ADVISOR INSIGHTS

Next generation

How to retain assets when transferring wealth to a client's children

Imagine you've spent years working with a couple, let's call them Robert and Joan Wilson. Together, you developed a well-thought-out, comprehensive financial planning strategy while Robert was still working. When Robert retired, you helped the couple devise a retirement distribution plan designed to provide them with a comfortable lifestyle in their "golden years." You know the couple has an adult son, but you've never met him.

Then Robert dies suddenly from a heart attack, and you are saddened and shocked by your client's death. A few weeks later, you receive another surprise: an order to transfer the couple's multi-million-dollar portfolio to another advisor. What happened?

66% of adult children change advisors following the inheritance.

Source: InvestmentNews survey, April 2015

Unfortunately, because most financial advisors' business models focus exclusively on baby boomer clients—those born between 1946 and 1964—this scenario is playing out more and more often as clients age and pass away.

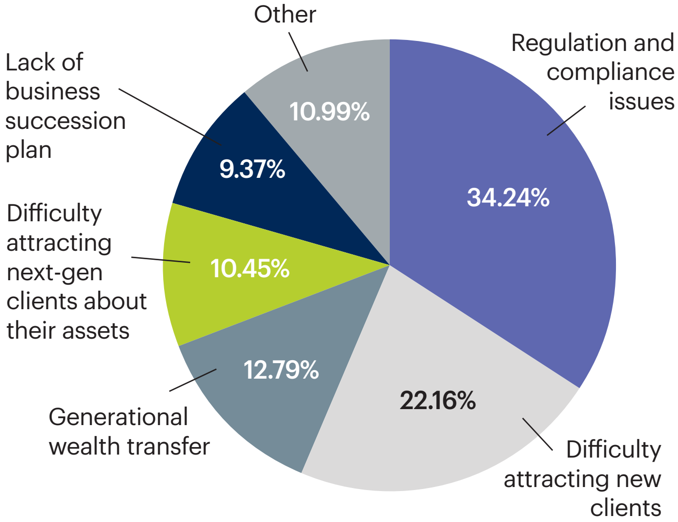
MONEY IN MOTION

Over the next 30 years, $30 trillion is expected to be passed down from baby boomer parents to their Generation X (1965-1980) and Generation Y/millennial (1981-2000) children.[1] And 66% of those adult children do not retain their parents' financial advisors after they receive an inheritance.[2] As a result, many advisors are seeing their asset base—as well as the value of their business—shrink amid this generational wealth transfer.

According to a survey by *InvestmentNews*, advisor respondents said that lack of a relationship with clients' children was the biggest obstacle to retaining assets passed to heirs.[2] Clearly, the writing is on the wall: To maintain the long-term health of their business, advisors must find ways to connect with their clients' children and become the trusted family advisor. Given that studies show only 20% of advisors are targeting their clients' younger family members, this could be an important opportunity.[3]

Advisors put a lot of time, energy, and resources into developing strong relationships with clients. When the clients' adult children inherit their parents' wealth, advisors will want to find ways to encourage this next generation to continue the relationship. It's critical for advisors to start working with their clients' children early on to forge relationships, increasing the opportunity to continue to work with the family to manage the wealth in the future.

Business risks as ranked by financial advisors



Source: InvestmentNews survey, April 2015

CONNECTING WITH THE NEXT GENERATION

Experts examining this generational wealth transfer agree: The importance of starting early to bring clients' children into the conversation can't be understated. Advisors need to be proactive and think in terms of serving families, not only couples or individuals. Consider these ways you can engage the next generation:

1. Gather as much information as possible about your clients' children.
In your initial meeting with clients, make sure your client discovery questionnaire includes a section where clients can provide their children's names, ages, contact information (physical and email addresses and phone numbers), birthdates, employers and hobbies. Set up customer relationship management (CRM) profiles for each child.

Gen X and Gen Y are certainly different in many ways from their baby boomer parents. Even so, some "tried-and-true" approaches to engage your baby boomer clients may also work for their children. Consider sending greeting cards on their birthdays, anniversaries, and holidays, using the information in their CRM profile. Invite the adult children to your client appreciation events, annual holiday party, or open house. And remember that it's important that you communicate with your clients' adult children early and often.

2. Include adult children in planning meetings.
Money is a very personal matter, and clients are often reluctant to discuss family wealth with adult children or their plans for distributing it after death.

Although these conversations can certainly be uncomfortable, emotional, and sometimes even contentious, they are imperative to ensuring a smooth transition of assets after your clients' death. See if your client would be open to the idea of holding a family meeting. Use this family meeting to educate and build trust as you demonstrate your value to your clients' adult children. When they understand and appreciate your role in managing and growing their family's assets, you have helped to solidify your position as the family's lead wealth manager.

You can even modify a client appreciation event and turn it into a family appreciation event. Perhaps schedule a dinner or lunch at a nice restaurant and invite the client's adult children to attend.

3. Offer to assist clients with major events in their children's lives.
You may become your clients' indispensable wealth management partner if you can put your expertise to work helping their children manage their financial lives. Your guidance regarding managing student debt, purchasing a first home, combining finances in marriage, starting a business, or advising on a trust for a child might be welcomed and appreciated both by your clients and their children. If your clients have grandchildren, offer to help them set up 529 college savings plans or create lifetime gifting plans. And reach out to the youngest generation by proposing to teach basic financial literacy/general money management skills to grandchildren.

4. Communicate with Gen X and Gen Y using the tools they prefer.
Easy, anytime access to information via the internet means that Gen X and Gen Y are do-it-yourselfers in virtually every aspect of their lives, including investing. Both Gen X and Gen Y are highly dependent on technology, so a robust digital presence is absolutely essential. It starts with your website, which should accurately reflect your value proposition and the services you provide. Keep in mind that the "cyber generation" craves distinctive experiences, authenticity, and valuable information delivered in bite-sized, eye-catching ways.

Beyond your website, you may want to utilize platforms such as Facebook, Twitter, and LinkedIn to reach Gen X and Gen Y clients. Posting interesting, insightful articles and other information on a regular basis may help establish you as a financial "thought leader." Other ways to engage Gen X and Gen Y include:

- authoring blogs,
- posting financial awareness and market outlook videos on your website and social media,
- providing regular online market updates via email and social media, and
- sending monthly electronic newsletters that address financial topics relevant to Gen X and Gen Y.

5. Re-focus your message to reflect the needs of your new audience.
Next-gen investors typically don't view retirement the way their parents do. They may see 20 to 30 years spent playing golf in retirement as unlikely for them. Also, they may have different approaches to their careers and may see multiple avenues to reaching their goals. They may have different values and priorities. They may care more about life experiences and making a difference today than saving for a future of financial security and retiring at age 65 to finally enjoy life. As a result, you may want change the way you communicate with them, the way you present your financial planning services, and the type of prospecting events you hold.

6. Modify your fee structure.
Providing financial guidance and services to your clients' adult children may be one of the most valued things you'll ever do for them. You can help them get on track with their finances early and help them learn what they are going to need to know to steward their family wealth through future generations.

Although the investable assets of your clients' children are probably much less than their parents, consider opening investment accounts for your clients' children at the same fee rate your clients pay. Not only can this create good will, but it may also help you open the door to retaining those assets for years to come.

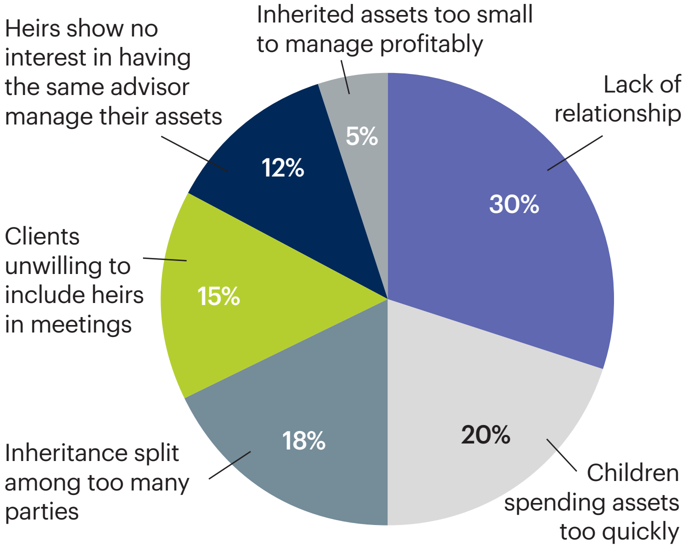
BETTER LATE THAN NEVER

Wealth transfers can either pose a risk to your business or present an opportunity. By intentionally seeking to invite your client relationships across to the next generation, you can maintain the assets and relationships you need to ensure the long-term success of your firm.

In seeking to turn your clients' children into clients and evolve your business for the future, it's best to begin building connections as soon as possible. Addressing wealth transfer early on with clients enables you to differentiate yourself from your peers by showing them you are a trusted partner who cares about the future success of their family. This is critical given that studies show 70% of family money disappears by the end of the second generation, and 90% is gone by the end of the third.[5]

Many advisors are behind in getting to know their clients' children. If this describes you, there's no better time than the present to put in place a comprehensive plan to retain your clients' children as next-generation clients. By doing so, not only will you deepen client relationships, but you also will broaden your client base, thereby enhancing the value of your business.

Obstacles to retaining assets passed to heirs



Source: InvestmentNews survey, April 2015

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1 State Street Global Advisors, Roadmap For A New Landscape: Managing the Transition of Wealth Across Generations, October 29, 2015.
2 InvestmentNews, The Great Wealth Transfer Is Coming, Putting Advisors at Risk, July 13, 2015.
3 Corporate Insights, The Changing Face of Financial Advice, February 2015.
4 Cerulli Associates, U.S. Advisor Metrics, 2018.
5 NAEPC Journal of Estate & Tax Planning, The Future of Estate Planning - Prepare Heirs to Receive And Manage The Assets They Inherit, June 2010.

Giving you back your time to build better relationships with the next generation

If you're going to make meaningful in-roads to the next generation, you'll need the time and technology to do so. E*TRADE Advisor Services helps you use technology to more efficiently run your business so you have more time to focus on building client relationships. The Liberty platform helps you:

Liberty provides the technology you need to help connect effectively with the next generation.

- **More easily manage accounts.** Liberty is a state-of-the-art platform that enables you to manage hundreds or thousands of client accounts in minutes, not hours or days. This model-based trading and rebalancing platform provides advanced technology designed to help increase your efficiency and scalability.
- **Automate back office tasks.** With Liberty, you'll no longer spend large parts of your day on manual billing, performance reporting, or account opening. Using Liberty's integrated capabilities, like its CRM platform, automatic proposal generator, and e-signature, running proposals and opening accounts is simple, efficient, and fast.
- **Develop and manage multiple models in a single account.** With Liberty, you don't need to create a new account for every additional model. Each account on the platform can hold an unlimited number of investment models, making it simpler to rebalance, track performance, and generate reports, while reducing the number of accounts you need to open.
- **Trade all accounts at once.** Using the Liberty platform, you can consolidate many individual trades into one large trade, and then automatically allocate those trades back to the individual accounts when the trade is complete.
- **Use one platform, one application.** You may not need multiple applications and multiple platforms to manage your clients when you use Liberty. All your systems can be consolidated into the Liberty platform, making management simpler and more efficient. Liberty delivers everything you need in one easy-to-use interface.

Switching to E*TRADE Advisor Services means less time and resources needed to manage your business, and more time connecting with clients and the next generation. We can help you grow your business more quickly and serve your clients more efficiently.

For more information, contact us today at 800-955-7808, email advisorservices@etrade.com, or visit etrade.com/advisorservices.

E*TRADE ADVISOR SERVICES