

# Investments & Wealth

## MONITOR

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## Engaging and Retaining Families

By Diane Doolin, Vic Preisser, and Roy Williams

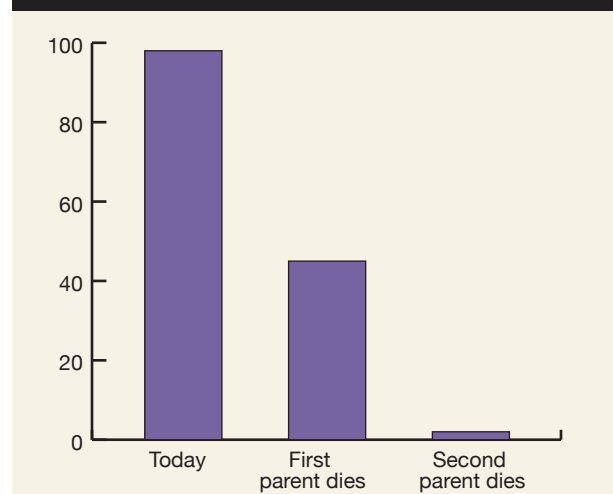
Every year for the next 50 years, \$1 trillion will pass from one generation to the next, resulting in the greatest wealth transfer in the history of the United States (Schervish 2001). For financial advisors the question becomes, “Who will heirs turn to for guidance in managing that wealth?”

Consider the following (Sisk 2011):

- 2% percent of children keep their inheritances with their parents’ financial advisor.
- With the death of their husbands, only 45 percent of wives keep their assets with the same financial advisors (see figure 1).

In addition, data also show that once assets are transferred to heirs, regardless of whether a parent has died, more than 95 percent of inheritors promptly change advisors. This results in advisors constantly working to replace lost clients rather than recruiting new ones.

FIGURE 1: CLIENT RETENTION



**Bottom line:** Advisors need to get it right when it comes to intergenerational wealth transfers and retaining the next generation of clients or risk long-term erosion of their businesses.

### The Financial Industry Has Adapted to Change

About every 10 years, a sea change occurs in how financial advisors deliver services to clients. Consider the following:

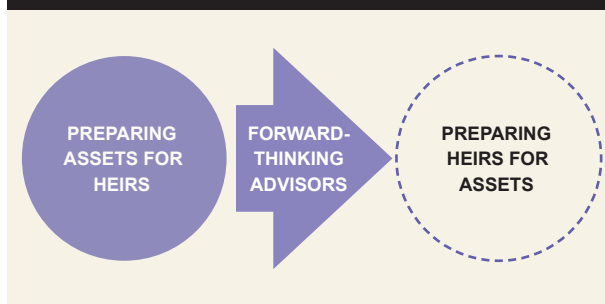
**1980s:** A broker and a single practitioner bought and sold stocks and bonds for clients and charged a commission for each transaction.

**1990s:** A financial advisor and a single practitioner provided investment allocation advice for a fee.

**2000s:** Wealth management teams provided thoughtful solutions to clients by delivering expertise and resources for investment allocation advice, coordinating client wealth management needs to include estate planning, tax planning, and philanthropic planning.

We are again entering a sea change—perhaps a tsunami. For those figuratively “at sea,” working daily in the financial advisory field, this wave will sweep past with but a ripple of acknowledgment. The forward-thinking advisor who recognizes the change has an opportunity. Consider this paradigm shift:

FIGURE 2: HELPING PREPARE HEIRS FOR ASSETS



**2010s:** Forward-thinking advisors will take the traditional wealth management model (investment allocation advice, tax/estate and philanthropic planning) one step further by connecting with the next generation through preparing heirs to receive and manage wealth. Historically the industry has focused on preparing assets for heirs; with our more-affluent client levels we now begin to offer the other half of that equation—helping prepare heirs for assets (see figure 2).

### A New Opportunity for Advisors

The loss of heir families as clients historically has been driven by the lack of a relationship between the advisor and the client's heirs. Do you even know the names of your best clients' children? Without a direct relationship with the family financial advisor, the children are unlikely to understand and appreciate what the advisor has done to build and retain the family's assets. How does an advisor connect with heirs and develop a relationship with the family before the estate transfers? The relationship with heirs begins with the parents and their wish for long-term guidance for their children. Clearly it takes time for heirs to come up to speed on the family's assets, the long-term wishes or mission of the family, the legal and tax configurations of the assets, whether in trust or liquid form, etc. Therefore, the sooner the advisor connects with the heir, the better the opportunity to build a relationship with all members of the family. The real emergent opportunity is having several client heir families as new clients instead of losing the single parental client as the estate transfers.

### Initiating the Conversation: Precursor to a Lasting Relationship

A word of warning here: Whether or not you establish a relationship with a client's heirs and family, factors within the family can stymie post-transition success. You can help heirs with asset management, but can you contribute to needed changes in their personal family life? Robert A. Kenney and Karen Weisgerber<sup>1</sup> asked parents of families worth in excess of \$25 million, "What is your ultimate goal or deepest aspiration for your life?" Responses included, "To be a good parent." This is consistent with previous surveys of the primary concerns of high-net-worth families with respect to their heirs and the inheritance they will receive. In a similar survey by U.S. Trust (2000), the most frequent concerns were about the impacts of wealth on children, not the amount of money that would be inherited (see table 1).

### How Does This Help the Advisor?

The forward-thinking advisor acknowledges these concerns and initiates a conversation with the client that begins with the following question: "Will the transition of the family

**TABLE 1: WEALTHY PARENTS' COMMON CONCERNS ABOUT THEIR HEIRS**

% Expressing Concern	Topic of Concern
60%	"Too much emphasis on material things"
55%	"Naïve about the value of money"
52%	"Spend beyond their means"
50%	"Initiative could be ruined by affluence"
49%	"Won't do as well financially"
42%	"Hard time taking financial responsibility"
Source: U.S. Trust (2000). (Note that total responses exceed 300 percent, indicating multiple responses.)	

**TABLE 2: FIVE WEALTH TRANSITION QUESTIONS TO ASK PARENTS TO INITIATE A CONVERSATION ABOUT THEIR HEIRS**

1	Have you and your children agreed upon a written long-term mission for your family wealth to use as guidance for your professional advisors?
2	Are your heirs in general agreement concerning the roles they wish to take in the transitioned estate, including their qualifications for those roles?
3	Because your estate transfer will be the largest financial event in the lives of your children, have they been prepared to manage/oversee those assets?
4	Without mom and dad to fall back on as a "safety net" or "backup," do your heirs have suitable professional advisors upon whom they can call for help?
5	Have you considered a "training period" for your heirs to demonstrate competence in managing assets, working with your professional advisors?
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wealth have a positive impact on the lives of your children and grandchildren?" The opportunity for this conversation can arise during a meeting with the parents as they are reviewing their assets or in preparation for an estate transition plan. Consider the list of conversation starters shown in table 2 that a financial advisor can use with parents.

Each of the questions in table 2 is designed to address critical estate planning issues that concern most parents but often are overlooked by the family's specialty advisors (Preisser and Williams 2010). The questions are designed specifically for the advisor to use with existing clients. Parents know that the transition of their estates is inevitable. Their concerns are: "Who can I talk to about this transition that can help me with my most important question? How can I shape my estate transition to have a positive impact on my children?"

### The Important Reasons

Williams and Preisser (2005) found that these questions go to the heart of why 70 percent of families fall apart and lose their assets after the transition. A 20-year study of differences between successful and unsuccessful post-transition families

“Preparing yourself to initiate these important conversations and assisting other family professional advisors with planning for the post-transition period will differentiate your practice and help you avoid losing accounts during transitions.”

found that the differences had little to do with the acumen of the family's financial advisors. Instead, the causes of the post-transition failures were revealed to be the following:

- 60 percent were caused by an internal breakdown of “trust and communication” within the family
- 25 percent were caused by a failure to “prepare their heirs”
- 10 percent were due to a lack of an agreed-upon “mission” for the family wealth
- 5 percent were due to other causes such as failures to file, signing, incorrect interpretation of tax law, etc.

Armed with this information, the forward-thinking financial advisor can see both a major business opportunity and a need for education on the topics of wealth transition and preparing heirs to receive and manage assets. This is the unaddressed component of estate planning. This ability of the advisor to start the important conversation is what will make the new paradigm of this decade come alive, providing a breakaway opportunity for select financial advisors.

### Getting Known to Your Community and Other Professional Advisors

It's difficult to lay claim to being the “best” financial manager, but one may claim to be the professional advisor who can work well with any family's team of professional advisors. They all may focus on preparing the assets for the heirs, but you can help clients and their current advisors become aware of the transition risks and new planning resources. This collaborative approach works best when professional advisors detect a need on the part of a client family but don't know how to address it. Consider offering a briefing for the clients of your network of professional advisors (as well as your own clients) informing them how they can prepare their families for the transition. The following community organizations have shown interest in these types of presentations:

- CPAs, estate planning attorneys, insurance specialists, corporate attorneys, trust officers

- Professional association gatherings and meetings, e.g., local bar associations, CPA societies, trade associations, estate and trust associations
- Foundations and nonprofit boards of directors, special events for donors, charitable giving roundtables

Educate yourself by reading about this topic (e.g., Preisser and Williams 2003, 2005) and consider some specialty training in preparing heirs (e.g., at the Institute for Preparing Heirs, [www.preparingheirs.com](http://www.preparingheirs.com)). When you understand that the tsunami of wealth transfer is approaching, and that parents want to address the impact of wealth on their children, then you'll see the necessity of learning to begin the conversation with your best clients, new high-net-worth families, and other professional advisors so you can position yourself to:

**Differentiate** your advisory practice from your peers.

**Deepen** relationships with your entire set of client families (grandparents, parents, children, grandchildren, and spouses) before the estate transitions.

**Cultivate** new relationships with successful families planning to transition wealth.

**Expand** your network of professional advisors who work with successful families: estate attorneys, CPAs, trust officers, investment bankers, insurance specialists, commercial real estate professionals, etc.

### Summary

The newest paradigm shift in financial planning is being driven by the emerging intergenerational wealth transfer—the largest in history. The shift calls for you to prepare heirs to receive and manage wealth. Parents of successful families are ready to deal with this topic. Preparing yourself to initiate these important conversations and assisting other family professional advisors with planning for the post-transition period will differentiate your practice and help you avoid losing accounts during transitions. Training and assessment tools are available for financial advisors who wish to bridge the gap between preparing assets for heirs and the need to prepare heirs for assets.

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train advisors how to start the conversation with affluent families on the successful transfer of wealth to the next generation. Mr. Preisser earned a BS (summa cum laude) and an MBA, both from Stanford University. Mr. Williams earned a BS from the University of the Pacific and was awarded a doctorate (honoris casusae) from the California School of Professional Psychology. Contact them at [contact@preparingheirs.com](mailto:contact@preparingheirs.com).

## Endnote

- 1 Robert A. Kenny, EdD, and Karen Weisgerber, PhD, of Boston College's Center on Wealth and Philanthropy, referenced in Wood (2011). The Boston College Center on Wealth and Philanthropy has launched a groundbreaking study, *The Joys and Dilemmas of Wealth*, to explore the new cultural underpinnings of wealth for society. This is the first large-scale survey to focus exclusively on households with at least \$25 million in net worth. The objective of the study is to uncover the attitudes, practices, and personal philosophies of ultra-high-net-worth households regarding wealth and philanthropy. The study is funded by the Bill and Melinda Gates Foundation, Calibre, Inc., Templeton Foundation, and the Aspen Institute. For more information, visit [http://www.bc.edu/dam/files/research\\_sites/cwp/ssi/vol13.html#article1.bg1](http://www.bc.edu/dam/files/research_sites/cwp/ssi/vol13.html#article1.bg1).

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