the new alpha rules
bridging the gap
strategies and tactics for advisers to connect with clients’ heirs

Many advisers face a demographic challenge as they attempt to expand their practices. Industrywide, two-thirds of adviser clients are older than 50, and about a third are older than 65. For many advisers, an important source of growth of assets under management for their firms could be the children and grandchildren of their existing clients. Financial vehicles that transfer wealth across generations could be a place to start the discussion.

The potential benefit for advisers in bringing on younger clients is huge: Baby Boomers are set to transfer an estimated $30 trillion in assets to their heirs in North America alone. Between 2031 and 2045, about 10% of the United States’ total wealth will transfer every five years, much of it to Generation X (those born from the early 1960s to the early 1980s) and Generation Y (those born from the early 1980s to the early 2000s).

The opportunity to add younger clients is also significant because Gen X and Gen Y are unlikely to have financial advisers. According to an InvestmentNews 2014 investor survey, 70.2% of respondents under age 35 and 58% of those age 35 to 44 do not have an adviser, compared with only 33.6% of those 65 and over.

There would seem to be an obvious opportunity for advisers to work with the children and grandchildren of their existing clients so that those young people would eventually become clients of the adviser. But if advisers wait to make contact with the next generation until their current clients pass away, their success rate is not good. The vast majority of heirs plan to fire their parents’ adviser once they have received their inheritance.

Advisers need to build a relationship with the next generation before they become heirs. It could be a natural role for advisers to act as a conduit for intergenerational discussions around financial issues – discussions that do not happen as often as they probably should. According to the 2014 Fidelity Intra-Family Generational Finance Study, 64% of parents and children disagree about how and when to have a conversation about the financial expectations of each generation. As a result, these discussions often do not happen, leading to misunderstandings on both sides.

A good place to start the communication is often around life insurance, annuities and similar financial vehicles that can be used to convey wealth across generations. Some fee-only advisers may be concerned about using insurance products, which traditionally have been primarily commission-based. But there are many fee-based insurance products that RIAs can use both to transfer wealth and to protect their existing clients and the next generation.

Still, advisers who want to reach out to the heirs of their baby boomer clients have some obstacles to overcome. Like generations of young people before them, Gen X and Gen Y are busy establishing careers and raising families, and they often don’t have much time to think about their long-term financial goals. Many of them are carrying much more debt than earlier generations; student loan debt alone totals more than $1.2 trillion. This debt can get in the way of their starting families, buying houses and taking the other “adult” steps that their parents and grandparents often took much earlier.

If they are starting out financially, they do not have much to add to a firm’s assets under management. They probably don’t even meet the investment minimum of many firms. But advisers who work with younger people say that they are planning for the long term when they take on clients early in their financial lives.

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1 FPA Research & Practice Institute, “The Future of Practice Management,” December 2013
3 “Heirs take the money and run – from financial advisers,” InvestmentNews, Nov. 6, 2011
4 Source: Finaid.org
Daniel McConlogue, AIF, PPC, founder of Eleven O’Clock Associates LLC in Fort Myers, Fla., holds financial planning events for young people in which he and his team simply answer questions and do basic financial plans, usually for a small fee. The people who attend the events do not have to become clients of the firm, though some do. Although the up-front payoff is small, Mr. McConlogue views this outreach as a long-term investment in continued growth for his firm.

“We thought if we could find these young professionals who, whether they know it or not, desperately need us, then it’s OK to start out with them on … planning engagements,” he says. “If we do a good job and impress them, odds are that they’ll give us a look” when they do have money.

Advisers who work with younger people emphasize that it is important for the adviser to understand that many younger people don’t know much about financial issues, and at the same time to respect that they want to learn.

Mr. McConlogue says that young people who come to his firm as clients often come as the result of a life event – perhaps they have married, had a child or inherited money – “and they often have absolutely no idea what to do.”

C. Angus Schaal, CFP, senior managing director of Tandem Wealth Advisors in Phoenix, Ariz., says that younger people often have done a lot of looking at financial information online. Despite that, though, “Often they come with questions more than answers.”

But, he says, “They are seeking to be financially self-sufficient, which is the basic requisite for being an adult. So managing money and risk is a natural evolution to adulthood, and seeing us is a logical next step.”

There is also a difference in the way many younger investors communicate. They are used to and comfortable with a wide variety of communication, especially digital. For example, 19.2% of IN survey respondents under 35 said that text messages were one of the top three ways they would like their adviser to use for direct personal communication with them. Among respondents over 65, only 1.5% want their adviser to use texting to communicate; 13.6% of these respondents named the U.S. Postal Service as one of their top three communication choices.

Mr. Schaal notes that the fact that younger clients are more comfortable with digital communication can actually be an advantage. “People in their 20s and 30s today have grown up surrounded by technology, so they tend to communicate more quickly via email and text messages,” he says. “That makes it easier for us to convey important information and answer questions promptly; in turn, they are more apt to implement their choices more quickly.”

Mr. McConlogue says his communication approach with younger clients is to “hit them on all fronts.” He gives them books, he forwards articles he thinks they might find interesting. He tries to send people as much information as they want and can absorb in a variety of formats, in order to give them at least the bare minimum of financial knowledge they need to make decisions about their future.

If a client wants to know more, he is happy to oblige. But, he says, he wants to make sure they are ready. “The bigger the complexity, the bigger the doubt they can do it, the more people shut down,” he says. “In a real sense, we want them to not shut down.”

Despite generational attitudes around technology, being a financial adviser is ultimately person-centered, no matter what the age of the client. Younger people might be more comfortable than their parents with texting their adviser or checking their investments online, but they also want to have a personal relationship with someone who listens to and understands their needs and goals.

“They expect us to communicate on multiple platforms, but they see value in face-to-face advice,” Mr. Schaal says. “Online advice in certain areas is insufficient and will remain so for a period of time.
“Technologies and platform algorithms are not at the point yet where they can figure out what’s best for each individual,” he says.

“Planning your financial future isn’t the same as buying car insurance.”

Life insurance, annuities and other long-term financial decisions that affect multiple generations can provide an opportunity for advisers to include the next generation in a financial discussion. For example, parents or grandparents might buy a permanent life insurance policy on a young child or grandchild as a way of ensuring the long-term insurability of the child and at the same time providing the child with cash value when he or she becomes an adult.

When the parents or grandparents are ready to turn the policy over to the now-adult child, the adviser could meet with both generations. The parents or grandparents could explain why they purchased the policy and their hopes for how it might provide for the child, and the adviser could explain how the policy works and what options the child has going forward. This both introduces the child to the adviser and allows the adviser to facilitate an honest and informational discussion between the generations.

Joseph W. Maczuga, LIC, CFIS, executive director of the Fee Advisors Network in Troy, Mich., explains how clients might seek help from their adviser in introducing the client’s children to the family’s financial decisions. He worked with an adviser who had wealthy clients with two young adult daughters. As part of their estate planning, the parents set up a family philanthropic trust, and then they brought in the daughters so that the adviser could explain how the trust, as well as other parts of the estate plan, would work. The daughters were given responsibilities within the trust, including doing research into possible charitable efforts for the trust to support.

“This created a universe or a climate for the girls starting to understand investment activity, the language, the terminology,” he says.

“The advisers were able to meet and form a relationship with the two young daughters, so they have a generational continuance. At the point in time when this huge estate is going to pass on to the daughters, the adviser already has a relationship with them,” he says.

This kind of family focus also can have an added benefit: It can help the adviser strengthen the relationship with the client’s spouse. That can lessen the likelihood that the spouse, like adult children, will move to another adviser when the primary client dies.

Plus, working within families and across generations allows advisers to practice what they preach about the importance of long-term thinking and relationship-building.

Mr. Schaal explains, “We want to work with families because the very nature of our work is long term, and the impact of our planning affects multiple generations.”
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