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Prepare your practice to provide multigenerational wealth planning

WHITE PAPER

OVERVIEW

Serving your clients who control the family money is a demanding job and it doesn't leave you much time to develop relationships with the next generation. Finding the time and learning how to build those relationships, however, are crucial to the future of your practice.

This paper provides practical steps you can incorporate into your practice to help sustain client wealth and help assure the future of your business.

- Become familiar with the topics that children of different ages want your perspective on and hold informational sessions with them
- Initiate family discussions where everyone can be heard and be involved
- Introduce new services and resources that demonstrate your commitment to the needs of the next generation

One of the long-term challenges you face as an advisor is the inevitable transfer of wealth from your client to their beneficiaries. Historically, wealth that passes from generation to generation is at a 90% risk of disappearing by the third generation.[1] Clients who understand this are motivated to have their children learn about the responsibilities of wealth and how to manage it.

At the same time, it's critically important to you and the future of your practice that your relationship with the families of your clients is strong. Without strong relationships with spouses and children, the wealth that passes to them is at high risk of leaving your practice and your firm.

Why it's so important to embrace the needs of your clients' children

While the baby-boomer generation has helped you get to this point in your career and continues to be the generation with the most wealth, overreliance on them poses strategic risks to your practice. According to research conducted by Cerulli, a typical practice has less than 10% of its client base age 40 and under.[2] Research tells us younger clients provide advisors with higher levels of growth over the long term. This is likely because younger clients are in the accumulation phase of the wealth cycle compared to older clients who will begin to draw down assets for income purposes.[3] Multigenerational wealth planning can be an effective strategy to grow your practice.

- An estimated $30 trillion dollars in wealth will be passed down over the next 30 years.[4]
- After inheriting assets, 66% of the children fire their parents advisor.[4]
- Organic growth is limited by average client age — more than 50% of advised clients are 60 and older.[1]
- Clients want advisors to help them better engage their children in wealth planning.[2]
- 90% of wealthy families lose their wealth by the third generation.[4]
- Clients will go to competitors for family counseling and planning needs.[2]

[1] Chris Taylor, "70% of Rich Families Lose Their Wealth by the Second Generation," TIME June 2015. http://time.com/money/3925308/rich-families-lose-wealth/.

[2] Cerulli: Retail Investor Products and Platforms, 2015.

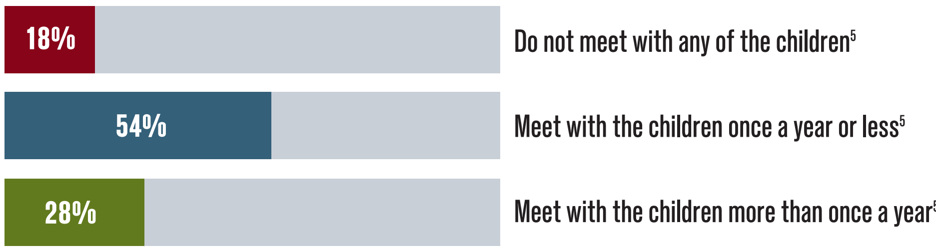
[3] PriceMetrix: The Fountain of Growth, February 2015.

[4] Liz Skinner, "The great wealth transfer is coming , putting advisors at risk," Investment News July 2015. http://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk.

To retain assets, advisors need to improve how they build relationships with their clients' children

If you have not begun a proactive program to build relationships with the next generation and promote internal dialog about family wealth, it may be time to get started.

The majority of advisors meet with their clients' children infrequently



Therefore, the children don't see the advisor as vested in their future and this often results in the children firing their parents' advisor 66% of the time after receiving their inheritance.[6]

Communicating with the next generation is key to relationships and sustaining wealth

Frankly, one of the reasons family money typically dissipates over three generations is the lack of communication about the responsibility of wealth across generations. Your voice can be the catalyst to help your clients overcome their hesitancy and involve their children earlier — rather than later — in life.

These are challenging conversations to have, and encouraging your wealthiest clients to get started may seem daunting. It's understandable not wanting to rock the boat, although ironic, because those are the clients likely to benefit the most from these conversations.

To help you overcome any hesitancy you may have, we've broken down the process for you into several actionable best practices to engage wealthy families. Once you become comfortable incorporating some of these practices, you'll find that they reinforce your value as an advisor and increase the likelihood of retaining their assets over the long term.

[5] Liz Skinner, "The great wealth transfer is coming , putting advisors at risk," Investment News July 2015. http://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk.

[6] Cerulli: Retail Investor Products and Platforms, 2015.

Understand the scope of your commitment

Before planning any activities to get to know the children of your clients better, it's advisable to ask clients first about involving them. It's also a good idea to assess where your competencies lie and develop a plan to serve the needs of the children by their ages. The topics of high importance to their children may fall outside your core advisory services; however, there is an opportunity for you to begin to establish a relationship and help them reach their financial goals.

For the children who have already established their own families and careers, their needs may be similar to those of your existing clients. When you have a conversation with them, you may be surprised by what you find.

A few examples of typical life events and topics of importance by age range include:

Under 20 years old	20-30 years old	30-40 years old
Banking basics (saving and checking accounts), debit card basics, how credit works (interest rates and paying on time)	Student loans and debt management	Home purchase
Investing basics (bonds, CDs, money markets, stocks)	Budgeting, setting-up bill pay and credit cards	Life insurance and family protection
Internships, job interviewing and basic career networking	Saving for a down payment	College saving
Volunteer work and charitable causes	Building an emergency fund	Debt and cash flow management
Insurance basics (auto, rental, health insurance)	Setting up and investing in retirement accounts	Tax planning

Don't assume adult children of your clients are in an established advisory relationship

Only 41% of the affluent baby-boomer population use an advisor on a regular basis. Even fewer affluent Generation X and Y households rely on an advisor regularly.[7]

[7] Phoenix Marketing International: U.S. Wealth Management Market, December 2015.

Listen for clues on how to engage your clients' children

When you meet with your clients, ask them to suggest the best way to connect with their children. Many high net worth individuals want your help when it comes to educating and involving their children with their wealth.[8] And, because you will be taking the load off of them by being their partner, any overtures you make will be welcomed.

Share your knowledge. Demonstrate your value.

A good place to start is with an informational session on understanding and managing wealth. Invite your clients' adolescent, young adult and college age children. These sessions can also be effective in generating referrals from clients, who may be interested in forwarding your invite to the parents of their children's friends. Including them in the session may make it more likely that their own children would be willing to participate.

This group event can be conducted in-person or via a video conference. Topics can be easily tailored to their interest and may include:

- Basic investing concepts (including setting up a 401(k) portfolio)
- Financial education
- Wealth preservation
- Introduction to estate planning

Another possible approach to get to know their children is to have a family discussion around elder care planning. Ask your client whether they would be comfortable having their adult children included in this conversation. Listen carefully to their reaction. It will give you a quick indication of their readiness to involve the children in their wealth planning. If your client is onboard, determine whether they want all the children present or just a specific child.

Lincoln has several tools to help with long-term care planning

You can get the ball rolling with a client seminar, "Planning for Long-Term Care as a Family." You can conduct the seminar in the way that is most practical for the family. If you can assemble the family in-person, it can be a good way to prepare them for a discussion. It can also be used remotely, by setting up a video conference for the children who may not be able to attend in person.

If you've already conducted elder care planning with your client, use the plan as a sharing opportunity with their children. Either way, your goal is to ensure that the children know you have their parent's best interests at heart, while being able to listen to and respond to their concerns.

[8] Cerulli: High-Net-Worth and Ultra-High-Net-Worth Markets, 2015.

Make your team more attractive to the children

Efforts to get to know the next generation simply earn you a seat at the table when your client's assets are inherited by the next generation. To be seen as a true advisory partner, you need to be able to take the family relationship to the next level.

You can learn from larger advisor teams, who find success by using junior advisors to engage the children on an ongoing basis. You may be able to dedicate your own time to building these relationships, but be realistic about the cultural barriers that come with age differences and your ability to overcome them.

Depending on the number and ages of the children across your practice, you may find that adding a junior advisor to your staff may be a worthwhile, long-term investment. By working with the children on a regular basis, junior advisors can earn their confidence. It can also be a viable career strategy for junior advisors, enabling them to establish a financial foothold in your practice, one that can sustain them independently into the future.

A viable succession strategy for you

Developing the next generation into permanent clients also has the potential to increase the growth rate of your practice, adding to its value when the time comes for you to retire.[9] In addition to cultivating the next generation, a junior advisor can also be valuable in establishing repeatable procedures and proactively using technology. Both these activities can be important steps for independent advisors to take in preparing their practices for succession. It can be a win-win for all.[10]

Junior advisors can take the lead with the children of your clients by:

- Managing the investment portfolio of adult children
- Helping educate adult children on establishing credit — examples include opening credit card accounts, obtaining auto loans, home mortgages, and lines of credit
- Engaging in a dialogue on the opportunities associated with IRA accounts for teenagers or young adults with income from employment
- Providing information on UGMA/UTMA and other college savings accounts for client children. Use them as a tool to help the children gain first-hand experience with the investment process.

[9] Cerulli Edge Advisor Edition: Intergenerational Approach and Teaming, 1Q 2016.

[10] The Cerulli Report, Advisor Metrics 2015, Anticipating the Advisor Landscape in 2020.

Approximately one-quarter of high net worth families obtained their wealth through ownership of a private practice or privately held business.[12]

Become your client's advisor for transitioning their business

Family wealth is often tied up in a business until the founder decides it's time to retire. Deciding whether the business should stay in the family or be sold is complex, and often it depends on the vision of the founder and the desire of the children to assume ownership. Preparing early for the transition is crucial to realizing full value for the business. However, many owners don't begin succession planning early enough because of the emotional stakes involved in letting go.

As your client's advisor you can perform a critical role in helping them work through the issues. It's also an ideal way to gradually get to know the children in the business, as transitions can take years to plan and execute.[11]

You can have a critical role in helping with business succession

- If your client's business has no formal succession plan in place, set-up a special time to specifically talk about the dynamics of their business. Include your client's partners and any children involved in the business. You'll want to discuss what would happen to the business when the owners decide to retire.
- Use the insight you've already gained about your client. Since he/she may be reluctant to talk about their true feelings, you can seed the conversation with possible transition scenarios they might find acceptable.
- Take the lead on organizing the transition team your client will need. A good place to start is getting your client's permission to meet with their banker, CPA, attorney and other business advisors that will be needed to guide them through the process.

[11] Cerulli: High-Net-Worth and Ultra-High-Net-Worth Markets, 2015.

[12] U.S. Wealth Management Market, Phoenix Global Wealth Monitor, Affluent Investor Intelligence December 2015, pg. 11.

Embrace multigeneration strategies and see the value of your practice grow

You're sitting on a once-in-a lifetime opportunity to help ensure the future of your practice by providing valuable services to your clients. It's up to you to be proactive by taking steps now to offer the family counseling and planning services that can make the difference in retaining assets when the children of your baby boomer clients inherit their wealth. Adding this capability is simply an extension of what you and most other advisors value the most — devoting the bulk of their time to client-facing activities. It's a smart way for you to increase time spent prospecting and differentiating yourself from the many emerging wealth management solutions available to the next generation of wealth.

Lincoln Financial has a variety of tools and knowledgeable professionals to help you and your practice build and strengthen client relationships during this transitional time.

Put Lincoln Wealth Protection Expertise to work for you. Contact your Lincoln Financial representative or call 855-831-7067 for further information.

The value of partnering with Lincoln Financial Group

Lincoln Financial Group delivers sophisticated strategies and products for the creation, protection, and enjoyment of wealth. We are committed to helping Americans plan for retirement, prepare for the unexpected and protect their wealth from five key financial challenges: taxes, long-term care expenses, longevity, inflation, and market risk.

Rely on Lincoln for the knowledge and experience to help you address these challenges. Lincoln Wealth Protection Expertise combines state-of-the-art products, seasoned wholesalers and specialists, and powerful visualization tools to assist you in protecting client wealth and planning financial outcomes.

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