ALTIUS LEARNING

The Importance of The Next Generation

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The greatest wealth transfer in human history will occur over the next 25 years as $68 trillion moves from baby boomers to their heirs. For financial advisors, the impact will be monumental. Some advisors will invest the time to build a bridge between their clients and their heirs while others won't invest the time and risk losing the assets when the clients pass.

How successful a financial advisory practice is at establishing a bridge between current and subsequent generations of wealth will impact their future practice. The reason why is because 80% of next generation heirs are expected to shift their assets to a new advisor. What is equally concerning is that less than half of high-net-worth financial advisory practices have established relationships with their best client's adult children. The purpose of this white paper is to share some very tactical and proven ways for financial advisors and teams to build that critical bridge between their primary clients and next generation family members.

Positioning

One of the best practices to build relationships with the next generation is to position the need and importance of it during a client review. Typically, the senior advisor positions the value of intergenerational planning by sharing with the client that prudent wealth management is not just about serving them, but also their children. The objective is to position the team as the client's family office whose intent is to serve all of their financial needs, including developing thoughtful strategies and tactics for passing their wealth to their children. An added value of family office positioning is that it builds a more convincing case for placing all of the client's assets with the team practice.

Another objective should be the introduction of a junior team member as a relationship manager who will work with the next generation. Additionally, it will specify the role the junior advisor will have with the next generation and outline the various touch points and action steps that will follow. This will give the parents a chance to become familiar with the junior FA and help them become comfortable since they know which team member will be interacting with their children.

The final step in the positioning process is for the junior partner to suggest during the review meeting that the client email their adult children to provide an introduction. The junior advisor will then follow up on the email and start the process of interacting with the client's adult children.

Financial Planning

The foundation upon which next-generation relationships are built is the development of a financial plan for each of client's adult heirs. The preparation of a financial plan offers a multitude of benefits, including an opportunity for the junior team member to build relationships with the adult children by offering them something of value.

Additionally, it provides the next generation with what most likely is their first financial plan. It organizes them financially and provides recommendations about what they can be doing now to achieve their future financial goals. Offering the plans at no charge also increases the intrinsic value of the team to both the client and their children.

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The real magic occurs when the junior advisor meets with the next generation to review their plans. During the planning process, a strong connection is made with the next generation. Often, this is the first opportunity the heirs have had to experience and build a relationship with a financial advisor. Topics discussed include not only developing long-term goals and investment strategies, but also important issues such as budgeting, mortgage options, insurance needs and thoughtful tax planning.

Once the junior partner reviews the financial plan with the next-gen heirs, it is recommended that an agreed upon schedule of reviews and contacts be established. It is also advised that the junior partner contact them semiannually – one midyear and one end-of-year review. These reviews do not require much time, but it facilitates continuity of the relationship and further solidifies it by building a comfort level between the next gen family members and their parent's advisory team.

Roth IRA

The Roth IRA account provides the next generation an opportunity to invest their money in a tax advantage account as a first step in developing a thoughtful retirement plan. Advisory teams should recommend to all parents that they help their adult children fund the Roth IRA account. One best practice is to advocate that parents match their children's contributions to their Roth IRA account.

The value of the Roth IRA is that it takes advantage of the adult children's lower tax rate and over a long period of time, it enables their investment to grow in a tax advantaged account. This is a perfect combination of tax planning and long-term investment planning. It also gives the junior advisor an opportunity to provide investment advice to the next generation during the semiannual reviews.

Educational Events

A recommended best practice is for the junior team member to conduct educational events for the client's adult children. These educational events can either be done virtually for out-of-town adult children or in the team's offices for adult children that live locally.

The recommended topics for these educational events for the client's adult could include the following:

- Basics of investing
- Mortgage options
- Establishing credit
- The value of long-term planning
- Roth IRAs
- How to effectively manage your 401(k) plan
- Insurance needs
- Q and A

As a guideline, many best practicing teams conduct these educational events quarterly for adult children of 5-10 families. This is a good number because it keeps the events small enough for active interaction instead of just being a passive lecture – a benefit to all concerned.

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Family Meetings

The intent of a family meeting is to bring the team's best clients and their adult children together to share their intergenerational financial plan and answer questions that their adult children might have about their future inheritance. A family meeting provides real value to the parents and the adult children because it allows them to proactively discuss their long term financial and inheritance plan while the parents are still alive. It also enables parents to communicate clearly and directly with their children about their financial and intergenerational planning.

One of the most effective ways to position a family meeting is to ask the clients if they want to be open or secretive about their investments and intergenerational planning with their adult children. Most clients want to be open with their children but need a catalyst and the organization necessary to stage a financial family meeting and this should be the role of the financial advisory team. It's also creates an excellent opportunity for the junior team member to actively engage by handling the logistics of invitations, timing, agenda and follow-up.

Typical agenda items that should be included in the family meeting are as follows:

- The client long-term intergenerational plan
- Review of the family trust
- Charitable giving plans
- Organization of the beneficiaries
- Opportunity to share with adult children their parent's concerns and thoughts on inheritance and values as relates to money
- Addressing children's concerns, listening to their input and answering their questions

When possible, it is recommended that these family meetings be conducted in person in the team's office; however, if logistics and locations are an obstacle, this can effectively be done as virtual meetings.

Discovery

In order to build relationships with the children of your team's best clients, your team must know who they are, and it's recommended that the junior member of the team complete a family tree. The family tree is essentially a map that lists the parents, their children, grandchildren, and any other beneficiaries that would be part of their intergenerational planning. Clients appreciate and acknowledge value of the effort to help them organize their intergenerational planning.

It also provides the team with knowledge of who their best client's children are so they can organize their outreach and initiate relationship building activities. It is recommended that a family tree be developed for the team's top 50 clients.

Once the family tree diagram is completed, the junior team member should use this as a catalyst for getting introductions from the parents to their adult children for the purpose of offering the children a complementary financial plan. For further clarification, please refer to the earlier section of this white paper that goes into depth about next generation financial planning.

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Touch Points

An easy way to become and stay connected with the team's next generation clients is to give them access to periodic intellectual information that the firm publishes. The junior team member can link the adult children to these automatic updates. Once set up, this takes very little time to maintain and it provides an ongoing connection with the next generation and their perception of value add.

Another recommended best practice is to provide at least three links to automatic information that is sent to the children of your team's best clients. These links could include the firm's newsletters, investment commentary, and timely information that the firm makes available. Additionally, the junior advisor can be on the look-out for firm information that is timely and applicable to the next generation and provide it to them on an ongoing basis when available.

Gifting

As the junior team member interacts with clients, a recommended strategy to get and stay connected with their adult children is to suggest gifting or providing low-cost basis stock as a tax efficient way of transferring wealth while the parents are still alive. It also gives the FA's an opportunity to establish and deepen relationships with the next generation.

Another relationship building recommendation is for the firm to provide the parents with the ability to put stock into a separate account as collateral for their children's mortgages. This allows the parents to retain ownership of the stock while at the same time providing their children with an alternative to making a sizeable down payment when purchasing their first homes. This becomes an excellent opportunity for the team to interact with next generation family members in ways that provide them with genuine, measurable value.

Investment Books

One of the most effective ways to build and sustain positive relationships with next generation clients is to provide them with education on investing. There are some specific suggestions on how to do this in the educational section of this white paper. Another way to educate next generation clients is to periodically provide them with books on how to be smart investors. The following are some book recommendations that the junior FA can give to their best client's children:

Younger
- *Growing Money: A Complete Investing Guide for Kids* by Gail Karlitz and Debbie Honig
- *A kids Guide To Stock Market Investing* by Tamara Orr

Teens
- *I'm a Shareholder Kit: The Basics About Stocks For Kids/Teens* by Rick and Erin Roman
- *A Teen Guide To Investing Series*
- *TeenVestor* by Emmanuel Modu and Andrea Walker
- *The Money Jars: Your Magical Money System* by Elizabeth Donati and Jan Ruskin

Other
- *Make Your Bed* by William McRaven (good gift for college graduate)
- *The Ultimate Gift* by Jim Stovall
- *Women's Guide To Successful Investing* by Nancy Tengler
- *Wealth In Families* by Chris Collier • *Willing Wisdom* by Thomas deans

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New Clients

Another excellent best practice is to have a conversation with a new client on their intergenerational planning and how it is a priority for the team to meet their children. New clients will perceive this as a value-added benefit the team provides both them and their children.

The FA can outline the different offerings and touch points the team will provide to the new client's children and start the family tree diagram. It also gives the team the opportunity to introduce the junior team member who will have subsequent responsibility for meeting and working with the adult children. Helping the new client to organize beneficiary information makes a stronger case for why the new client should consider consolidating their assets with the advisory team.

Pre-Generation

This is a recommended best practice that helps establish relationships with the client's parents. Many clients are hesitant to acknowledge that their parents will pass away someday, so positioning the team as a third party that can come in and organize matters that helps their elderly parents can be perceived as a real value add.

Pre-generation topics could include current powers of attorney, long-term healthcare, estate planning, charitable planning, effective tax planning, life insurance policy reviews, and ensuring that beneficiary information is updated accurately.

This pre-generation planning gives the team the opportunity to provide clients with peace of mind knowing that their parents are being well taken of and that clients have access to assets they otherwise would not have when critical family events occur. The junior team partner can do a lot of the organizational work and set up meetings with the client's parents. The junior FA can also provide a checklist of topics that the team should be discussing with family members. In some cases, the junior FA could be the first introduction to the parents to determine if senior team advisors need to be involved.

Summary

Many financial advisors are reluctant to invest the necessary amount of time required to develop next generation relationships because in the short term, the effort doesn't result in immediate income gains. However, if FA's are serious about retaining their best client's assets long-term, this is an essential step to keep the assets with the practice.

Even if senior advisors retire before their clients pass away, they are ensuring that as part of their succession plan that they have positioned their team to retain these assets over the long-term. This should be looked at as a long-term investment because it optimizes the team's chances of minimizing the predicted 80% likelihood of next generation clients moving assets to new firm.

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In most cases, the high turnover rate of next generation assets is the result of negligence of the advisory team to build and maintain the quality of relationships required to retain the assets. For this reason, FA's should consider building relationships with next generation clients as a worthwhile investment of their time and effort.

One of the intents of this white paper is to outline how junior team members can implement many of the essential next generation asset retention strategies. Not only do junior partners have more time to allocate at lower billable rates, but they have the advantage of being better able to relate to the client's children in more effective ways than senior advisors. In large part, this is a delegated initiative so whenever possible, the ownership of building next generation relationships can be the role of junior team members.

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