The Cerulli **Edge**

U.S. ADVISOR EDITION

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Overview

- Cerulli projects overall wealth transferred between 2021 and 2045 will total $84.4 trillion. The coinciding factors of a favorable tax and regulatory environment, significant capital market and real asset appreciation, and the concentration of wealth among fewer and older households have multiplied expectations for wealth transfer in the decades to come.
- Heirs of HNW and UHNW households are already inheriting over $500 billion each year and will likely inherit more than $1 trillion annually as early as 2032. Those firms and practices that can remain on the cutting edge of complex planning and wealth structuring tactics will prove to be invaluable to clients as taxation becomes a more pressing worry.
- Generation X investors represent a total addressable market of over $14.2 trillion, with an average of $405,000 per household. They are also expected to inherit the largest portion of the imminent wealth transfer through 2045. Firms looking to address this segment are likely to find that many strategies designed for Millennials and Gen Z may prove successful among the larger addressable market represented by investors in their 40s.
- Many Gen X investors are in or approaching their prime wealth accumulation years, which increases the likelihood of wanting financial advice and formal planning services. However, like Millennials, many investors in their 40s identify as self-directed investors and plan to have greater oversight of their assets and portfolios.
- Leaders at wealth management firms should reconsider how they will package and price their services (*e.g.,* bundled vs. unbundled) because many existing services menus are based on the preferences of investors over the age of 60.
- Only 42% of advisor practices currently offer intergenerational planning. More than one-quarter of advisors (26%) identify building multi-generational relationships as one of their greatest practice challenges.

Demographics Issue

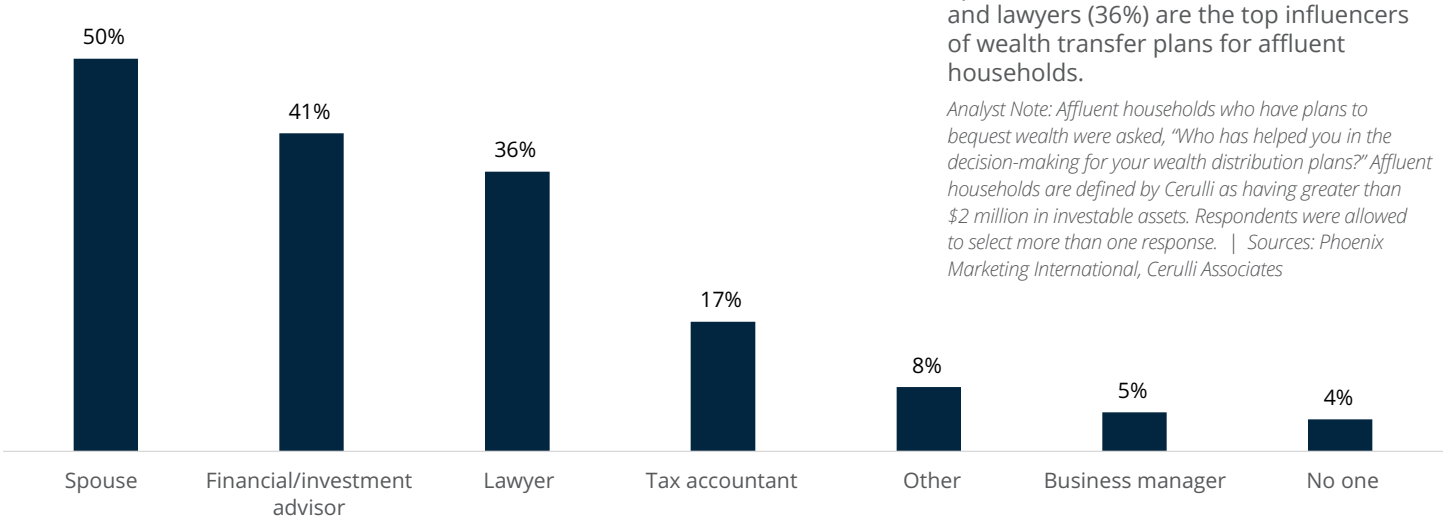
Topics

Quantitative Insights

Affluent Households: Top Influencers of Wealth Transfer Plans, 2021

Spouses (50%), financial advisors (41%), and lawyers (36%) are the top influencers of wealth transfer plans for affluent households.

Analyst Note: Affluent households who have plans to bequest wealth were asked, "Who has helped you in the decision-making for your wealth distribution plans?" Affluent households are defined by Cerulli as having greater than $2 million in investable assets. Respondents were allowed to select more than one response. | Sources: Phoenix Marketing International, Cerulli Associates



Projecting Wealth Transfer from 2021 through 2045

Engaging next-gen clients is a major priority for HNW practices

SUMMARY

Multigenerational wealth transfer is one of the most significant factors affecting the wealth management industry today, and its impact in the coming decades is set to increase substantially. The coinciding factors of a favorable tax and regulatory environment, significant capital market and real asset appreciation, and the concentration of wealth among fewer and older households has multiplied expectations for wealth transfer in the decades to come.

KEY POINTS

- Cerulli projects overall wealth transferred between 2021 and 2045 will total $84.4 trillion.
- Children of HNW and UHNW households are already inheriting over $500 billion each year and will likely be inheriting more than $1 trillion annually as early as 2032.
- Those that can remain on the cutting edge of complex planning and wealth structuring tactics will prove to be invaluable to clients as taxation becomes a more pressing worry.

RELATED RESEARCH

The Cerulli Report— U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2021

Multigenerational wealth transfer is one of the most significant factors affecting the wealth management industry today, and its impact in the coming decades is set to increase substantially. The coinciding factors of a favorable tax and regulatory environment, significant capital market and real asset appreciation, and the concentration of wealth among fewer and older households have multiplied expectations for wealth transfer in the decades to come.

In 2010, Cerulli originally projected wealth transfer of $38.2 trillion from 2011–2035, and then updated this figure in 2018 to project $68.5 trillion from 2018–2042. Accounting for the extensive appreciation in capital markets and real estate alongside continued wealth concentration in the years leading up to 2021, Cerulli projects overall wealth transferred between 2021 and 2045 will total $84.4 trillion. Overall, it is projected that $77.7 trillion will be transferred through bequests, or at the end of a head of household's life, while the remaining $6.7 trillion will be gifted to heirs or charities *inter vivos* (*i.e.,* while the heads of households are alive). Cerulli projects that $72.6 trillion in assets will be transferred directly to heirs, mainly children and grandchildren, while $11.9 trillion will be donated to charities.

Between 2021 and 2025, Cerulli projects that transfers of wealth will average almost $2 trillion annually, $1.7 trillion of which will be passed on to households, while the remainder goes to charities. We expect these annual figures will increase considerably over the course of the next 25 years, with annual transfers expected to exceed $5 trillion in the early 2040s, greater than $4 trillion of which will be going to households' children and grandchildren.

Affluence and Generational Perspective

Out of the $84.4 trillion expected to change hands in the next 25 years, Cerulli expects $35.8 trillion, or 42%, to come from high-net-worth (HNW) and ultra-high-net-worth (UHNW) households, who together make up only 1.5% of all households. Overall, Cerulli finds that expected increases in financial burdens (*e.g.*, medical care, housing costs) in the later stages of life will limit many households from transferring a significant portion of their wealth to heirs or charity. This is seen as being especially impactful for those 98.5% of households who are not considered HNW.

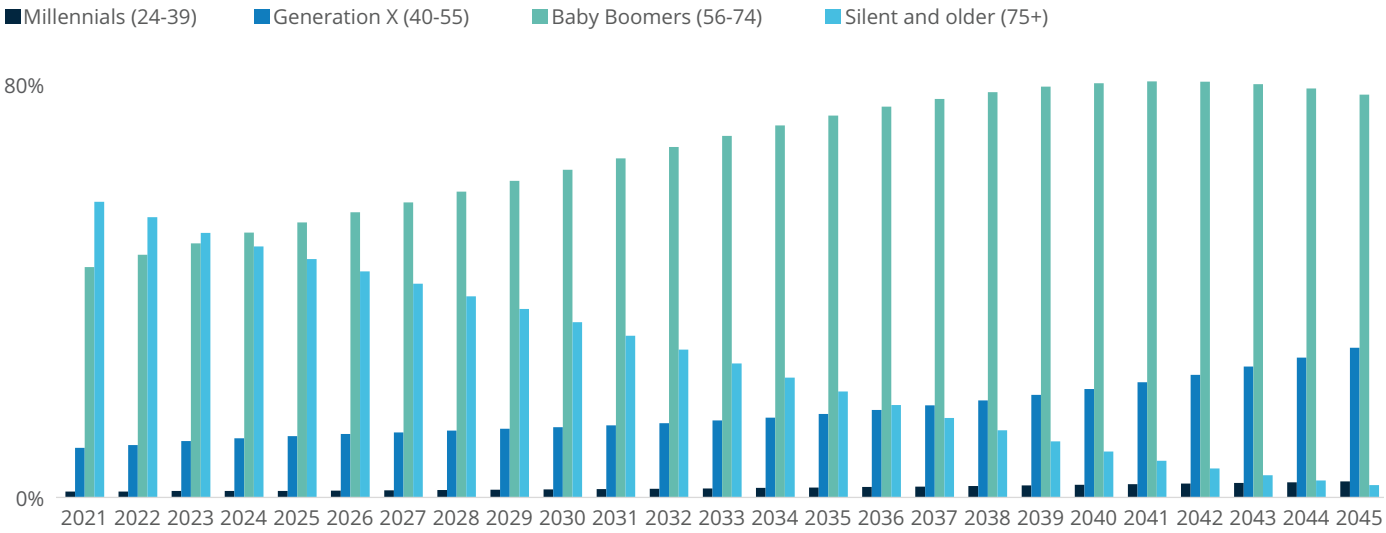
Over the course of the next 25 years, Cerulli projects that more than $53 trillion will be transferred from households in the Baby Boomer generation (ages 56–74 as of year-end 2020), representing a dominating 63% of all transfers during that period. By 2024, Cerulli projects Baby Boomer households will pass on more wealth annually than any other generation, a lead that is expected to rise until the 2040s. Following them, Silent Generation households and older (age 75+ as of year-end 2020) stand to transfer $15.8 trillion, which will primarily take place over the next decade, and made up more than half of all transfers in 2021. According to Cerulli's projections, transfers from Generation X (ages 40–55 as of year-end 2020) will begin to accelerate into the late 2030s and early 2040s, reaching greater than $1 trillion in transfers from these households, and becoming roughly net-neutral in terms of transfers, with outflows roughly matching inflows by the mid-2040s.

Annual Percent of Wealth Transfer by Source Generation, 2021–2045

More than $53 trillion will transfer from Baby Boomer households in the next 25 years, making up 63% of all wealth transfers.

By the late 2030's, Cerulli projects that Baby Boomer households will pass on over $3 trillion annually to heirs and charities.

Analyst Note: Ages as of 2020. | Sources: Cerulli Associates, Federal Reserve, U.S. Census Bureau, Internal Revenue Service, Bureau of Labor Statistics, and the Social Security Administration



Between 2021 and 2045, Cerulli projects that $72.6 trillion in wealth will be passed on to heirs and younger generations. In total, Generation X stands to inherit the greatest portion of these assets, including $8.9 trillion in the next 10 years, and totaling $29.6 trillion over the next 25 years. Cerulli anticipates households in this generation will receive up to $1.5 trillion annually by the mid-2030s. Throughout the extent of the 25 years projected, Cerulli expects Generation X households to be the greatest demand opportunity for advisory services due to increases in both household financial complexity as well as gross gains in overall worth, which Cerulli expects to be accelerated by their projected receipt of nearly $30 trillion in transfers. This unique position means that not only will Gen-X-led households be on the receiving end of the most transfers of any generation, but they will also find themselves in the 2040s at a point in life where they will be looking at securing retirement income streams and eventually passing that wealth on to their heirs as well.

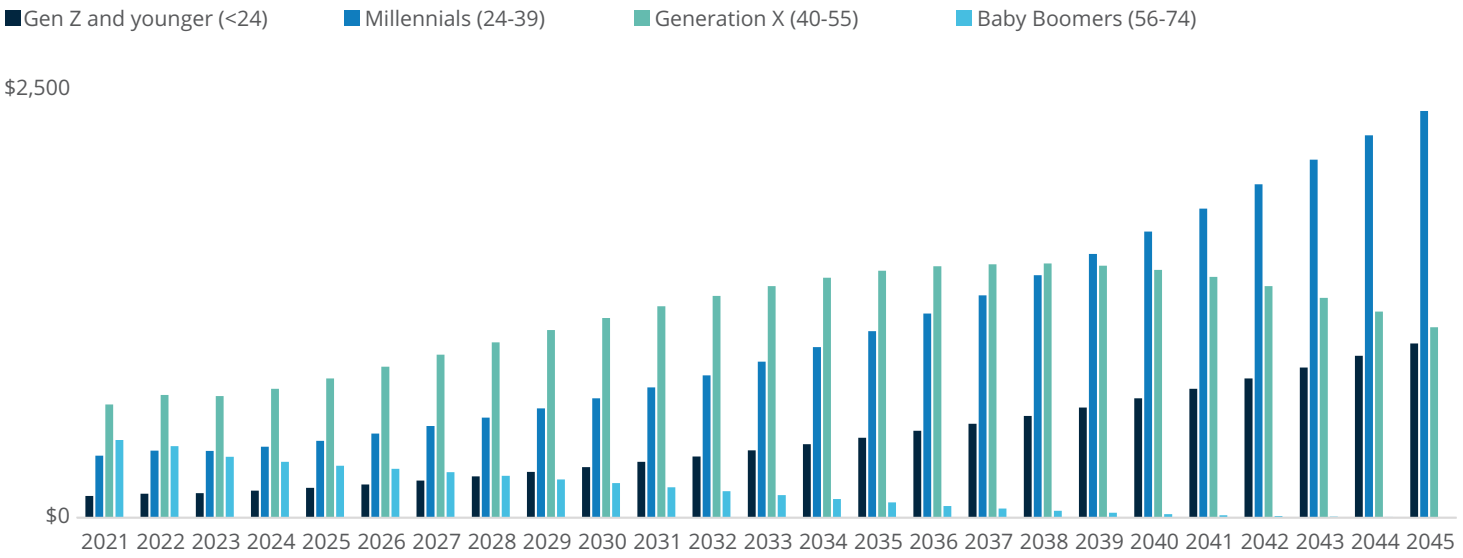
Additionally, Cerulli anticipates that Millennial households will not be far behind Gen X in terms of overall transfers. Despite receiving only $5 trillion in the next decade, these households are expected to inherit greater than $27 trillion by 2045 and will surpass Generation X in annual receipts before 2040. In fact, by 2045, Millennial households are expected to inherit close to $2.5 trillion per year, likely the largest annual figure for any generation in U.S. history. Though Millennials are currently on everyone's mind, many of the households in this demographic will not be in significant demand of high-margin financial services in the next couple decades. It is always good to begin establishing relationships early, so firms targeting Millennials now are certainly not misguided, but firms should not expect widespread demand for complex financial services from these households as a whole in the near future.

Millennial households are expected to inherit close to $2.5 trillion per year, likely the largest annual figure for any generation in U.S. history.

Annual Estimated Wealth Inherited by Generation, 2021–2045 ($ billions)

For the next 17 years, Cerulli projects that Generation X households will inherit more money than any generation.

Analyst Note: Figures in 2020 dollars. Ages as of 2020. | Sources: Cerulli Associates, Federal Reserve, U.S. Census Bureau, Internal Revenue Service, Bureau of Labor Statistics, and the Social Security Administration



Wealth Planning Implications

As hefty transfers lead to changes in family dynamics, relationship preferences, and changing technology and product demand, financial services providers across the spectrum must adapt their business models in order to become winners of the walletshare of tomorrow.

For HNW-focused practices specifically, involving children and other heirs in the financial planning process has proven to be one of the most effective strategies for accessing next-gen wealth clients. Among surveyed practices, Cerulli has found a steady increase in recent years in the engagement of clients' children as a part of the planning process. Since 2018, the percentage of HNW practices reported to have established clients' children as clients, or at least actively involved in the planning process, has increased from 51% to 71% as of 2021 (See ***The Cerulli Report–High-Net-Worth and Ultra-High-Net-Worth Markets 2021***).

This increase is understandable, as according to Cerulli's wealth transfer projections, children of HNW and UHNW households are already inheriting over $500 billion each year and will likely be inheriting more than $1 trillion annually as early as 2032. With these figures in mind, it is no surprise that engaging next-gen clients is a major priority for HNW practices.

Asking clients to get children involved from the outset of a relationship

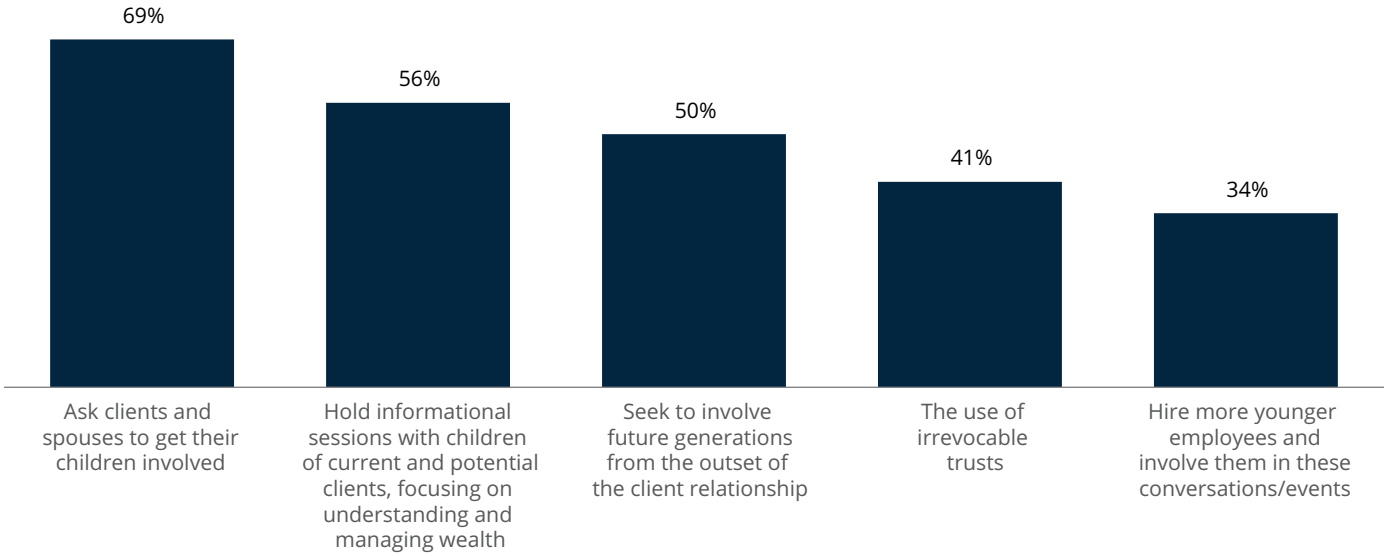
In surveying HNW practices, Cerulli found that the most effective strategy to strengthen relationships with clients' children was first asking the parents to get their children involved. Having a good relationship with the children of clients ultimately hinges on the relationships those clients already have with their children, as the parents are almost entirely the gateway to establishing a relationship with the children. As one family office advisor tells Cerulli, "The firm's relationship with the kids of our clients depends on the existing relationships between those generations. If that relationship is bad, then we usually don't have a lot of optimism about keeping their business after the wealth is transferred." In contrast, if the relationship is strong, then asking parents to involve those inheritors will likely yield a very positive long-term outcome for asset retention.

HNW Practices: Top-Five Strategies to Strengthen Relationships with Clients' Children, 2021

The best strategy among HNW practices for strengthening relationships with their clients' children is asking to have clients get those children involved themselves (69%).

Engaging with inheritors lays the groundwork to effectively guide families through the challenges that arise when a client passes away, improving AUM greatly over time.

Analyst Note: Respondents were asked, "What has proved to be the most-effective means to develop business relationships with your clients' children?"
Source: Cerulli Associates



Holding information sessions

When involving next-gen in planning sessions, simply providing information of gradual complexity, without any decision-making or specific financial review, is likely the necessary first stage of involvement—often a stage that can last years. In fact, holding information sessions is considered the second-most effective strategy for building a bond and interest with clients' children. As one wealth advisor at a major private bank shares with Cerulli, "[The informational stage prompts] next gen to drive their influence in family mission statements and foundations, which later evolves into conversations about investment styles used to fund these foundations." This style of gradual exposure is a major underlying theme that many HNW and UHNW wealth planners have implemented to create greater long-term engagement with the younger generations of their clients' families.

Hiring younger advisors

Another popular aspect of this engagement model is bringing in junior advisors to act as main points of contact with younger stakeholders. Most of the time, these advisors are not typically acting as true financial advisors or exercising discretion over heirs' portfolios, but mostly acting as relationship managers, building a future book while learning the business from more senior advisors. One executive at a high-end hybrid RIA explains this model: "The junior guys need to see what I'm doing so they can get as sophisticated as possible. For now, I'm mentoring and training and teaching." He adds, "For my biggest clients, I don't want to work with their kids. I want these junior advisors to be the primary interface because when the primary client and I are gone, this is who will be running things."

With trillions of dollars set to be in motion on an annual basis, firms in all corners of the advisory industry must formulate a strategic approach to provide value surrounding multigenerational shifts in wealth. Shifting wealth into next-gen's hands will reward firms that are able to sustainably establish advisory relationships with younger clients in the years to come. Additionally, those that can remain on the cutting edge of complex planning and wealth structuring tactics will prove to be invaluable to clients as taxation becomes a more pressing worry.

Addressing Generation X Investors

Baby Boomers and Millennials are key client segmentations due to different engagement preferences and buying behaviors, but Generation X should not be overlooked

SUMMARY

Generation X investors represent a total addressable market of over $14.2 trillion, with an average of $405,000 per household. They are also expected to inherit the largest portion of the imminent wealth transfer through 2045. Firms looking to address this segment are likely to find that many strategies designed for Millennials and Gen Z may prove successful among the larger addressable market represented by investors in their 40s.

KEY POINTS

- Many Gen X investors are in or approaching their prime wealth accumulation years, which increases the likelihood of wanting financial advice and formal planning services. However, like Millennials, many investors in their 40s identify as self-directed investors and plan to have greater oversight of their assets and portfolios.
- Firms must ensure that their advisors are equipped to provide online services that complement personal, empathetic interactions. When engaging on changes in finances, goals, or financial plans, advisors can use these interactions to emphasize the value of human-intermediated advice components.
- Leaders should reconsider how they will package and price their services (*e.g.,* bundled vs. unbundled) because many existing service menus are based on the preferences of investors over the age of 60.

RELATED RESEARCH

The Cerulli Report—U.S. Retail Investor Products and Platforms 2021

The Millennial generation is now the largest American workforce in history, and the wealth management industry continues to adapt to their influencing widespread change. The industry's pivoting is based on the realization that their preferences and buying behaviors will not resemble that of the Baby Boomer and Silent Generations.

Innovative providers recognized the need to adapt over the past decade based on similar experiences and behaviors among the Gen X population, even if these adaptations were originally designed with Millennial and Gen Z investors in mind. Digital advice platforms and direct providers (*e.g.*, Vanguard, Fidelity) are most often recognized for these accomplishments, but several independent RIAs and large traditional firms, including Morgan Stanley and Goldman Sachs, have made progress. Often through targeted tech-oriented hires and acquisitions, many of the largest firms are attempting to develop relationships with next- gen investors earlier through new tech, banking, and workplace savings strategies.

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Gen X investors are currently between the ages of 40 and 55. They now represent just 27% of all U.S. households but a total addressable market of over $14.2 trillion. Many are in or near their prime earning and accumulation years, which, combined with common milestones, increases the likelihood of searching out investment management, financial advice, and formal planning services.

Baby Boomers still dominate all investable assets statistics, but Gen X continues to close the gap at an average of nearly $405,000 per household. It's also important to recognize that Gen X households' aggregate investable assets and assets-per-household remain five times that of the younger cohorts. Gen X will continue to close the investable asset gap as they age, manage debt, and increase savings, while the majority of Baby Boomers simultaneously drawdown their assets. This will only accelerate as Gen X households stand to inherit the largest share of the wealth transfer, at an estimated $30 trillion by 2045.

Generational Profiles, 2021

Gen X will continue to accrue assets closer to that of today's Baby Boomer segment, but likely continue to exhibit behaviors that more closely resemble the younger investor segments.

Sources: Federal Reserve, U.S. Census Bureau, Phoenix Marketing International, Cerulli Associates | Analyst note: Ages as of 2020.

	Total financial assets ($ billions)	Average financial assets	Self-directed and "advice for special events" investors
Millennials and Generation Z (<40)	$2,888	$75,295	75%
Generation X (40-55)	$14,235	$404,608	69%
Baby Boomers (56-74)	$29,235	$712,471	46%

Like all generations, Gen X has the largest share of their total assets distributed to retirement accounts (43%). Given their greater assets, on a percentage basis, they have significantly less reliance on basic banking accounts than younger investors and have the highest allocation to packaged mutual funds and ETFs (24%) as well as nearly $2 trillion in directly held individual securities. Firms should ensure that they are educating these investors on fresh topics, including environmental, social, and governance (ESG) and cryptocurrency strategies. Today, these topics may be comfortably outside of advisors' core expertise, but it will be increasingly important to help clients evaluate these strategies within the context of risk profiles and goals. This is particularly important among investors who want greater control over their portfolios.

Past Experiences are Still Reshaping Behaviors

It's a common belief that Gen X investors in their 40s were among the hardest hit during the 2008 financial crisis. Many were newer homeowners and suffered significant equity and job losses, while navigating crippling student debt and the consistent reminders of needing to self-fund their retirement. However, economic sentiment has improved. As of mid-year 2021, they had among the highest rates of optimistic economic outlooks (77%). Less than one-quarter self-identified as having a conservative investment risk tolerance. Moreover, nearly two-thirds also acknowledged that they need more financial and investment advice than they have received in the past.

These attributes represent enormous opportunities for an industry that is increasingly focused on financial planning instead of pure money management. The opportunity is particularly strong for providers that can adequately incorporate strong debt management and tax optimization strategies into their financial planning services.

As worded by one RIA, "It's hard to generalize clients, but there is little difference in the way clients in their 40's [Gen X] want to engage with us when compared to our Millennial clients. The differences between Gen X and Boomers can be incredible though." Another advisor noted, "People in their 40's, me included, have experienced the same technology advances, social movements, conflicts, and crises as Millennials... I think the biggest difference is that we were five to 10 years into our careers by 2008. Many Millennials learned the same valuable lessons, but it was second-hand. That event reshaped me as an investor and influenced my decision to focus on financial planning early in my career."

These experiences helped shape their behaviors. The majority of Gen X investors are classified as self-directed (39%) or advice for special events (30%). In other words, more than two-thirds of Gen X households gather information to make their own investment decisions but may also consult an investment professional when specialized needs arise. Investors over the age of 60 are at least twice as likely as Gen X to rely on an investment professional to make most or all of their investment decisions. Again, while nearly two-thirds of these investors recognize the value of professional advice, nearly three-quarters also indicate a desire to be actively involved in the day-to-day management of their wealth.

Perceived Value vs. Expense of Advisor by Age Range, 2Q 2021

Regardless of "advice orientation" status (*i.e.,* "self-directed"), overall, investors in their 40s are aligned with other age segments in feeling there is value in the cost of receiving professional advice.

Source: Phoenix Marketing International, Cerulli Associates

	Head of Household Age						
Value Received from Financial Advisor Is Worth the Expense	**<30**	**30-39**	**40-49**	**50-59**	**60-69**	**≥70**	**All Respondents**
Strongly agree	21%	25%	27%	23%	26%	27%	26%
Agree	45%	54%	51%	55%	53%	51%	53%
Neither disagree nor agree	30%	17%	19%	20%	18%	19%	19%
Disagree	5%	3%	3%	2%	2%	2%	2%
Strongly disagree	0%	1%	1%	1%	1%	1%	1%
Total Agree	**66%**	**79%**	**78%**	**77%**	**80%**	**78%**	**78%**

Investors over the age of 60 are at least twice as likely as Gen X to rely on an investment professional to make most or all of their investment decisions.

This does not mean Gen X investors won't work with financial advisors in the "traditional" sense. Many already do, and many more will also choose to. However, Cerulli trusts that, overall, engagement models and the way that advice is delivered will evolve. Many will demand a hybrid approach of advisor-assisted digital advice. Their existing comfort level with technology and conducting research indicates that many may not want an advisor to trade low-cost ETFs on their behalf but may engage if they need formal financial planning or tax optimization, or strategies that are more difficult to fully research on their own including trusts, insurance, or alternatives.

Firms must empower advisors to focus on developing online services that complement personal, empathetic interactions. Even if clients are deemed as partially self-directed investors, nearly two-thirds of investors in their 40s are interested in learning about new investment ideas and opportunities, and 72% are willing to pay for the advice. Advisors can also use these interactions to discuss any changes in finances or goals and to reinforce the value of human-intermediated advice.

Fortunately, investors in their 40s are relatively loyal, with 83% being satisfied with their advisors, which is most commonly attributed to the quality of services and being trustworthy. Moreover, nearly all (93%) would recommend their advisors to others. Like most investors, they place significant value on advisors taking the time to understand their needs and goals, while providing transparent and simple analysis and plans.

Similar to Millennials, Gen X will continue to drive change across the industry. Leaders and individual practices will be forced to revaluate how they how they package and price their services since many firms lean into bundled asset-basing pricing structures based on the behaviors of many investors over the age of 60. To be clear, Cerulli believes AUM-based pricing will only grow in importance over time, but firms should consider alternative structures, such as subscription, flat, and/or hourly fees, as engagement models and buying patterns continue to evolve.

The largest firms, including banks and national broker/dealers, will also continue to weigh the relevancy of physical branches. As anticipated, Gen X places virtually no importance on convenient locations, while emphasizing overall quality of service, strong investment performance, and firms' reputations as top reasons for choosing a provider.

Managing Generational Wealth Transfer

Product offerings, intergenerational planning, and technology infrastructure differentiate asset managers and advisors with the next generation

SUMMARY

Cerulli projects that $72.6 trillion in wealth will be passed on to heirs and younger generations between 2021 and 2045. Asset managers are working to develop new products and restructure current offerings to meet the demands of younger investors. Advisors hoping to connect with the beneficiaries of the wealth transfer and retain assets must incorporate intergenerational planning into their existing business model. As the pandemic placed additional emphasis on digital experiences, asset managers and advisors have been forced to evaluate their existing technology infrastructure to remain attractive to younger investors.

KEY POINTS

- Asset managers see fee modification as a crucial initiative with 89% rating it as a high or moderate priority.
- Digital assets are increasingly becoming integrated into financial services, and asset managers are looking to capitalize on the opportunity.
- Only 42% of advisor practices currently offer intergenerational planning.
- Over one-quarter of advisors (26%) identify building multi-generational relationships as one of their greatest practice challenges.

RELATED RESEARCH

The Cerulli Report—U.S. Product Development 2021: Aligning Product Development and Client Objectives

The Cerulli Report—U.S. Advisor Metrics 2021: Client Acquisition in the Digital Age

Click here to see Cerulli's recent white paper on cryptocurrency.

With significant wealth set to transfer in the coming years, asset managers and financial advisors are making decisions now that will have a substantial impact on their ability to retain and attract assets that younger investors will inherit and accumulate in the future. Firms are developing products and tailoring existing strategies to reduce fees and appeal to a broader, and often younger, audience. Advisors are racing to increase aptitude with digital assets like cryptocurrency and thematic investing interests such as ESG. While there is significant interest in these topics today, advisors hoping to connect with the beneficiaries of wealth transfer must incorporate intergenerational planning and address numerous operational challenges. Investors expect to experience a client-centric and purposeful digital journey that requires advisors and asset managers to improve and streamline technology to remain attractive wealth management options.

> Successful wealth management strategy emphasizes enhancing the digital experience for clients.

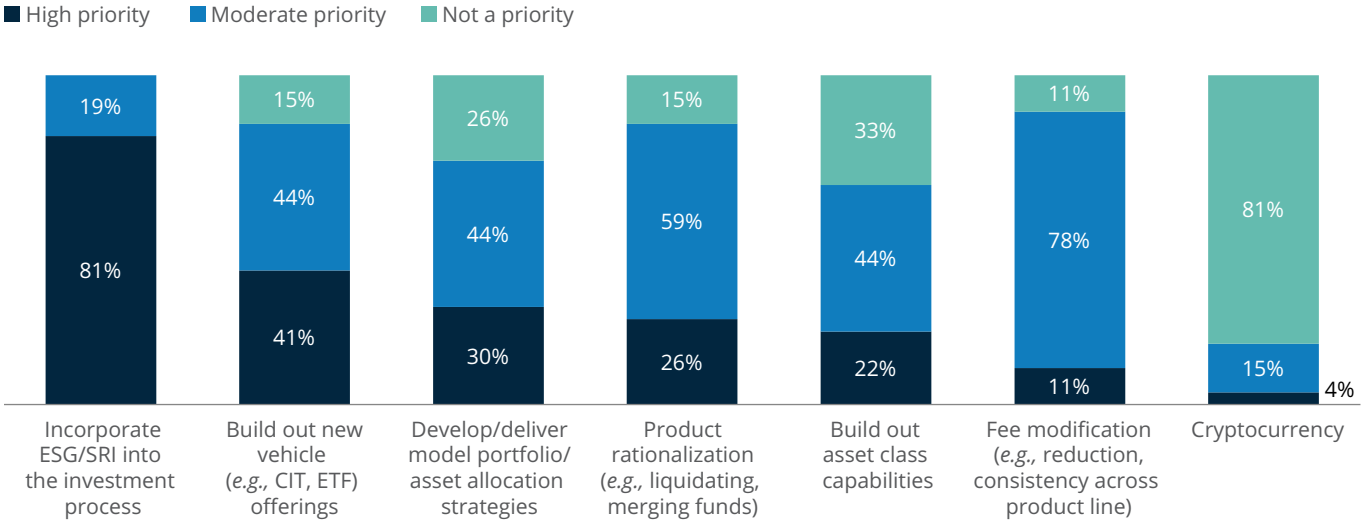
Asset managers anticipate fees will continue compressing across all asset classes, with equity, commodities, fixed income, and multi-asset-class all expecting decreases around two basis points. For active products, fee compression has accelerated in many cases. These cost-cutting measures are often associated with renegotiation of service contracts and searches for lower-cost providers of third-party services. Product executives indicate that expected future fee cuts will be coming out of the management fee, an ability mostly related to scale. Younger investors often start with an ETF as their first investment product, signaling an uphill battle for strategies with higher expenses. ETFs now lead individual equities in allocation across all advisors, and the gap is expected to widen over the next two years as all channels unanimously expect to increase use of ETFs and decrease use of mutual funds.

Thematic ETF products are launching with an intent to appeal toward younger investors. Thematic strategies make up nearly a fifth (18%) of U.S. equity new product development plans over the next year, largely in the ETF space. Just over a quarter of advisors (26%) report planning to use thematic ETFs. Financial advisors are selectively implementing ESG products as a sleeve in a portfolio or within specific asset classes. Four out of five (81%) asset managers polled by Cerulli view incorporating environmental, social, and governance (ESG)/socially responsible investing (SRI) into the investment process as a high priority, while the other 19% view it as a moderate priority. U.S. equity is the most-used asset class for ESG exposure and with fixed-income options not as readily available to financial advisors, this is an area asset managers should consider for product development.

Asset Managers: Level of Priority Placed on Product-Related Initiatives, 2021

While only 11% of asset managers see fee modification as a high priority, an additional 78% see the initiative as a moderate priority.

Analyst Note: Percentages may not sum to 100% due to rounding. | Source: Cerulli Associates



Product executives have noted the focus on greenwashing and their intentions to avoid labeling of investment products as ESG without clear representation of how the investment management has adapted to suit the label. Cerulli recommends firms clearly present their methodology for implementation of ESG investing strategies so that retail advisors and clients can find strategies that align with their interests. Currently, there are no standardized ESG disclosures in the U.S. However, the SEC proposed changes at the end of March 2022 that would require public companies to disclose enhanced climate-related information using a standardized methodology.

Another area in which asset managers are anticipating increased investor demand is regarding cryptocurrency. Currently, 19% of asset managers indicate cryptocurrency is at least a moderate priority, a number Cerulli anticipates growing in 2022. Digital assets are increasingly becoming integrated into financial services, and asset managers are looking to capitalize on the opportunity with the interests of younger investors in mind.

In 2021, State Street announced a new division, State Street Digital, to build out capabilities in the space. In March 2022, State Street Digital announced a new partnership with Copper.co, which "provides a gateway into the crypto asset space for institutional investors by offering custody, trading, and settlement solutions across 450 crypto-assets and more than 40 exchanges." The development of a digital asset service by one of the world's largest custodians stands to increase interest for institutional engagement and catch the eye of younger investors.

Succession Planning

Most advisors work with an older client base, which is a natural byproduct of the concentration of assets among Baby Boomer pre-retirees and retirees. It also highlights the importance of developing relationships with younger investors, including the beneficiaries of current clients. Asset retention with the next generation in the face of advisor retirement is a key initiative for several firms. As advisors over the age of 55 manage 47% of the industry's assets, it remains concerning that one-quarter of those retiring within the next 10 years do not have a succession plan in place.

Financial Planning Services Offered, 2021

Only 42% of advisor practices offer intergenerational planning. By building these connections early on, advisors can limit attrition when clients pass away, and assets change hands.

Source: Cerulli Associates, in partnership with the Investments & Wealth Institute and the Financial Planning Association® (FPA®)

	Channel						
Financial Planning Services	**Wirehouse**	**National and Regional B/D**	**IBD**	**Independent RIA**	**Hybrid RIA**	**Retail Bank B/D**	**All Advisors**
Retirement income planning	89%	88%	95%	86%	91%	71%	88%
Retirement accumulation planning	85%	86%	91%	80%	89%	70%	85%
Education funding	70%	69%	70%	51%	72%	48%	65%
Insurance (*e.g.,* life, health, disability)	62%	68%	77%	41%	77%	45%	64%
Cash management or budgeting	64%	58%	54%	55%	58%	30%	55%
Intergenerational planning	52%	48%	37%	39%	51%	17%	42%
Elder care planning	36%	38%	36%	33%	40%	26%	36%
Number of financial planning services offered	**4.6**	**4.6**	**4.6**	**3.8**	**4.8**	**3.1**	**4.3**

This succession planning challenge is especially pressing in the independent channels where advisors are less likely to have firm-wide services available to assist with transitions and are older, on average, than their counterparts in other channels. Advisors meeting with the children of current clients to articulate the plan behind these transitions will increase their potential to secure relationships into the next generation.

Intergenerational Planning

Advisors are frequently so focused on the daily operational aspects and pressing investment or advice needs, they are unable to properly develop strategy related to developing relationships with the next generation. As advisors' clients age and enter the decumulation phase, it is increasingly important that advisors build relationships with their clients' inheritors to retain assets. Currently, only 42% of practices offer intergenerational planning. By building these connections early on, advisors can limit attrition when assets change hands. Independent RIAs may improve output by hiring dedicated specialists, including an operations manager, CIO-like function, and planners, freeing up time for advisors to focus on an operations manager, freeing up time for advisors to focus on asset retention strategy planning.

One advisor Cerulli spoke with shares that they found it easier to connect with next-generation prospects because of the increased use of video calling: "I ask clients to include their children in the annual meetings. With [video conferencing] we can get people on calls right away. This has opened the door for intergenerational financial planning." Cerulli recommends that asset managers support advisors' strategy for intergenerational planning by providing them with value-add tools and thought leadership on how to include this service in their practices. Alternative services aimed at younger investors are gaining traction, such as the XY Planning Network (XYPN), founded in 2014 and now working with over 1,500 advisors. XYPN describes itself as the leading organization of fee-only financial advisors who specialize in working with Gen X & Y. Their mission is to provide a turnkey solution for startup firms, existing financial planning practices, and large firms looking to better serve next-gen clients.

Simplicity has come to the forefront for investors, and wealth managers focusing on a human-centered technology experience will have greater success. Asset managers are seeking to develop a strong purpose through digital efforts and no longer just to build a collection of software or online content. Integrating digital offerings to help drive an outcome will help separate asset managers and advisors with a younger and more technology-savvy generation of investors.

Greatest Practice Challenges	All Advisors
New client acquisition	52%
Compliance and regulatory responsibilities	40%
Managing technology needs	30%
Optimizing my portfolio construction process	28%
Building multi-generational client relationships	26%
Differentiating and defining my value proposition to clients	22%
Conducting ongoing investment due diligence	19%
Developing a practice succession plan	18%
Hiring and managing staff	18%
Providing financial planning services to clients	17%
Executing inorganic growth strategies (*e.g.,* M&A, teaming)	15%

Advisors: Greatest Challenges, 2021

Advisors most commonly identify new client acquisition (52%), compliance (40%), and managing technology (30%) as their practice's primary challenges.

Analyst Note: Advisors were allowed to select multiple challenges. | Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute and the Financial Planning Association® (FPA®)

Unless properly addressed, some of the greatest practice-related challenges facing advisors will have a negative effect on attracting and retaining wealth transferring to the next generation. Alongside product and financial planning offerings, the ability to manage and upgrade technology capabilities stands to play an influential role in determining whether an advisor is effective in appealing to younger investors. Across industries, clients are seeking to work with companies that make it easier for them to navigate accounts, access interactive digital content, and receive customer service through readily available artificial intelligence interactions.

> Firms with lagging digital client experiences may face substantial roadblocks trying to catch up to technology-savvy competitors.

Onboarding decisions are being made as part of an effort to support growth in technology and to increase appeal to younger generations. Most practices lack the resources to employ a dedicated technology specialist, making it important to review potential areas of improvement on a regular basis. B/D home offices, RIA custodians, and tech vendors can help advisors identify these areas and find opportunities for enhancement through adoption of additional features. Advisors who fail to optimize technology systems already at their disposal may be undermining their growth, particularly amid increasing digitization.

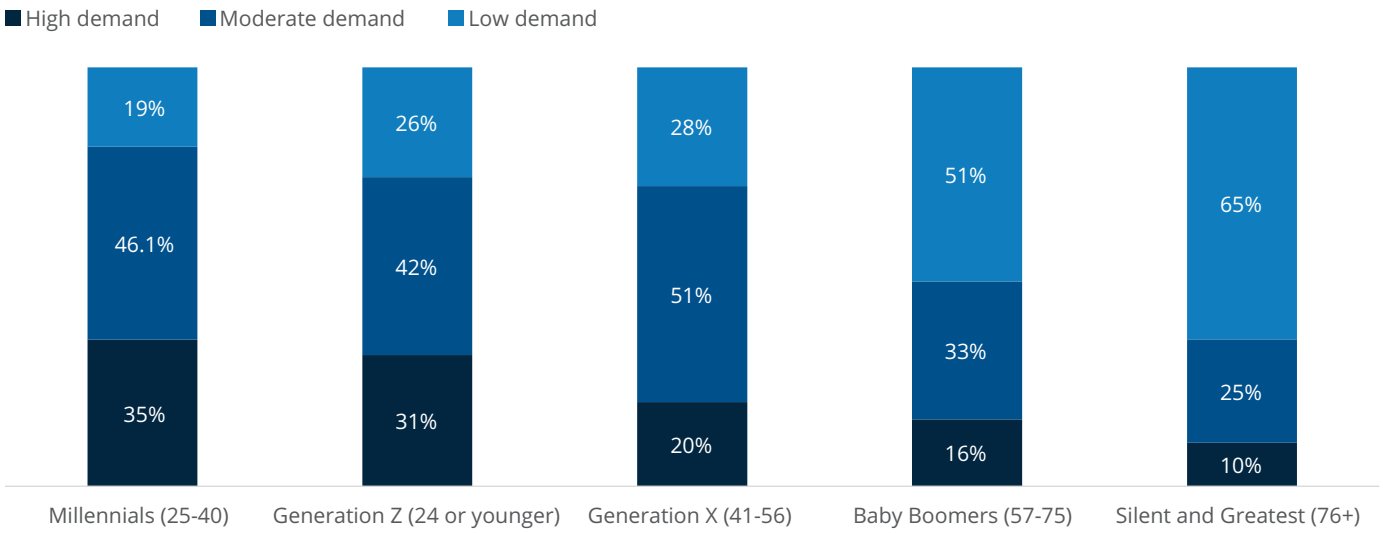
On the asset manager front, Allspring Global Investments, the successor firm to Wells Fargo Asset Management, announced in March 2022 the hiring of its first chief technology officer to streamline previously disjointed processes. In late 2021, AllianceBernstein launched the "Digital Coach," a new, interactive diagnostic experience for advisors who can use the tool to identify their highest priority practice management opportunities. The "Digital Coach" provides advisors with a personalized learning plan designed to address issues and opportunities. Millennial and Generation X investors often prefer a self-servicing approach to investing over working with a financial advisor as advances in technology have made mobile investing a feasible approach to basic portfolio management. Firms with lagging digital client experiences may face substantial roadblocks trying to catch up to technology-savvy competitors.

Three-quarters of advisors switching firms identify learning new technology systems (75%) as a top challenge experienced. Given that operational challenges also top the list of challenges, firms investing in related technology and operational personnel are likely to enjoy a competitive advantage in advisor recruitment and retention. Just 54% of advisors indicate that their technology platforms are easy to use, while 69% believe they can make better use of their platforms. This underscores the opportunity for technology providers that can make their product easily integrated for advisor adoption and implementation. Insufficient time (70%), compliance concerns (64%), and prohibitive costs (58%) are the common challenges that advisors encounter when managing and implementing technology in their practice. Overcoming these common roadblocks is a necessary endeavor toward offering technology and services attractive to the next generation.

Quantitative Insights: ESG and the Next Generation

Financial Advisors: Anticipated Demand for ESG Strategies in the Next Two to Three Years by Generation, 2021

Source: Cerulli Associates



Key Implication: Unsurprisingly, demand for ESG strategies will primarily be driven by the younger generations in the next two to three years. Factors such as the growth of fractional shares, the increasing popularity of direct indexing, and continuing fee compression will allow ESG solutions to move further downmarket and become more accessible to investors in more advanced investment vehicles. ***For advisors trying to capture marketshare of those under 40 (Millennials and Generation Z), a thorough understanding of ESG solutions and how they work will prove to be advantageous, especially considering the massive wealth transfer expected to these generations in the coming years.***

Retail Investors: Net Interest in ESG Investment Themes by Age Range, 1Q 2021

Sources: Phoenix Marketing International, Cerulli Associates

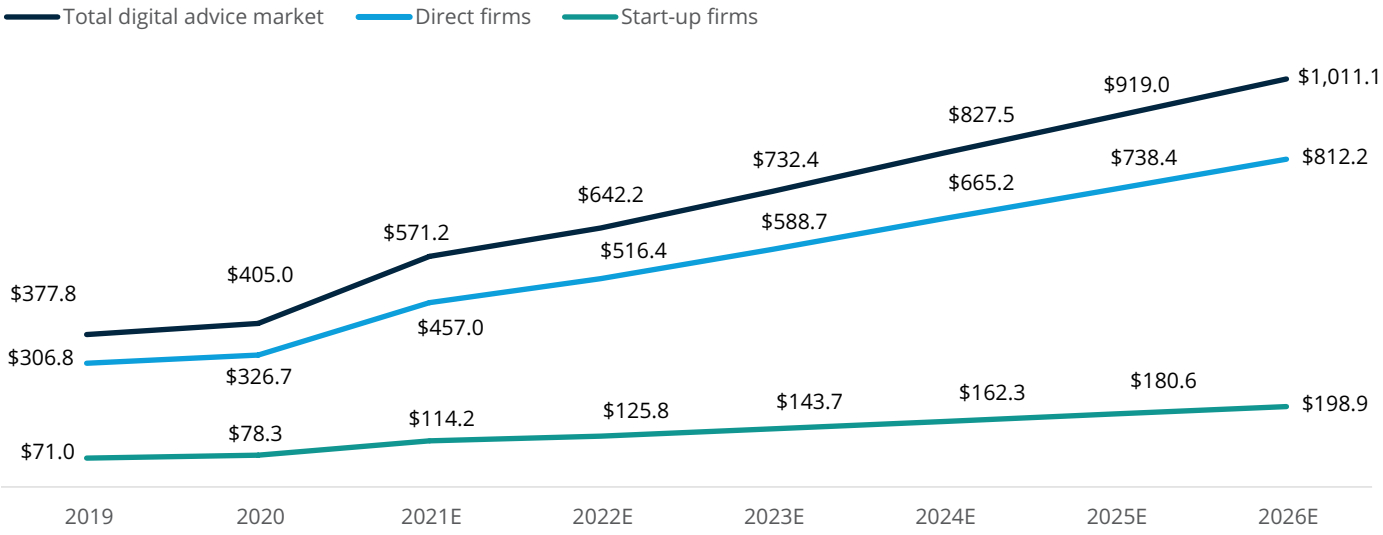
	Age Range					
Total Agreement	**<40**	**40–49**	**50–59**	**60–69**	**≥70**	**All Respondents**
I would prefer to invest in companies that are leaders in environmentally responsible practices.	78%	68%	52%	41%	41%	53%
I would prefer to invest in companies that pay their workers a fair/living wage.	82%	75%	67%	56%	57%	65%
I would prefer to invest in companies with diverse boards in terms of race/ gender/ethnicity.	64%	62%	45%	30%	31%	43%
I would prefer to invest in female or minority-led companies.	46%	52%	28%	14%	10%	26%
I would prefer not to invest in companies whose products I find objectionable (*e.g.*, tobacco, firearms, alcohol).	62%	58%	52%	44%	45%	51%

Key Implication: Nearly four-fifths (78%) of retail investors under 40, and 53% of investors across all ages would prefer to invest in companies that are leaders in environmentally responsible practices. Additionally, 65% of investors of all ages would prefer to invest in companies that pay their workers a fair wage, yet the actual investment seen in these strategies does not yet match client interest. ***Many advisors are reluctant to offer ESG strategies as an option to clients, with some not offering it at all. Advisors should at least try to educate their clients on these strategies and how they could potentially fit into their portfolios.***

Quantitative Insights: Digital and the Next Generation

Five-Year Projected Growth of Combined Digital Advice Market, 2019–2026E ($ billions)

Analyst Note: Forecasts do not include digital advice used primarily in conjunction with advisors in traditional wealth management firms. | Source: Cerulli Associates



Key Implication: Over the next five years, Cerulli anticipates that the digital advice marketplace (exclusive of digital advice used in conjunction with an advisor) will more than double. Most of that growth will come from existing direct firms, but nearly one-fifth is expected to come from startups that intend to disrupt the wealth management industry. ***Advisors must keep abreast of the growing digital market, especially startups targeted at next-generation investors, and be able to articulate how their practice can add enhanced value.*** If not, the next Robinhood may be right around the corner to disrupt Millennial and Gen Z marketshare.

Addressable Digital Market by Comfort Level and Age Range, 2020 ($ billions)

Analyst Note: Asset distribution is based on a blend of U.S. household data on financial assets from the Survey of Consumer Finances and respondents' answers to the statement, "I would be comfortable using an online-only service." Likelihood of using a digital advice service corresponds to agreement or strong agreement to the statement. | Sources: Federal Reserve, U.S. Census Bureau, Phoenix Marketing International, Cerulli Associates

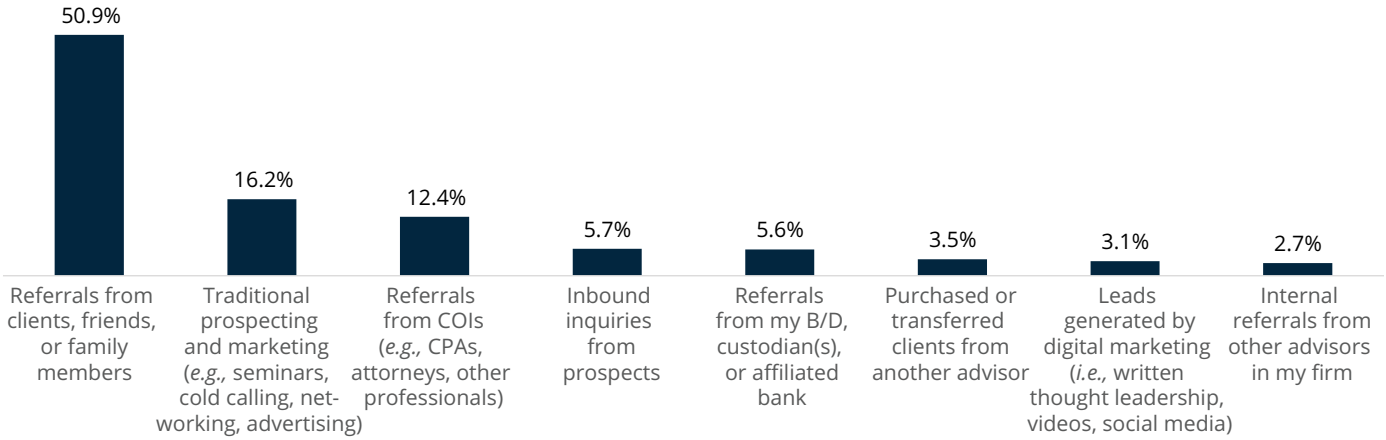
	Head of Household Age						
Addressable Market of Digital Advice Investors	**<30**	**30-39**	**40-49**	**50-59**	**60-69**	**≥70**	**All Household Financial Assets**
Very likely	$162	$726	$2,200	$2,089	$2,113	$1,154	$10,257
Somewhat likely	$233	$869	$2,816	$4,135	$2,996	$2,523	$15,112
Neither likely or unlikely	$100	$414	$1,291	$3,060	$3,126	$2,488	$10,386
Not very likely	$49	$242	$680	$2,175	$3,750	$3,761	$9,530
Not at all likely	$11	$81	$441	$1,823	$4,061	$5,321	$9,605
All households	**$556**	**$2,332**	**$7,429**	**$13,281**	**$16,046**	**$15,247**	**$54,890**
Addressable Market (% of Respondents)	**71%**	**68%**	**68%**	**47%**	**32%**	**24%**	**46%**

Key Implication: Unsurprisingly, younger investors are more comfortable working in a digital market than their older counterparts. However, the comfort with digital investing is not limited to the youngest investors, as more than two-thirds of advisors younger than 50, and nearly half of those under 60, express comfort with digital marketplaces. ***Advisors looking to work with the next generation should keep this in mind. E-signature capabilities and Zoom meetings are a good start, but those practices that will most benefit from wealth transfer will have comprehensive digital strategies that allow clients to engage with their investments from the creation of the plan to final dispersal of assets.***

Quantitative Insights: Business Development

Sources of New Clients, 2021

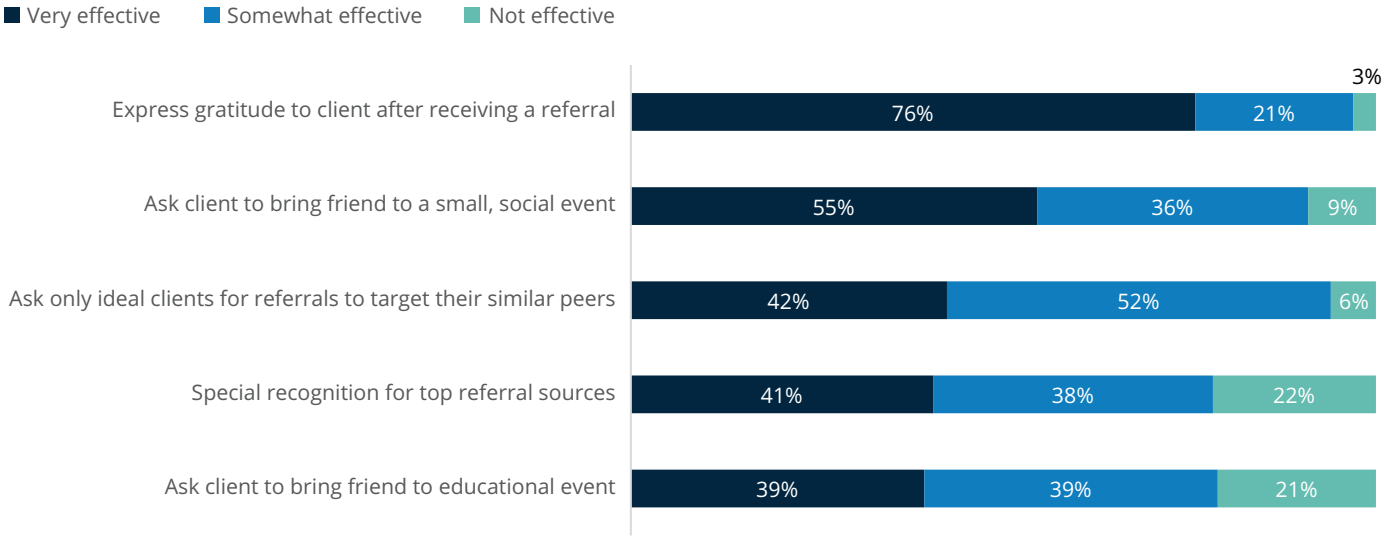
Analyst Note: Advisors were asked, "Over the past year, what percent of your practice's new clients were acquired through the following sources?" | Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute, and the Financial Planning Association® (FPA®)



Key Implication: Advisors cite referrals from clients' friends or family members as the most fruitful source of new clients, with more than half of new clients being sourced from those referrals. This is a perfectly acceptable source of new business for advisors, but Cerulli contends that they must not rest on their laurels and assume the next generation will fall in their lap. ***Advisors should work to make connections with the next generation prior to the wealth transfer. Making these connections will require flexibility and meeting the next generation on the terms that work best for them.*** That can include anything from engaging digitally, to flexible pricing structures, where advisors allow a less affluent generation to begin a relationship prior to significant asset accumulation.

Top-Five Referral Activities, 2021

Analyst Note: Responses are from practice management professionals. | Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute and the Financial Planning Association® (FPA®)

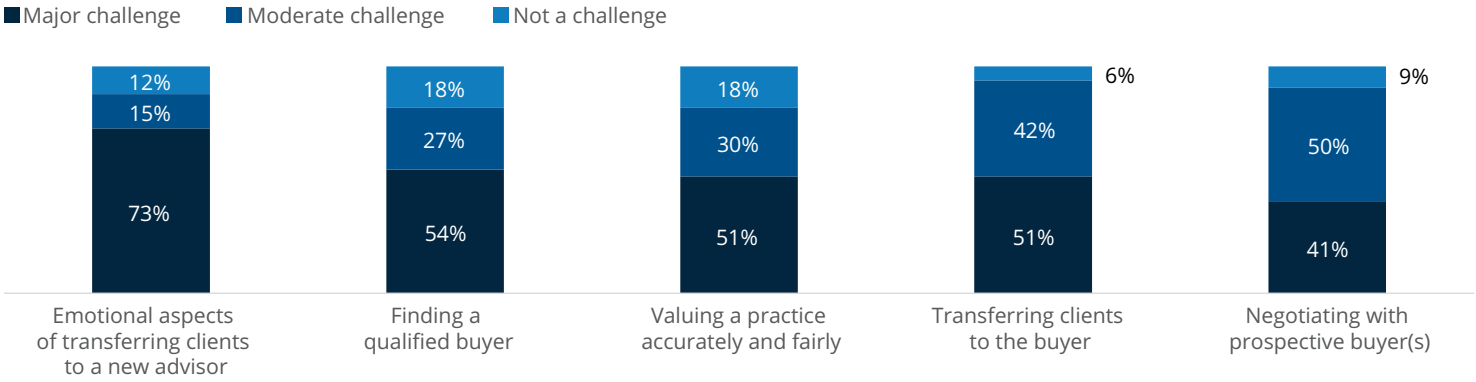


Key Implication: Three-quarters (76%) of practice management professionals say that expressing gratitude to clients after receiving a referral is a very effective strategy, while another 41% say special recognition for top referral sources is very effective. When working with, or attempting to attract, the next generation of clients, these same rules apply. Advisors should express gratitude to their first-generation clients for introductions to children or grandchildren. ***While focusing on the next generation is critical for a successful and sustainable practice, advisors must not forget the clients who helped to forge their success in the first place, as that is a surefire way to close off the future referral spigot.***

Quantitative Insights: Succession Planning for Next Generation

Top-Five Greatest Challenges for Advisors Preparing for Succession, 2021

Analyst Note: Responses are from practice management professionals. | Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute and the Financial Planning Association® (FPA®)



Key Implication: ***Finding a qualified buyer, negotiating with the buyer, and transferring clients to that buyer are some of the greatest challenges in planning for succession.*** These challenges can be eased by taking the time to properly prepare for retirement well before the time comes, as advisors who do not adequately plan for succession in advance can often become overburdened by these issues. B/Ds should also act in their own best interest, properly educating retiring advisors on the process and playing a proactive role in helping to plan the transition.

Seller Evaluation of Potential Successors, 2021

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute and the Financial Planning Association® (FPA®)

	Practice Management Professionals		
Successor Evaluation Factors	**Not Important**	**Somewhat Important**	**Very Important**
Personality	0%	12%	88%
Likelihood to put clients' best interests first	0%	15%	85%
Regulatory/compliance record	0%	15%	85%
Chemistry with seller's clients	0%	21%	79%
Operational capacity to assume additional clients	0%	30%	70%
Financial planning philosophy	3%	30%	67%
Investment philosophy	0%	39%	61%
Ability to fund a purchase	9%	33%	58%
Fee structure	3%	52%	45%
Geographic location	3%	55%	42%
Regulatory affiliation (*e.g.,* B/D or RIA)	24%	39%	36%
Sales ability	0%	64%	36%
Revenue/AUM size	6%	70%	24%

Key Implication: When evaluating potential successors, practice management professionals find personality (88%), the likelihood to put clients' best interests first (85%), and chemistry with seller's clients (79%) to be among the most important attributes. Interpersonal skills are a vital factor for advisors choosing potential successors, evidenced by the fact that these elements outweigh the importance of financial planning and investment philosophy in most cases. ***Especially with the push from home offices to retain discretion when it comes to investment management, developing a personal connection and earning the trust of clients is more important than some of the hard skills, according to advisors.***