engaging the next generation of investors



Q: I have a clear strategy on how to engage the next generation. True/False. Q: It's a challenge to engage my clients' children. True/False. Q: I'm making efforts to engage the next generation of clients. True/False.  
Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

You may be familiar with your current clients' preferred way of doing things, but what about those of prospective clients? Silent Generation and Baby Boomer investors might have been more predictable: with age and experience come increased investment sophistication. But with Generation X and Millennials, there are some new variables to consider. These investors have a more collaborative planning style, expect real-time information delivery, and are moving toward a holistic, goals-based approach to wealth management.

“It’s critical that an adviser understands these generational differences in order to offer effective advice,” said Marit MacDonald, a registered principal with LPL Financial. “For example, Millennials are often seen as slackers for living at home with their parents after college, but they do so because saving money is a priority and they are great savers. That knowledge completely changes how an adviser would approach this group.”

Each generation is defined by the social and economic environments that shape their life experiences. Figure 3 highlights some of these to provide context for the investor landscape across four generations. It also points to the challenges of working with different generations, each of which has different priorities arising from unique behavioural patterns and experiences.

Essentially, to attract and service specific client segments, your practice model needs to be optimised to help support a more diverse platform that can resonate with multiple generations and appropriately address investor needs.

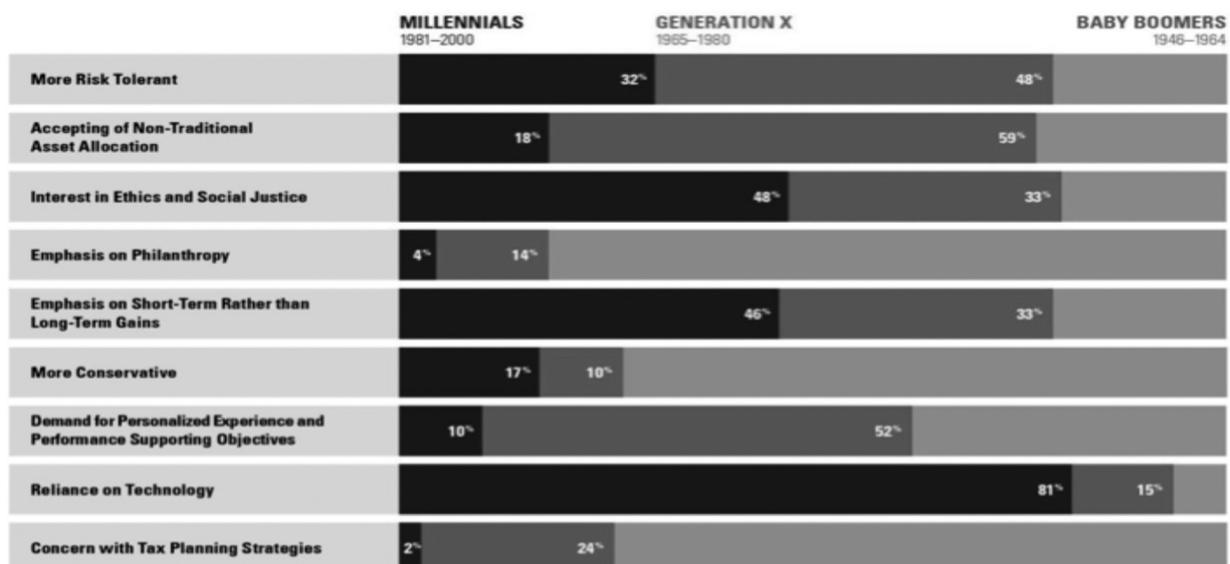
“Each generation has had different life experiences and manages their wealth accordingly,” said Ted Cronin, chief executive officer of Manchester Capital Management. “Baby Boomers are trying to conserve wealth as they enter retirement. As their financial lives become more complex, goals-based solutions resonate well with Generation X. Millennials live in a more social environment and are often more concerned with socially-responsible investing.”

**Figure 3. Generational differences across selected characteristics**

	<b>SILENT GENERATION</b> 1928–1945	<b>BABY BOOMERS</b> 1946–1964	<b>GENERATION X</b> 1965–1980	<b>MILLENNIALS</b> 1981–2000
<b>Environmental/ Social Influences</b>	Great Depression New Deal World War II Korean War First satellite launches	Cold War Space travel Civil/Women's Rights Watergate Vietnam War	Energy crisis MTV Stock market crash First Gulf War Reaganomics	Internet/Social Media Terrorism/9/11 Second Gulf War Great Recession
<b>Core Values</b>	Discipline Duty Family Patriotism Sacrifice	Equal rights Optimism Individualism Personal growth Experimental	Diversity Education Forward-thinking Life balance Strive for emotional security	Global community Self confidence Entrepreneurial Racially diverse and accepting Dependent on technology
<b>Financial Attitude</b>	Strive for financial security	Comfortable spending; Support extended family	Planners, but need to save more	Risk-averse; Leery of stock market
<b>Defining Communication Medium</b>	Telephone (interactive) Radio (passive)	Telephone (interactive) Television (passive)	Telephone (interactive) Desktop computer (interactive)	Smartphone/Social Media (highly interactive)
<b>Work/ Life Balance</b>	Strong work ethic and loyalty; measure success by timelines and productivity	Work hard and hope to enjoy it later Measure success by hours worked, relationships and teamwork	Work smarter, not more Value control of their time	Value flexibility in where, when and how they work
<b>Interaction Style</b>	Prefer a hierarchical model Strong interpersonal skills	Moderate collaboration/interaction Predominantly hierarchical; Face-to-face	High collaboration/interaction Direct and adaptable	Very high collaboration/interaction Demand autonomy

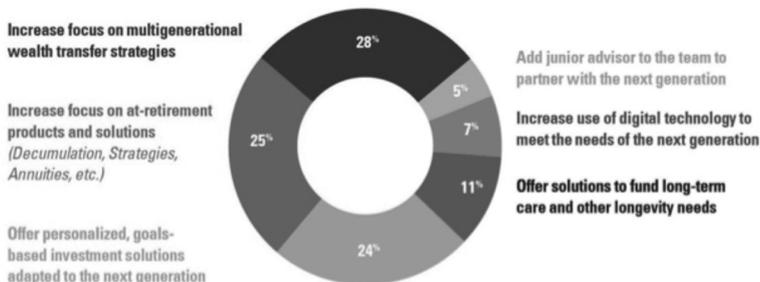
The characteristics listed in this table are a small sampling of those that have been considered in various studies by academic and governmental institutions. Not every person in a generation will share all of the characteristics shown in this table. Members of each generation may have overlapping characteristics with members of preceding or succeeding generations.

**Figure 4. Advisor-observed behavioral patterns of the generations**



Q: For which of the following three client types are the following factors most commonly reflected?  
Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

**Figure 5. How will your business adapt to the retirement of the baby boomer generation**



Q: How is/will your business adapting/adapt in order to succeed in the context of the demographic shift due to the retirement of the Baby Boomer generation?

Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

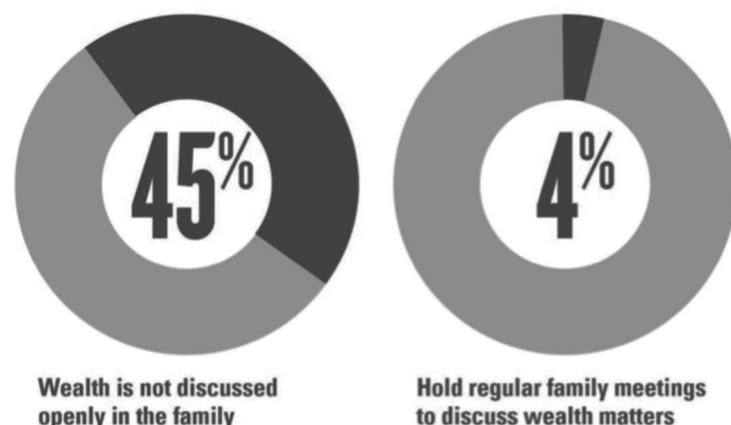
**Figure 6. Expanding the definition of client**



Q: Which of the following steps have you taken to retain and cultivate the next generation of clients?

Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

**Figure 5. Discussions of wealth in the family**



Q: How much is wealth planning discussed within your family?

Source: State Street Global Advisors' Survey, "Money in Motion," June 2015

## Managing the transition

Offering the right solutions to the right clients at the right time is critical. In order to succeed in the context of the demographic shift, a focus on wealth transfer strategies has become a priority area for advisers who are also increasing the number of at-retirement products they offer and implementing personalised, goals-based wealth management.

*"38% of investors retain the same advisers when their spouse dies. And that number drops to 29% when both parents have passed and children inherit their assets."*

– Brie P. Williams, head of Practice Management, State Street Global Advisors

Source: State Street Global Advisors Multigenerational Wealth Management Toluna Omnibus survey, 2015.

The first two business tactics squarely address the forces shaping our agenda:

- An aging client base
- A transition of assets.

The third business tactic – personalised, goals-based wealth investment solutions – speaks to the mandate that we put the clients first. Modifying investors' behaviour from a reactive to a more proactive wealth management and planning model is critical. If an investor is being proactive, it gives them far more control and certainty about the road ahead.

Inclusion is the key. This implies a commitment not only to having more open and collaborative planning discussions, but also taking the time to build relationships with the rest of the family. Engaging the next generation in wealth transfer matters helps the adviser to understand each individual's unique perspective and align the objectives of the entire family.

Financial advisers are uniquely qualified to lead clients through the process of exploring and clarifying goals. This is true whether you are cultivating new, younger investors or seeking to develop relationships with the heirs of your current clients.

## Overcoming avoidance behavior

Families, by in large, do not discuss wealth openly. In the US, it's culturally taboo. However, this "M-Word" avoidance is concerning as this behaviour coincides with a sizable amount of money changing hands. Only 4% of families have regular meetings to discuss money matters, while 45% of families say wealth is never openly discussed.

Wealth transfer discussions force people to confront the realities about how they have – or have not – educated others in the family about wealth.

Many families spend a great deal of time preparing the money for the family, but very little time preparing the family for the money. Excluding spouses and/or children from important financial decisions can hurt the family in the long run. It's a missed opportunity for participation in – or to gain an understanding of – essential decisions about wealth and the overall financial planning. That, in turn, can negatively impact the heirs' ability to as well as properly steward the assets post transfer.

There is a real need for advisers to build bridges between the generations within a family. Brokering trust is essential. To properly service specific client segments, you need to factor in different preferences and understand individual concerns.

Advisers need to help their clients take more deliberate steps early on in their overall wealth management plan. When assessing the primary triggers for thinking about the wealth transfer planning process, investors are more inclined to be reactive rather than proactive. More than a third (37%) are waiting until they reach a certain age before implementing a plan. This trigger – or when there is a death or health issue – is often the moment when they become ready to involve their financial advisor in the process. Unfortunately, at this stage, it often can be too late for meaningful action.

One barrier that impedes meaningful discussion about wealth planning transfer is the fact that it relates to an end-of-life event.

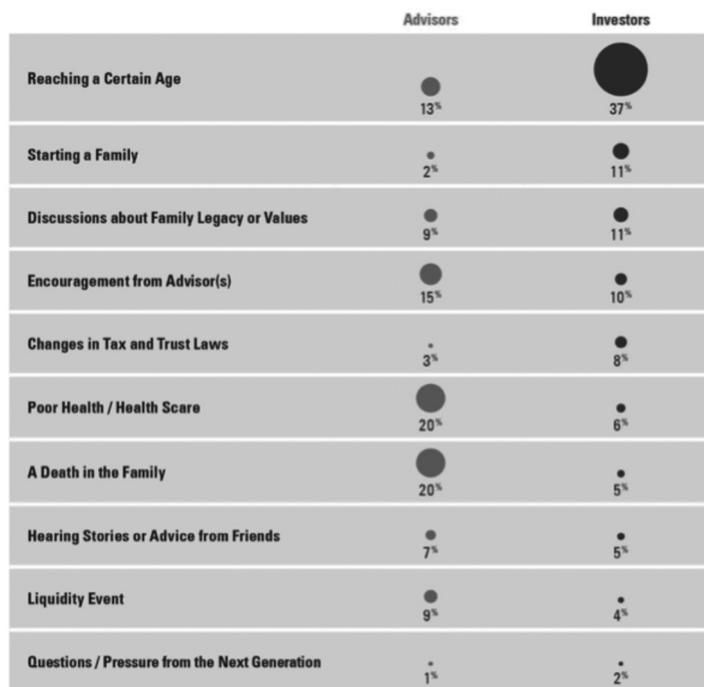
"Humans are hard-wired to not think about their own death," said Russell James III, professor and Charitable Foundation Chair in Personal Financial Planning, Texas Tech University. "When thoughts of death do manifest, they trigger a raft of psychological conflicts and support a tendency to do nothing on a subject ... denial, avoidance, anxiety."

Changing behaviour – shifting mindset – is not easy. And that's even true when the topic at hand is about the end of life.

As these conversations take place, keep in mind that there is a distinct difference between intent and action. "It's about bridging the gap between aspiration and execution," said Suzanne Duncan, senior vice president and global head of research at State Street's Centre for Applied Research. "You want to trigger an emotional response. It doesn't have to require a life event to take place. It requires a deep and meaningful conversation about it."

The most important factor in wealth transfer is planning ahead. Opportunities will be missed if the client waits until they are in poor health or beyond a certain age to take advantage of the time needed to put a strategy in place.

Figure 8. The primary triggers for thinking about wealth transfer planning

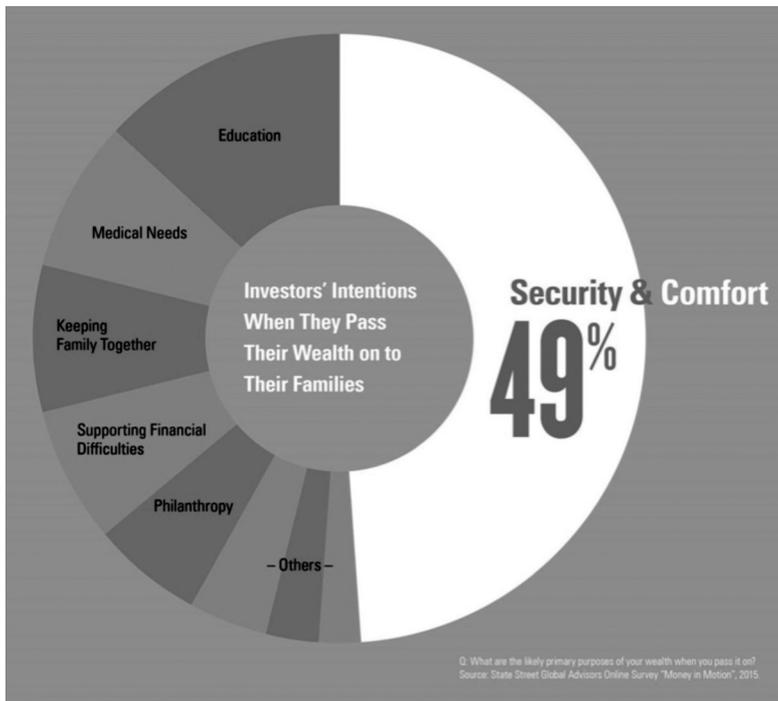


Q: What were the primary triggers that made you start thinking about wealth planning? Rank the top three.  
Source: State Street Global Advisors' Survey, "Money in Motion," June 2015.

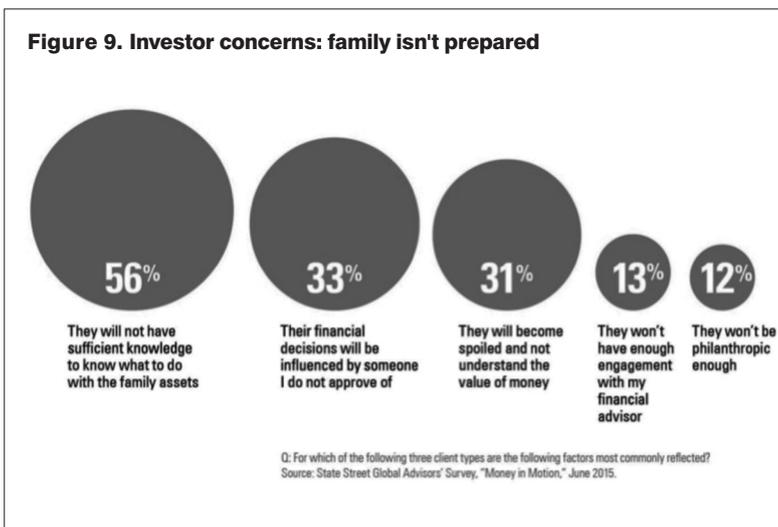
## Techniques to Shift the Wealth Transfer Mindset

Despite its inclusion on many to-do lists, wealth transfer planning too often is ignored by clients. Some are preoccupied with what they perceive to be more immediate and pressing matters, while others prefer to avoid raising what is frequently seen as an unpleasant, end-of-life topic. Effective preparation for the next generation starts with helping your clients define wealth differently so that they take into account both financial and non-financial factors.

- **Encourage your clients to think about the long-term goals they have for their family.** Make the conversation less about wealth transfer and more about family wealth planning as a whole.
- **Start early and ask to bring the family members into the discussion.** This approach will foster inclusion and help the family build a foundation of wealth stewardship.
- **Keep your clients – and their families – engaged** by centering the planning process around life affirming themes to circumvent an avoidance response and foster a more meaningful conversation.
- **Be sensitive, but specific, in how you educate your clients.** Explain the benefits and make the scenario real. Use names of family members, rather than using general examples.
- **Use social norms as a subtle clarification of how other people behave on the topic.** This can help motivate clients into action if they are procrastinating because of misgivings about the activity.
- **Use checklists and introduce shorter-term goals** with targeted completion dates to help clients feel organised and well informed about the process.



**Figure 9. Investor concerns: family isn't prepared**



#### The quote

*All asset transfers create risks and opportunities. However, the pace and scale of this transfer, combined with the differences in how the generations view wealth management service providers, make this a defining issue for our industry.*

## Investor concerns

### What's Really on Clients' Minds?

As you educate families on the purpose of inter-generational planning, you will see the concept of how they define their legacy take on a practical perspective. For example, it's clear that family comes first when investors think about the objectives for the wealth they intend to pass on. Providing financial security, funding education and covering health care needs are all paramount.

Some of the priorities are also directly correlated with investor worry. They perceive long-term care needs and large, unexpected expenses as the top threats to the wealth they hope to leave.

The aspirational intentions for the wealth investors plan to pass on represent hope, a sense of accomplishment, pride, contentment, joy and love. But the wealth preservation concerns – the perceived threats to the wealth they hope to leave – reflect regret, anxiety, fear, a sense of failure and humility.

These illustrate the emotional side of wealth transfer planning and are indicative of what kind of legacy a client wants to leave. The idea of legacy may remind us of death, but it's really about life and living. It's about helping the young extend and enhance their own lives. It's about developing sensitivity to the needs and concerns of the aging population.

Ask your client what the concept of legacy means to them. Coach clients through a structured process designed to meet and realise their goals. Understanding the legacy they want to leave will help achieve a sustainable impact.

Families are not often ready for the responsibility of new wealth, and their lack of preparedness can undermine the transition process. Wealth creators have concerns about what may – or may not – happen once the wealth transfer occurs.

The findings here reflect a dilemma many parents wrestle with: when to involve the children in family wealth matters. They worry if they tell children too early, they risk creating a sense of expectation and entitlement that could discourage children from pursuing fulfilling, independent financial lives and careers. On the other hand, waiting too long may mean missing an opportunity to help prepare the children for the wealth they're going to receive. A specific age may not be the answer to this issue, but rather, a financial maturity the children demonstrate to their parents.

Offering financial education for the next generation can help you help parents raise financially savvy children. Assisting clients with major events in their children's lives, such as buying their first house, will not only improve their financial literacy, but will also place you in a facilitator role from the beginning in a very meaningful way.

## Family governance: Uniting behind a shared set of goals

Consider expanding your definition of “client.” Extending your focus to the entire family and bringing the generations together to develop a shared vision for their family capital is a powerful way to encapsulate what they want. And, it will solidify your role as a lead wealth management advisor to the whole family.

### Communicate the Importance

- While this may feel like an extra step to some families (in addition to the creation of a will or trust), reiterate that developing a plan together will go a long way toward ensuring that their wealth transfer is conflict-free and their legacy is achieved.
- Stress to your clients that undertaking a wealth transfer plan without the full involvement of their families or other heirs from the beginning is not as effective.
- It can be meaningful for the next generation to hear from their grandparents, extended family or parents about their reasoning behind the gift of a specific property to a certain family member or their donation to a specific charity.

### Progress in stages

- Set your clients up for success by outlining the roles each generation plays in family wealth management and developing a check list or agenda with them to ensure they get the most out of their time together.
- Develop a document that outlines the priorities they determined in their meeting with you. Giving them something to work off of will make the process less overwhelming and make it more likely that they will be able to complete a working document in a timely fashion.

### Think Outside the Box

- Encourage your clients to think creatively about how they want to demonstrate to each other and future generations their goals and intentions for their capital. Stress that there is no right way to take on this task.
- Resulting documents could be: a personal letter to each family member reflecting on why specific properties or charities have special meaning; an evergreen document outlining “dreams,” “visions,” and “goals” for the older generation’s legacy; or a more traditional “mission statement” developed after a family meeting.

*“The patriarch of one of my families always wants time with just the grandchildren as a group. In that meeting, he asks for their input on charitable gift suggestions and then together they come up with the best 3 or 4 options, offering grandpa the final vote. This gives the younger generation a voice when it comes to family capital and instills in them the importance of charitable giving, something that is paramount to the older generation.”*

– Maureen Kerrigan, Senior Vice President,  
Financial Advisor, RBC Wealth Management

*“When participating in a meeting with the extended family, always honor the differences in culture, attitudes and values of the different generations. Always be true to your own knowledge and skills in giving advice so you don’t compromise their trust, but respect their differences. Don’t pander or say things just to ingratiate yourself with them. When you see something that doesn’t make sense, bring that up even if it’s an uncomfortable conversation.”*

– Ted Cronin, Chief Executive Officer,  
Manchester Capital Management

## Core values

Understanding genuine client goals and objectives and aligning your services to meet them are critical to adapting to the demographic shift. Open communication, a sense of control and transparency all matter and are essential to ensuring that effective stewardship of a client’s wealth legacy meets with long-term success.

The successful advisory practice:

- Sees the client as not just one person or a couple, but as a multigenerational entity.
- Is willing to adjust the practice model as well as hone skills and add the resources necessary to support a multigenerational client base.

Adapting and innovating will prove to be your best asset and will differentiate you in the eyes of your clients – both

those you have today and those of the next generation.

And your clients are ready.

- 40% of investors expect to be involved in the family’s wealth transfer plan once they are financially independent.
- And 65% are looking to their financial advisor or family office to play an instrumental role in educating the next generation financially.

Done well, an intergenerational wealth management approach can empower a family, placing the control, power, knowledge and opportunity squarely on their side of the table. Your experience and leadership can help establish a plan, integrate education on the topics of wealth transition and prepare heirs to receive and manage assets. **FS**



### The quote

*As an industry, it seems we have done a good job of focusing on prudent financial wealth management, but have been less diligent when it comes to helping investors be more comfortable talking openly about wealth.*