

How to Manage the Impending Wealth Transfer

Three critical strategies for advisors



THOUGHT LEADERSHIP FROM A TECHNOLOGY LEADER



This paper explores some critical strategies investment advisors can undertake now to increase the likelihood of retaining client assets, in preparation for what is expected to be the biggest generational wealth transfer in history.

66%

According to InvestmentNews, 66% of children fire their parents' financial advisors after receiving an inheritance³.

Are you ready?

Starting in 2011, around 10,000 baby boomers began retiring each day. Pew Research estimates the trend will continue through 2030¹. Historically, this demographic has been a gold mine for financial advisors, as baby boomers were the largest and wealthiest generation in U.S. history. While most boomers will still need help managing their assets to support their golden years, they will not live forever. Experts predict an inevitable transfer of more than \$30 trillion to heirs and charitable organizations.

As many advisors have spent the majority of their careers providing financial advice to baby boomers, the aging client base poses a huge risk to the long-term viability of independent practices. More than half of all RIAs had clients die in 2016 and cited

it as the most common cause of client attrition². If advisors don't have strong existing relationships with their clients' beneficiaries, the chances of retaining assets are low. Meanwhile, coinciding with the aging baby boomer population is the rise of interactive technology in virtually every aspect of life. Many adult children of high net worth clients can rightly be called "digital natives"—they have experienced the prevalence of technology all their lives. Not only do they take to it intuitively, they may actually prefer it to human interaction for obtaining information or conducting business. They are completely comfortable making dinner reservations, transferring money, or buying concert tickets on their smartphones without talking to a live person. Online reviews, recommendations and "likes" have replaced word-of-mouth. These characteristics have major

Reasons clients left in the past year (2016)	All RIAs
Client passed away	50%
Unhappy with investment performance	27%
Client gave no explanation	26%
Moved to a new location	26%
Asked client to leave (e.g. pruning)	23%
Had a relationship with another advisor	19%
Felt fees were too high	17%
Life events caused client to seek new advisor	16%
Followed family or friend to a new advisor	15%
Dissatisfied with advice provided	6%
Unhappy with the service provided	4%
Dissatisfied with practice’s product menu	2%

Figure 1: **An unfortunate consequence of an aging client base is the prevalence of losing clients due to death.**
 Source: Cerulli Associates, in partnership with the Investment Management Consultants Association and the Financial Planning Association.

implications as to how they will collect information and make decisions around their inherited wealth. Indeed, this emerging tech-savvy generation of wealth builders and heirs to the baby-boom fortune is one of the key drivers behind the rise of automated investment management, or “robo-advice.”

The convergence of these trends puts many advisors in a predicament where the future of their business could change in an instant – which is why it is imperative to prepare today. The impending wealth transfer between generations is definitely a challenge, but it also presents an opportunity for a firm to strengthen its foundation and substantiate its market value for succession or acquisition conversations. Strategies for long-term asset retention should be a key priority for every RIA.

If financial advisors connect with beneficiaries early, provide relevant advice, and position themselves appropriately, they can significantly increase the likelihood of managing assets for families across multiple generations. Moreover, the strategic use of technology can play a key role in helping advisors efficiently and effectively prepare for the transfer of wealth from boomers to their heirs. Now is the time to evaluate your technology strategy to ensure your offering measures up to the standard to which the next generation of investors has become accustomed.

“Working with the next generation ahead of time is key. Wealth transfer is not just assets, but also knowledge. Help them to learn how their parents succeeded, and work with them directly to understand their measure of success to help achieve their personal and financial goals.”
 dddd

—Alex Smith-Ryland, CMO,
[SMArtX Advisory Solutions](#)

“Maintain the relationship with recurring, proactive communication and show value by providing advice relevant to the individuals’ current needs and interests.”

—Jonathan Lucas, Senior Relationship Manager, [SS&C Salentica](#)

Three key strategies for turning heirs into clients

1: Get to know them now

While their parents are still active, advisors should be proactive in establishing relationships with their clients’ heirs and make them feel important, appreciated, and understood. Here are some ways advisors can start cultivating the next generation early:

- Start with the parents. Be sure you are in tune with their wealth transfer desires and helping to shape their plans. Show that you care about their children. Suggest including them in planning conversations.
- Keep track of heirs’ birthdays, anniversaries, graduation dates, contact information, and general interests in the firm’s customer relationship management (CRM) database. Check and update these records at least once per quarter.

- If they already have some savings or investible assets, make them clients now. Waive any account minimums for direct descendants of clients and consider a separate fee structure.
- Meet with heirs to discuss their financial and personal goals. Get a sense of their appetite for risk.
- Assign firm associates who are closer in age to your clients’ sons or daughters to own and manage the primary relationship with them. Encourage and support peer connection. Enable heirs to establish their own relationship with the firm independent of their parents.
- Host semi-annual events for younger family members, such as networking cocktail hours, tickets to sporting events, golf trips, and other opportunities for the children of clients to meet one another.

Timing is important. Don’t wait to have meaningful conversations with the people set to inherit your clients’ wealth. Sincerity is also important. People can easily sense disingenuous behavior and makeshift conversation. Advisors should take a real interest in the lives of their clients’ offspring to greatly improve the chances of maintaining the client relationship.

Once you establish a relationship with younger clients, work to maintain it. Like a garden, if the relationship doesn’t receive regular attention, it will wither. To maintain these relationships, advisors must focus on a few critical tasks:

- Set proactive reminders in the CRM system to maintain a communication cadence for each individual and keep notes on preferred communication methods such as text, email, or phone calls.
- Gain a deep understanding of the inter-family relationship dynamic. Does everyone get along? Do any of them *not* get along? Go above and beyond financial advice to help family members navigate sensitive topics.

“If an advisor does her job correctly, she will become essentially irreplaceable to the client. Not because of technical reasons, but because she helps the client see things he wouldn’t have seen on his OWN.” —Noah Herman, SVP Enterprise Sales, [Advizr](#)

- Learn what is important to your clients’ heirs as individuals, both from a financial and personal perspective. Are they primarily interested in making a lot of money or more interested in doing something they love, regardless of pay? Would an heir rather live on the inherited assets and donate time or money to charities, or use the assets to grow the estate? Would one person feel inclined to take care of other family members? Does another have a soft spot for helping the homeless, veterans, or animals?

Most children do not follow in their parents’ exact footsteps. Often, they choose different professions, industries, political candidates, and definitions of success. The key is working with them to achieve their goals, which may be completely different from their parents’ goals. One of the financial advisor’s primary responsibilities is not just managing wealth transfer in the form of assets, but in helping transfer the knowledge and principles required to create wealth. Advisors who understand the importance of true intergenerational wealth transfer will be better positioned to

have a multi-generation relationship with their clients.

2: Make yourself invaluable

Once advisors create relationships with heirs and establish plans to have ongoing, meaningful communications, they must continually work to position themselves as invaluable to the client. Setting up contact reminders and getting to know family dynamics are fairly easy initial steps. The next step requires real creativity – understanding what clients value most. Is it on-demand availability? Is it pure investment performance? Is it frank and friendly coaching? Whatever it is, the advisor must pinpoint it and do everything to enhance and solidify it in the client’s life.

If you specialize in a certain area, such as tax effectiveness or sustainable investments, make sure clients understand the value that specialty offers them. In many cases, that specialty may be the very reason a relationship was established in the first place. Heirs must understand why that specialty was important to their parents, too.

What can you do for them now to make your firm integral to their financial lives and personal growth? Determine what decisions are most critical to the heirs at this stage in their life. Do they need help paying off student loans? Do they need help saving for a down payment on a home? Providing pro bono advice on issues like these could pay dividends in the future.

A few ways advisors can distinguish themselves include:

- Providing education and advice on financial literacy and skills such as budgeting, saving, credit and more. Explain how you can help and offer to create personalized financial plans.
- Offering a portfolio mix that isn’t readily available elsewhere, such as exposure to certain asset classes or fund managers.
- Assembling a team of experts that allow them to provide value in several facets of a client’s life such as tax preparation, legal advice, insurance, and more.
- Serving as the conduit to valuable professional and social networks.

“The time an integrated technology stack saves advisors often leads to long-term sustainable growth.” —Aaron Klein, CEO, [Riskalyze](#)

When clients view an advisor as irreplaceable, the likelihood of retaining their assets increases. Put another way, never stop proving to clients why your professional advice is worth whatever fees they will pay. If they ever feel like the advice isn't worth the price, they are a potential flight risk.

3: Elevate your technology game

Most advisors don't need to be convinced that technology helps them save time, keeps overhead costs low, and scales their businesses. However, to gain the confidence of the next generation, how you use technology is of critical importance. Firms that wish to retain the assets passed on from clients to their children must demonstrate that they can provide seamless, on-demand, comprehensive, digital client experiences on par with global technology leaders such as Google, Amazon, or Apple. They must also be prepared to cater to each client's preferred channel of interaction. With a view to the long term, your technology choices should ideally achieve two interrelated goals: enhancing the client experience

(and thereby strengthening the relationship) while enabling you to serve these clients as efficiently as possible.

From the initial planning through ongoing reporting, technology can support virtually every aspect of the client relationship. An integrated, client-centric technology platform includes:

- **Portfolio management, accounting and reporting**—This is the hub of your operation, your core platform for managing, tracking and reporting on client portfolios. Reporting capabilities should be highly customizable, so you can clearly explain your strategies and tell a compelling story that demonstrates your value. You should also be able to refer very quickly to the information that is of most interest to each individual client. The next generation has become accustomed to instant information, so it is imperative for you to provide on-demand access to portfolios and account data through an interactive client portal. Augment your “high-touch” service with as much self-service capability as your clients want.

- **Financial planning software**—Creating financial plans is essential in helping clients achieve their long-term wealth goals. Offering to create financial plans for clients' heirs is a good first step in working to establish an intergenerational relationship. Choose an intuitive tool that allows you or your associates to create dynamic plans with clients in a collaborative manner. The software should allow ease of integration with other applications so manual data entry is minimized. A flexible financial planning solution serves as a great way for associate advisors to show value and drive the conversation in creating plans for younger family members.
- **Portfolio analytics software**—Understanding and balancing risk is a critical component of successful investing. By assigning a “risk number” to each client and their heirs, it becomes easier for advisors to discuss risk with each individual. Many clients overestimate their risk tolerance, while others underestimate the amount of risk in current portfolios. By going through a “risk questionnaire” with younger clients,

With the Black Diamond Wealth Platform as the hub of your advisory business, you'll be better able to navigate the challenges associated with intergenerational wealth transfer.

advisors demonstrate they are seeking to understand the client. The initial risk conversation becomes an educational opportunity that ultimately strengthens the relationship.

- **CRM software**—No matter how personalized a firm claims to be, growth inevitably makes it difficult to remember every detail for every client. This is the primary reason CRM software exists. Besides allowing advisors to keep notes of every client, it also allows other members of the firm to access the same information, so the client experience is seamless regardless of whom the client interacts with. The CRM system is an essential tool in preparing for an impending transfer of wealth. Create profiles for each client's beneficiaries and keep them up to date, so that by the time assets are transferred to the new generation, the recipients are already well established among the existing client base. It can also serve as a strategic planning tool for advancing the relationship, as well as for tracking referral opportunities.

- **Separately managed accounts**—Investment professionals should focus on the areas where they add the most value. Some advisors are very hands-on in investment management, while others focus primarily on an overall wealth management strategy. If you believe you add the most value by nurturing the client relationship, providing guidance toward goals, educating clients, and being available and responsive, it may benefit your business to outsource the actual investment selection. You can use managed accounts or model portfolios that suit the strategy for each individual client. Your ability to translate the client's goals into a plan of action is what sets you apart from other advisors and positions your firm as truly irreplaceable.

The inescapable conclusion: You are their best option

The distribution of a family's estate is a highly personal and sensitive matter. An advisor who wants to sustain the family relationship should be involved from the beginning, showing the right balance of pragmatic planning and thoughtful consideration. Properly cultivated, heirs should be made to feel that the transition is seamless and natural. Ultimately, they will decide to stay with your firm not because of family loyalty or tradition, but because you have demonstrated conclusively that you are in fact their best option.

How to manage the impending wealth transfer



About the Black Diamond® Wealth Platform

With the Black Diamond Wealth Platform as the hub of your advisory business, you'll be able to leverage technology better to drive profitability, scale, and growth. In addition to performance reporting, rebalancing and client billing functionality, the platform encompasses daily reconciliation services, an award-winning client portal with mobile access, and integrations to several complementary solutions, including but not limited to financial planning, portfolio analytics, and CRM software, as well as access to traditional and alternative managed account strategies.

For more information

If you have questions about this paper, or would like to learn how the Black Diamond Wealth Platform can support your business, call **1-800-727-0605** or email **info@advent.com**. You can also visit **blackdiamond.advent.com**.

- ¹ Pew Research, <http://www.pewresearch.org/fact-tank/2010/12/29/baby-boomers-retire/>
- ² *The Cerulli Report*, U.S. RIA Marketplace 2016, pg. 122
- ³ <http://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk>