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The Rise Of The Convenience Generation

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This article argues that the younger generation of HNW individuals prizes convenience over chasing after high returns. Advisors need to get creative, and understand more innovative strategies for managing wealth transfer, such as a "directive trust".

The younger generation of high net worth people, such as inheritors, are not as focused on achieving the highest level of returns as might have been the case with their ancestors, so surveys and certain arguments state. (Whether that holds true if or when the economy were to go into a recession or some other difficulty remains open to debate.)

This younger population cohort is the "convenience generation" and wealth managers need to understand that, argues Alvina Lo, chief wealth strategist at Wilmington Trust. Lo says the newer generation wants different things from wealth advisors.

The editors are pleased to share these ideas and invite readers to respond. The usual editorial disclaimers apply, and readers who want to respond can email tom.burroughes@wealthbriefing.com and jackie.bennion@clearviewpublishing.com

Over the next 25 years, nearly $70 trillion is expected to be transferred by aging Baby Boomers to younger generations, according to research firm Cerulli Associates,[1] specifically Generation X (currently ages 38 to 53) and Millennials (ages 22 to 37).

Given this massive tsunami of money in motion, wealth advisors need to rethink how they work with clients and their families. Figuratively for Gen Xers and literally for Millennials, they are unlikely to be happy with their grandparents' wealth planning approach. Attracting and retaining younger generations will require advisors to revamp how they approach and engage multigenerational families.

To begin to understand what's at stake for wealth managers, it is important to analyze why clients choose an advisor, and why they leave one. When it comes to choosing an advisor, factors such as the range of product/service offerings and strong investment performance are relatively unimportant, ranking seventh and eighth, respectively, on the list of reasons why clients choose an advisor, according to Cerulli[2]. Rather, it is the opinions of people that investors trust most. Referrals from friends, family and existing clients are the factors that top the list, followed by referrals from other professionals, such as accountants.

What about the other side of the coin? Which factors make investors abandon their advisors? It is perhaps surprising that high fees and poor investment performance are not the key drivers, and only rank third and fourth, respectively. The top reason for an exit is the passing away of a client, resulting in his/her beneficiaries leaving. Next on the list is the client having a relationship with another advisor.

What does this data tell us? First and foremost, that quantifiable points such as investment performance and fees are far less significant in attracting and retaining clients than qualitative issues – namely the strength of the relationship between the advisor, the client and the client's family. These issues are becoming even more important – and more complex – as younger generations emerge as the recipients of Baby Boomer wealth.

Speaking a different language

As the Baby Boomer wealth transfer accelerates, advisors are going to have to adjust to a client base that is more diverse and possesses different needs than its elders. While 80 per cent of women currently lead or participate in decisions about family wealth transfer, per Cerulli,[3] they are becoming more engaged in investment strategy. Only 9 per cent of Boomer women were involved in investment decisions, while 21 per cent of Gen Xers and 29 per cent of Millennials say they are.

Advisors will need to consider the role of ethnicity as well, as 75 per cent of Boomers identify as white, while 62 per cent of Gen Xers and just 56 per cent of Millennials say the same.

While challenges abound, the good news is that relationship-based services are in great demand. More than nine in 10 (93 per cent) high net worth investors think that having an advisor they can trust is important, and 89 per cent of them feel obligated to learn to manage their wealth, according to Navigating the Wealth Transfer Landscape, a survey Wilmington Trust developed with Campden Research and the Institute for Private Investors.[4]

For advisors to remain relevant they will need to manage next-gen clients as members of the "convenience generation." As consumers, these clients have become accustomed to immediacy and enhanced communications. They seek a modern approach to wealth planning that involves an updated mix of services and products, along with a focused, experiential relationship with their advisors.

For example, advisors should refine their models to provide value upfront and engage these investors at inflection points, such as marriage, having their first child, buying their first home or receiving a distribution from a trust at a specific age. It's about connecting with clients wherever they are in their personal journey.

Another key for advisors will be providing education across multiple generations to maintain strong ties with entire families. Knowledge is power, but every family learns differently. Some 59 per cent of investors who plan to inherit wealth prefer customized education from their advisor based on their family's needs, per *Navigating the Wealth Transfer Landscape*.

Getting creative

As lifespans increase, the need to play across three and even more generations will become more prevalent and advisors will also need to develop more innovative wealth transfer strategies. One solution increasingly popular for intergenerational wealth is the directed trust.

Under a directed trust, certain duties that are normally the responsibility of the trustee are unbundled, so that the authority for investing decisions and other major choices is vested in the hands of an advisor or trust protector, while the trustee retains other administrative functions.

In selected jurisdictions, such as Delaware, a directed trust can be structured as a dynasty trust, which may provide tax benefits and asset protection across multiple generations.

Three examples, including one involving a directed trust, illustrate the various kinds of creative approaches that advisors can take to drive next-gen wealth discussions.

A multi-generational business: A grandfather wanted to transition his business, valued at $100 million, to a third generation. This generation included three grandchildren, only one of whom, a grandson, worked in the business. The grandfather wanted equity to pass to the children equally, while giving control to the grandson.

The solution: A directed trust, which gave control of the business to the grandson by making him a special business-holding trustee. The non-business assets would be controlled by all three grandchildren as investment advisors of the directed trust.

Involving the next gen in their inheritance: A trust established by two grandparents provided for their granddaughter to receive her first significant distribution at age 30. Her parents wanted her to be prepared when the time came.

The solution: The parents began involving their daughter in wealth education in college, including the basics of budgeting, financial planning and investing. When she reached 29, the family and advisor created a full wealth plan. This coincided with her upcoming marriage and buying a home, moments when budgeting and asset protection were important considerations. In the end, the granddaughter, with the assistance of her family and advisor, chose to create her own trust using proceeds from the distribution.

Using philanthropy to engage the next gen: A business executive, a first-generation wealth creator, wanted his teenage daughters to learn to manage money better, but didn't want them to know the full extent of their wealth.

The solution: He and his advisor created a donor-advised fund that enabled his daughters to distribute small amounts to charity, something they were already passionate about. They started with $1,000, eventually moved into investing, and ultimately had total autonomy over $5,000. This strategy gave them the equivalent of a "wealth management education fund" via a vehicle they were both enthusiastic about.

Final thoughts

How can advisors avoid being left behind while engendering client loyalty as this great wave of wealth transfer happens? By keeping changing demographics top of mind, finding creative ways to engage future generations of wealth holders and making it easy for these new investors to participate in the planning process. This modern approach to wealth management will require both nimble strategies and tactics, and a change in advisors' mindset.

Footnotes:

1, https://www.cerulli.com/publications/1df1e8dc-8cd0-e811-a968-000d3a32c8b8/2019-us-high-net-worth-and-ultra-high-net-worth-markets-annual
2, ibid.
3, ibid.
4, https://www.wilmingtontrust.com/repositories/wtc_sitecontent/PDF/navigating-the-wealth-transfer-landscapeL.pdf

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