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The Wealth Transfer Tsunami

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The great wealth transfer from Baby Boomers to their Gen X and Millennial children is estimated to be anywhere from $36-68 trillion over the next 25 years, creating an equal measure of opportunities and dangers for financial advisors over the next decade.[1]

What percentage of your assets under management is with clients over the age of 70?

While the preponderance of this wealth transfer discussion has revolved around how advisors can capitalize on this historic shift of wealth, the more immediate challenge is whether advisors are aware of the danger that this "money in motion" presents to their current book of business.

This challenge strikes at the heart of the question posed at the top: "Do you know what share of your AUM may soon be transferring ownership to a new generation of investors—investors who typically have no relationship with you?"

In this white paper, The Wealth Transfer Tsunami, we detail what this wealth transfer looks like, how advisors can protect themselves from losing assets as older clients' assets are passed to their families and strategies for exploiting this wealth transfer tsunami to grow their practices.

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What the Great Wealth Transfer Looks Like

Cerulli Associates has estimated that nearly $70 trillion will be transferred over the next 25 years. It is expected that Gen Xers will inherit $31 trillion and Millennials will be the beneficiaries to about $22 trillion, while Baby Boomers will receive a more modest $8 trillion (predominantly from surviving Silent Generation parents).[2]

It's crucial to bear in mind that these inheritors are not a monolithic group. In addition to the generational divide, it's estimated that only 35% of today's affluent families are of the traditional model (heterosexual married couples with children). A nearly equal 34% are of a "modern" construct (e.g., blended, LGBTQ, older first-time parents, other non-traditional arrangements) and 31% are adult couples or singles with no children.[3]

This highly diverse group of individuals comes with varying perspectives, experiences and financial needs, requiring something far better than cookie-cutter messaging to capture their attention and trust.

Asset Retention Amid the Great Wealth Transfer

It may be a statement of the obvious, but the wealth transfer process is not only about assets moving to somewhere; it's also about assets moving from somewhere. Advisors who expect to be among the winners in this generational shift in wealth cannot afford to lose on their home field. Advisors, first and foremost, must implement a plan that keeps at-risk assets in the house.

Advisors hold many advantages in retaining assets subject to an eventual transfer to the next generation: they've earned the client's trust; have an understanding of the client's estate planning objectives; and possess an inside track on life events that may trigger an asset transfer.

These obvious advantages are also an advisor's greatest disadvantage. Advisors, as a consequence of their long and trusted relationship, tend to believe that the inheritors of these assets will continue to work with them. This belief breeds a complacency that, more often than not, results in losing those assets.

For the advisor confident that assets will remain with him or her after a client's death, consider that:

70%

of women leave their advisor within one year of the death of their spouse[4]

70%+

of advisors do not meet with their clients' children in a given year[5]

These findings suggest that advisors generally have not established a trusted relationship with their clients' spouses and haven't even tried to form a bond with the ultimate inheritors of their clients' assets. Absent these relationships, the likelihood of assets moving away from an advisor is startlingly high.

Elements of a Retention Strategy

1 Connect with Spouses

If the client relationship has been primarily between that of the advisor and the client, it's imperative to begin including the spouse in all future financial meetings and quarterly investment reviews.

By involving the spouse, the advisor can begin establishing a closer relationship by encouraging communication and questions that will help the spouse see the care and concern an advisor has for his or her needs and concerns.

Be sure all interactions are respectful, empathetic, educational and patient. If the spouse has historically not been a participant in financial discussions, make a special effort to create a comfortable and welcoming setting for him or her.

2 Perform an Estate Planning Review

Many Baby Boomers have not adequately planned for the disposition of their assets nor considered how their finances will be managed in the event of physical or cognitive decline.

Advisors need to make a concerted effort to have this estate planning conversation to review:

- If they have a will and if any existing will is updated to reflect their current wishes and objectives
- If beneficiaries on retirement accounts, annuities and life insurance are up-to-date
- Whether a financial Power of Attorney designating a financial decision maker in the event the client becomes unable to make those decisions is in place
- Whether a medical directive is in place to assist family members in following the end-of-life wishes of the client

This discussion is not only critically valuable to clients, but it also helps the advisor connect with and assist the adult children in these important matters, cementing a strong bond that will aid asset retention after a client's passing.

3 Be a Bridge Between the Generations

Discussions of wealth can be among the most difficult discussions parents have with their children. Advisors can play a valuable role in facilitating these discussions and use them as a launching pad for connecting with the children who will inherit these client assets.

The ways to do this are limited only by an advisor's imagination and commitment to connect. Here are several ideas to consider:

Work with Clients to Conduct a Family Wealth Meeting

The agenda items for discussion can be decided between the advisor and client. Among the many topics that can be covered are understanding the parents' values and legacy goals, financial fitness and concerns of adult children, financial education needs, etc.

Offer Educational Meetings to Clients' Adult Children

As inheritors of wealth, adult children need to be prepared to manage the money responsibly. They will be at different points in their financial journey, so offer a wide range of choices, such as managing student debt, funding a child's college education, caring for aging parents, ESG investing, navigating a home purchase, budgeting, saving for retirement, etc.

Build Trust Through Engagement

This can be done in a variety of ways, including connecting on social media, recognizing their birthdays and other big life events, consistent outreach of relevant and educational communications, and sharing community involvement activities.

Winning a Share of the Great Wealth Transfer

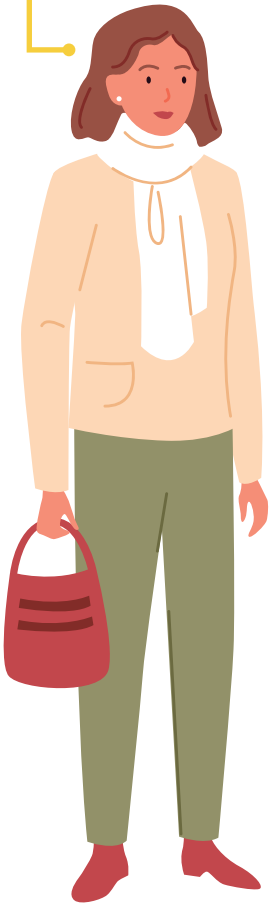
With a solid asset retention strategy in place, advisors are positioned to proactively and aggressively capture the investment assets of a new generation of investors from those advisors who failed to make a connection with their clients' adult children.

Successfully gathering these assets will require fresh thinking that reflects messaging that resonates with younger investors, specifically their expectations of investing and the technology that comes between them and their money.

The generational differences between Baby Boomer parents and their children will vary depending upon whether the inheritors are members of the Gen X or Millennial generation, requiring targeted communications based on characteristics of the generations.

Gen X

This "Sandwich Generation" is stressed by the pressures of caring for aging parents and their own children.



Retirement is fast approaching and they are behind in saving.

College funding is a top priority.

They tend to be skeptical, having lived through the dot.com bust and the financial crisis.

They tend to be conservative investors.

Millennial

They want their investments to reflect their values and make a positive impact on the world, making ESG investing a top priority.

Their focus is less on retirement and more about short-term goals, e.g., buying a home.

Student debt remains an overhang.

Millennials prefer to work with an advisor, favoring an independent advisor over traditional Wall Street brokers.

Investing can be confusing, overwhelming and stressful.

They tend to be very conservative; this is a generation upended by both a financial crisis and worldwide pandemic before age 40.

For more information, please read this informative white paper on Ways to Successfully Mentor the Millennials.

In all communication efforts, advisors need to:

1 Focus on education

Both generations value education. They do not want to simply follow advice blindly, however expert it may be. Understanding is crucial to taking action and feeling confident about the decisions taken.

2 Drop the jargon.

Nothing is more off putting than advisors speaking in the foreign language of finance. It does not impress. Indeed, it is likely to undermine the advisor's relationship-building efforts.

3 Emphasize quality, value, consistency, human advice, and personalization of advice and service.

These are critical attributes younger investors look for in their financial relationships.

4 Communicate in the ways they wish to connect.

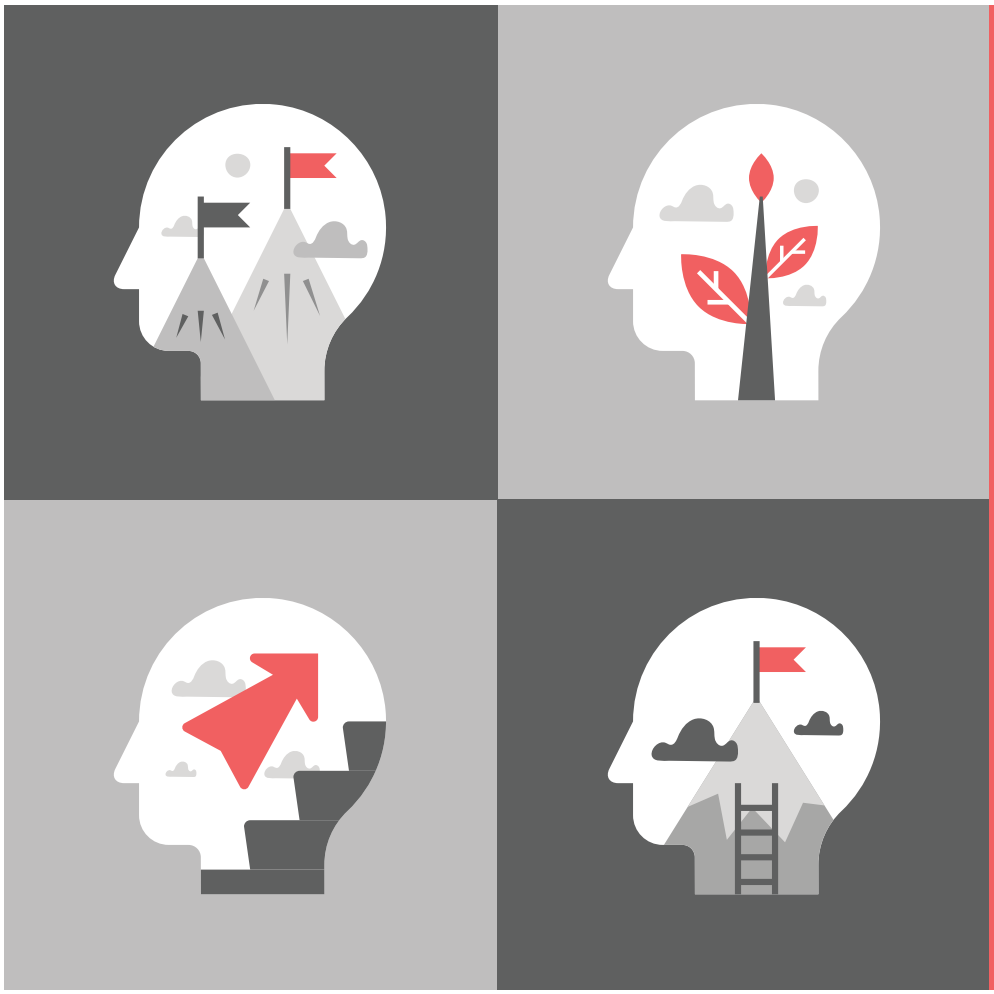
Social media is an essential medium of communication, requiring advisors to up their game in leveraging social media platforms like Twitter and LinkedIn, building out video and podcasts, and connecting across multiple channels (e.g., chat, phone, in-person, website, etc.). If you want to take your social media skills to the next level, read this white paper on Increasing your ROI With Social Media Advertising.

5 Promote social responsibility efforts.

Younger investors want to be proud of the businesses and brands they support. From community involvement to ESG investing expertise, they need to know the advisor they work with shares their passion for positive social impact.

6 Consider hiring advisors that reflect a diverse generation.

Most young investors are reticent about working with their father's financial advisor. A Millennial advisor, for instance, may improve a practice's ability to retain assets as they transfer to their clients' adult children and capture a share of a new generation of affluent investors.



At American Portfolios, we are committed to assisting advisors with building bridges to a new generation of investors to protect the value of their practices and lay the groundwork for the next cycle of business growth.

We encourage you to speak with one of our new business development consultants to learn in greater detail the many tools and services available to help advisors navigate the unfolding wealth transfer.

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American Portfolios Financial Services, Inc. has just the resources in place to help its advisors on many fronts. Advisors interested in learning more about wealth transfer and retention should contact *Vice President of Marketing Strategy* **Kimberly A. Branch, CFP®** at **631.439.4630**, or via email at kbranch@americanportfolios.com, to strike up a conversation today on programs and needs of the advisor.

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** Based on a poll of registered representatives conducted by Investment Advisor magazine. Broker/dealers rated highest by their representatives are awarded "Broker/Dealer (B/D) of the Year."*

*** Wealthmanagement.com Industry Award finalists are selected by a panel of independent judges made up of subject matter experts in the industry. Award is based on support provided to AP's affiliated people and does not reflect public customers nor their account performance.*

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