WHITE PAPER

THE NEGLECTED GENERATION

Summary

Due to the aging population of the U.S. industry's most heavily targeted clients, developing relationships with the next generations of potential investors is paramount. This is not only important to recruiting new clients, but also to ensuring firms will retain assets during existing clients' wealth transfers. For good reason, firms are hyper-focused on the Millennial generation, but many are overlooking Generation X.

Key Points

- The collective investable asset base of Generation X ($5.8 trillion) is seven times larger than the Millennials' $830 billion.
- The most influential group for wealth transfers is investors over the age of 70 who possess assets greater than $10 million. Based on their age and wealth, Generation X and young Baby Boomers stand to capitalize the most when these transfers occur.
- Placing greater emphasis on Generation X is a relatively easy process because it coincides with firms' existing initiatives created for Baby Boomers or Millennials.
- Young Gen-Xers appreciate the potential benefits of professional advice, but they remain hesitant to fully engage financial advisors.

Lost in the Fray

Strong segmentation strategies are healthy for the industry and a characteristic of successful wealth managers. Virtually every organization includes the Baby Boomer, Silent, and Greatest Generations among their most heavily targeted clientele. Focusing on older generations is prudent; however, too many firms are succumbing to the impulse that they must rush to immediately meet the perceived demands of Millennials.

Cerulli is not implying that building relationships with the next generations or developing services associated with Millennials (*e.g.*, digital capabilities) are a waste of resources. On the contrary, these initiatives are so critical that they may determine future market leaders. That said, while Millennials can't be ignored, the hype is compelling much of the industry to overlook the similar demands and larger opportunity presented by Generation X. This group is commonly referred to as the *Neglected Generation*.

Millennial Focus

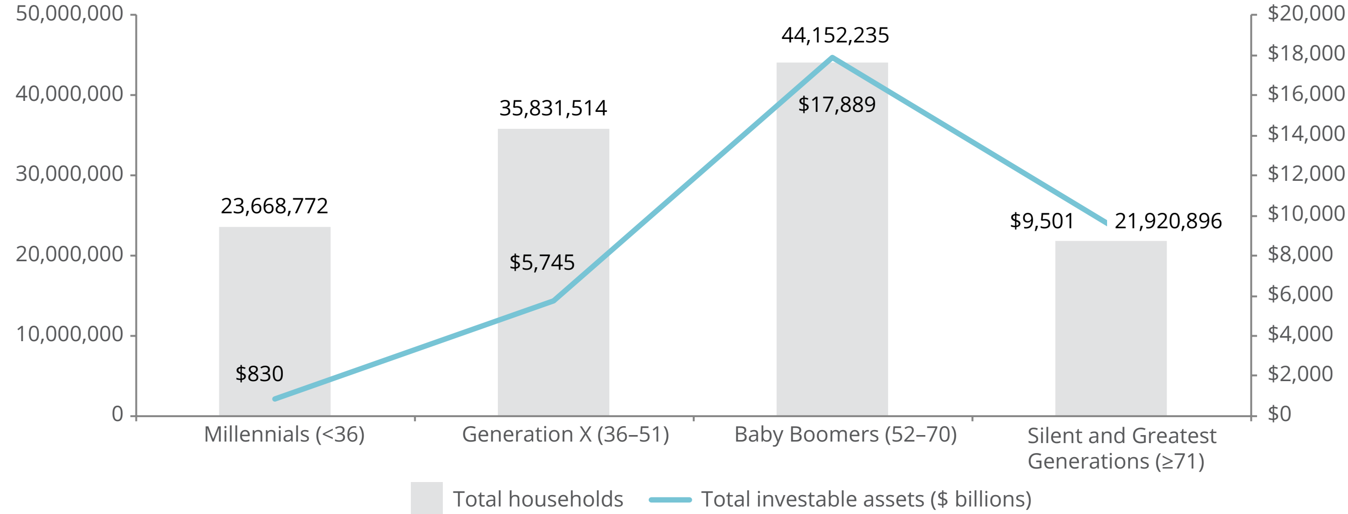
In recent years, two trends have accelerated firms' scrambling to react to Millennials—population size and the inevitable impact of wealth transfers—both of which Cerulli can debate.

Per the U.S. Census Bureau, the Millennial population has exceeded that of Baby Boomers. This has fueled an urgency to adapt. However, when viewed through Cerulli's lens, there are approximately 24 million addressable Millennial households. Compare this to 36 million and 44 million households lead by Generation X and Baby Boomers, respectively. Moreover, the total addressable investable asset base of Gen X ($5.8 trillion) is seven times larger than the Millennials' $830 billion.

The enthusiasm surrounding Millennials and the influence that they already have on services and delivery media is real, but, for wealth managers specifically, there is a massive difference between *total population* and *addressable households* in terms of assets.

Exhibit 1: Distribution of Households and Average Investable Assets by Generation, 2015E

The total addressable investable asset base of Gen X ($5.8 trillion) is seven times larger than the Millennials' $830 billion.



Analyst Note: Cerulli's investor sizing is derived from the Federal Reserve's Survey of Consumer Finances (SCF), a tri-annual survey. The Federal Reserve releases the Survey of Consumer Finances data two years after survey data collection, meaning 2010 data was released in 2012. To make estimates for the current year, Cerulli projects assets by applying the growth or decline of values for each individual asset and debt category for each household within the survey. In addition, Cerulli adjusts the number of households to reflect the growth of the U.S. population and new household creation.

Sources: Cerulli Associates, The Cerulli Report – U.S. Retail Investor Advice Relationships 2016: Embracing the Robo

More important is the impact of wealth transfers. Many industry executives acknowledge this is the central motive for such a strong focus on the Millennials. However, this is the area where Gen X is being significantly overlooked.

Firms cannot lose sight of the fact that households led by investors age 60 or older control 55% of all investable assets. Conceptually, these are the wealth benefactors, but average investable assets are approximately $455,000. It's not surprising that their major concerns are protecting current levels of wealth, planning for retirement, and the cost of healthcare. At this level of assets, many may struggle to fund their own retirements, while leaving behind a monetary legacy is unlikely.

The most impactful inheritances will be concentrated among upmarket investors who rely on estate planning services. Greater than two-thirds (67%) of all families with investable assets greater than $5 million are led by investors age 60 or older. The most influential group is investors age 70 or older who possess greater than $10 million. This cohort owns an average of $24 million per household. This high-net-worth (HNW) population represents the industry's greatest transformation due to its age and influential assets.

The industry needs to reconsider an important element: How many members of the three oldest generations—Greatest, Silent, and older Baby Boomers—have Millennial children?

A reasonable number of these investors will have Millennial heirs, including grandchildren, who will benefit. However, based on age alone, it is Gen X and young Baby Boomers (*i.e.*, children of the Silent Generation) that stand to inherit the most significant share.

Cerulli advises firms to analyze their client base. Cerulli trusts that most children of affluent, aging clients will be in their late 30s or 40s, if not older. Unfortunately, this information is often outdated or unavailable. This highlights the need to engage clients' family members immediately or there will be little hope of retaining the assets. Many HNW-focused practices are overestimating their chances of retaining families' assets simply because they work with the current wealth owners.

Gen X and Baby Boomers

Baby Boomers (52 to 70 years old) control nearly $18 trillion in investable assets and have the highest percentage allocated across retirement accounts and mutual funds. Preserving wealth and assuring a comfortable retirement are consistently their most important financial goals. Caring for the health and financial well-being of their children (often *adult children*) and elderly parents are also major aspirations.

It's not surprising that these investors are considered prime candidates for retirement-oriented products, such as annuities, as they approach retirement. Nor is it surprising that they are among the most likely to be advisor-reliant investors as these objectives require disciplined saving habits and goals-based financial planning.

However, the lines become blurred among the youngest of the Baby Boomers (*e.g.*, 50-somethings). The older half of Gen X (*e.g.*, age 40 and older) is not only approaching prime accumulation years, but its economic concerns and trust in firms is essentially identical to young Boomers. These investors have accumulated significant assets and are primed to inherit more. They may also be facing significant life events such as caring for multiple generations, college planning, and large purchases (*e.g.*, second homes).

Financial planning services that address Baby Boomers' core goals may prove relatively easy to also address older Gen-Xers. These services include cash flow, insurance, and retirement services. Approximately one in five Gen-Xers and Boomers took a 401(k) loan in the last three years. "Funding basic spending needs" and "Because it appeared as the best option" were common motives identified by survey participants. In most cases, this indicates a lack of non-retirement savings and professional guidance. Without better preparation, meeting goals will be challenging.

Fortunately, older Gen-Xers are more than twice as likely than 30-something investors to identify as being advisor-reliant. Their willingness to work with an advisor removes an immediate hurdle for firms because direct-to-consumer and digital solutions continue to gain traction among the younger Gen-Xers and Millennials.

Exhibit 2: Household Advice Orientation by Generation, YE 2016

Older Gen-Xers are more than twice as likely than 30-something investors to identify as being advisor-reliant.

	Generations				
Advice Orientation	**Millennials**	**Generation X**	**Baby Boomers**	**Silent and Greatest Generations**	**All Households**
Self-directed	49%	40%	34%	32%	37%
Advice for special events	37%	33%	22%	18%	25%
Advisor-assisted	11%	14%	17%	19%	16%
Advisor-directed	3%	13%	27%	31%	22%
Total Advisor-Reliant (advisor-assisted and advisor-directed)	**13%**	**27%**	**44%**	**50%**	**38%**

Sources: The Cerulli Report – U.S. Retail Investor Advice Relationships 2016: Embracing the Robo

When choosing an advisor, Gen-Xers in their 40s emphasize the importance of transparent interactions, prompt replies, and advisors taking the time to fully understand their needs. However, they represent an inflection point for the industry—45% say they need more investment advice, but this declines significantly at age 50 (34%) and plummets to less than 20% by age 70.

This reaffirms that, while the industry's focus on older investors is understandable, the space has become saturated. Takeover opportunities always exist for advisors, but the key is to develop relationships with these approachable investors before other advisors do.

They also continue to express a willingness to consolidate financial providers and relationships, especially as wealth increases. Nearly two-thirds of HNW Gen-X investors recognize the potential value in doing so, but there is a disconnect between their willingness and their taking action. Cerulli recommends that firms continue to round out their digital capabilities without sacrificing active and passive solutions, impact investing, charitable giving services, and, at least consider relationship- or enterprise-based pricing. The value in consolidating needs and assets must be clear.

Gen X and Millennials

In contrast, young Gen-Xers (*i.e.*, mid-30s) tend to resemble Millennials, but with more assets. Several firms have deemed this population as being "too young and too broke to bother." Others have taken more strategic steps to address their preferences, such as launching direct investing and/or digital advice platforms. Although encouraging, these digital solutions are typically designed in response to the trendy needs of Millennials, not Gen X. While it's true Millennials were born into the digital environment, many Gen-Xers were young during the digital transition phase. They are generally considered just as tech-savvy, if not as tech-dependent, as Millennials.

Interestingly, these younger investors are the most likely group to say they need more investment advice, but just 5% report being advisor-directed. Half (49%) define themselves as being strictly self-directed. However, much like Millennials, they seemingly recognize the potential benefits of professional guidance, but their hesitance to engage advisors is a substantial obstacle. Overcoming this is critical. As noted, by the time investors reach age 40, chances of having an advisor relationship soar. Financial planning becomes more complex as new needs, debt, and goals arise and add to the challenges of saving for retirement.

Exhibit 3: Household Feels They Need More Investment Advice by Generation, YE 2016

Approximately two-thirds of all investors age 39 or younger say the need more investment advice; however, three-quarters plan to be actively involved in managing their money.

	Generations				
Household Needs More Advice	**Millennials**	**Generation X**	**Baby Boomers**	**Silent and Greatest Generations**	**All Households**
Agree	69%	47%	29%	19%	36%
Neutral	21%	29%	34%	40%	33%
Disagree	11%	24%	36%	41%	32%

Analyst Note: Households were asked how much they agree or disagree with the following statement: "I find that I need more financial and investment advice than I have in the past."

Sources: Cerulli Associates, The Cerulli Report – U.S. Retail Investor Advice Relationships 2016: Embracing the Robo

Although younger investors express retirement planning concerns, their longer investment time horizons translate to concerns that tend to differ from their elders. For example, they are at least twice as likely to worry about rising interest rates, real estate, inflation, and taxes. These issues stem opportunities for advisors because managing these anxieties and risks are not as easy as researching passive or active investments and executing the trade on a discount brokerage platform.

Attempting to increase walletshare among young clients is always smart, but firms should prepare for those that prefer a more hands-on approach. Approximately two-thirds of all investors age 39 or younger say they need more investment advice; however, three-quarters plan to be actively involved in managing their money.

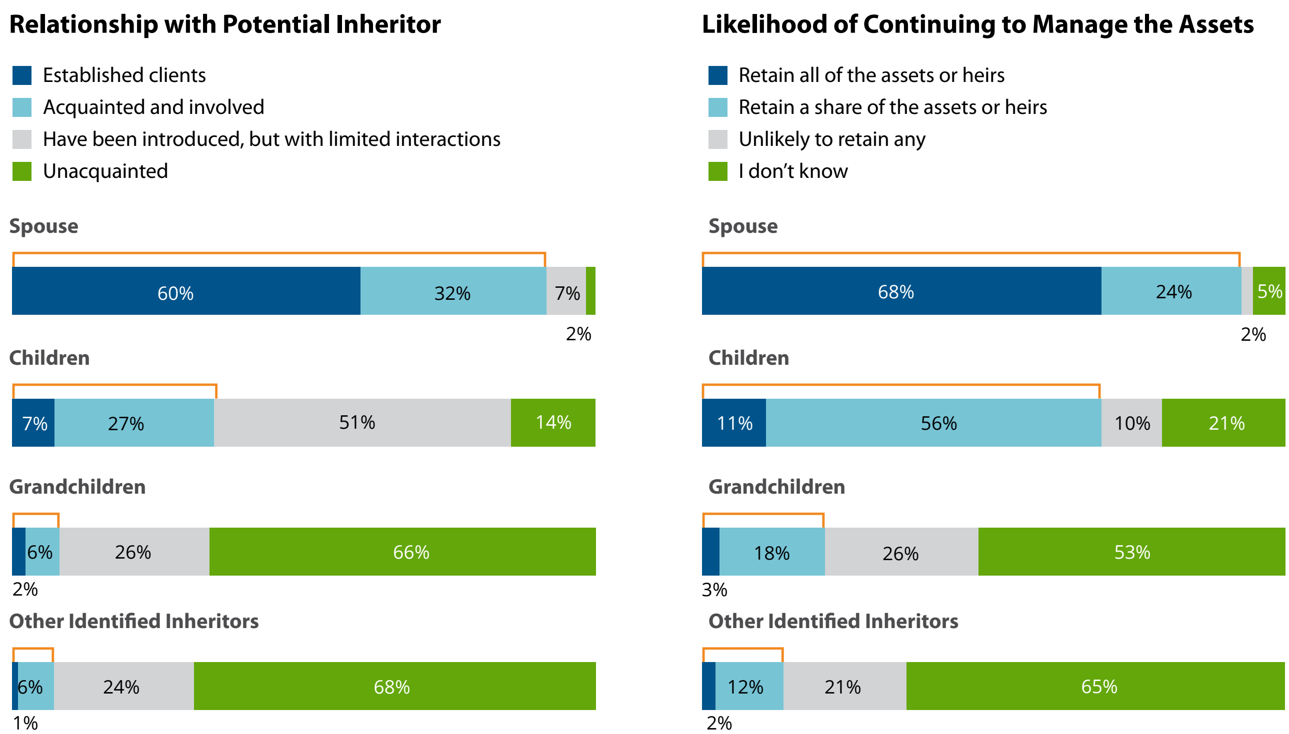
Rather than approaching these households with asset allocation services, the initial strategy may be cash flow management and goals-based planning. They comprehend the value of getting, and remaining, on track. Given their general reluctance to hand over control to advisors, there may also be opportunities to explore alternative pricing models, such as hourly fees or fee-for-planning structures.

In addition, a popular strategy today—comprehensive, bundled services—may fail among many young clients. Like other industries, comfort in technology and fee awareness may mean they will attempt to piece together "comprehensive services" through an unbundled, multi-firm approach. A fair comparison would be the trend of "cutting the cord" on traditional entertainment services (*e.g.*, dropping cable television providers in favor of online subscription-based services). The wealth management industry can try to reject this idea; however, let's not forget how many executives rejected the idea of digital advice five years ago and direct-to-consumer platforms in the 1990s. Firms must plan ahead.

Time will tell whether these trends remain as situations become increasingly complex. Many investors may lose interest or aptitude in managing their own wealth. Others may choose to manage investment sleeves that are easily researched, want to test their own investing ideas, or simply may not want to consolidate everything with one firm. In the end, they could prove to

Exhibit 4: All HNW Advisors: Relationships with Clients' Children vs. Likelihood of Managing the Inherited Assets, 2016

Enriching relationships with clients' spouses and heirs should be considered as important as recruiting new clients, which most firms admit is their top growth strategy. Gen-X and Baby Boomer relatives should be top priorities.



Analyst Note: Data includes practices that are focused on HNW investors' and families' estate planning needs.

Sources: Cerulli Associates, The Cerulli Report – U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2016: Understanding the Long-Term Impact of Wealth Transfer be time-consuming clients who limit opportunities (*e.g.*, cede investment discretion to an advisor). That is, if the industry can convince them to work with advisors.

Preparing for Wealth Transfers

Enriching relationships with clients' spouses and heirs should be considered as important as recruiting new clients, which most firms admit is their top growth strategy. Gen-X and Baby Boomer relatives should be top priorities. They continue to accumulate their own assets and stand to capitalize on the wealth transfer phenomenon.

Although this is challenging, attracting these family members from other advisors later will be more challenging. Again, Cerulli's data reveals that the older and wealthier a client is, the more likely they are to have a pre-established relationship with an advisor. Therefore, the real threat is that Gen-X and Baby Boomer heirs will have their own trusted advisors who proactively prepared them for receiving their inheritances.

Believing advisors will retain the assets because they worked with parents is a dangerous assumption. In 2016, the top-three reasons for clients leaving HNW-focused practices were clients passing away, beneficiaries opting to leave after getting their inheritances, and clients having a relationship with another advisor, respectively.

Digital options are a great start to overcoming some of these issues; however, it should not be considered a fail-safe solution to either attracting new, younger investors or clients' heirs. Cerulli truly believes digital capabilities are an increasingly necessary complement to well-rounded offerings, but not a "wealth transfer strategy." Although younger investors may lean heavily to these capabilities, the value of human interactions will not cease. This is particularly important on the higher end of wealth where nonfinancial services can be the differentiator.

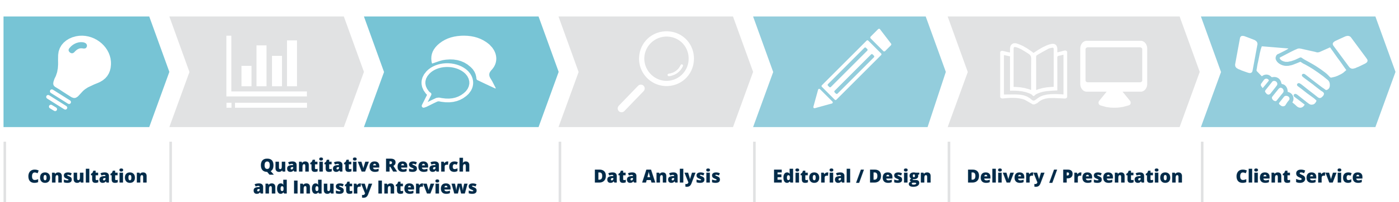
Lastly, full blame cannot be placed on practices. Many investors (and their families) procrastinate when making difficult but important financial and nonfinancial decisions. Firms must equip their advisors to help coordinate, even mediate, meetings that include as many generations as possible. This level of service exemplifies goals-based planning, strengthens rapport, and increases the likelihood of retaining assets later. ◆

About Cerulli's U.S. High-Net-Worth Research

Cerulli's high-net-worth research focuses on the distribution of retail asset management products and services to the high-net-worth and ultra-high-net-worth segments in the United States. Areas of coverage include market sizing, vehicle use, fees, and services provided at family offices, wirehouses, RIAs, and private banks.

Cerulli For Consulting

Cerulli's consulting and custom research combines our excellence in data collection, industry-focused thought leadership, and 25 years of experience to provide guidance on strategic issues.



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