Family Wealth Unlocked

How can advisers best engage today's and tomorrow's generations?

Adviser use only

PRUDENTIAL

What are the opportunities for intergenerational advice in 2021?

£5.5tn
expected to be passed to the next generation in the UK 2020-2047[1]

£179k
the average UK inheritance tax (IHT) bill[2]

£2.1tn
the level UK debt has surged to since the pandemic[3]

Fuelled by pensions freedoms – and the growth of property prices over the last 30 years, – trillions in personal wealth are due to be passed to the next generation over the next 25 years. Yet families face this passing to the HMRC, due to a lack of financial planning. This amount risks growing further still, with taxation on wealth and inheritance options likely to fill pandemic-depleted government coffers.

While financial advisers are undoubtedly one of the best qualified professions to help clients navigate the complexities of trusts, gifts and intergenerational planning, HMRC IHT receipts show some families are simply not seeking advice for, to their and future generation's cost. But why? And, when wealth can be transferred even more powerfully when generations of the same family share an adviser, how joined up are the UK's families?

Beyond this, while financial advisers are increasingly active in this area, what can you do to increase intergenerational involvement and take-up? And 'unlock' family wealth?

1. https://www.kctrust.co.uk/partner-blog/infographic-intergenerational-wealth]
2. https://www.thetimes.co.uk/money-mentor/guide/guide-inheritance-planning/]
3. https://www.yorkshirepost.co.uk/business/uk-debt-pile-reaches-ps21-trillion-after-record-november-borrowing-3075693/]

To understand this, Prudential has recently commissioned research with over 1,000 adults who have employed a financial adviser in the past five years, with interviewees drawn from all 'decision-making' generations.

- Gen Z 18-22 years old
- Millennials 23-38 years old
- Gen X 39-54 years old
- Baby Boomers 55-74 years old
- 75+ group

Importantly, the research was conducted amid the financial volatility and insecurity of the pandemic, to understand:

- How many generations of families are using – and sharing – advisers today
- What would make more people engage with advisers for intergenerational financial planning
- The new advice needs of different generations, providing a new focus for advisers

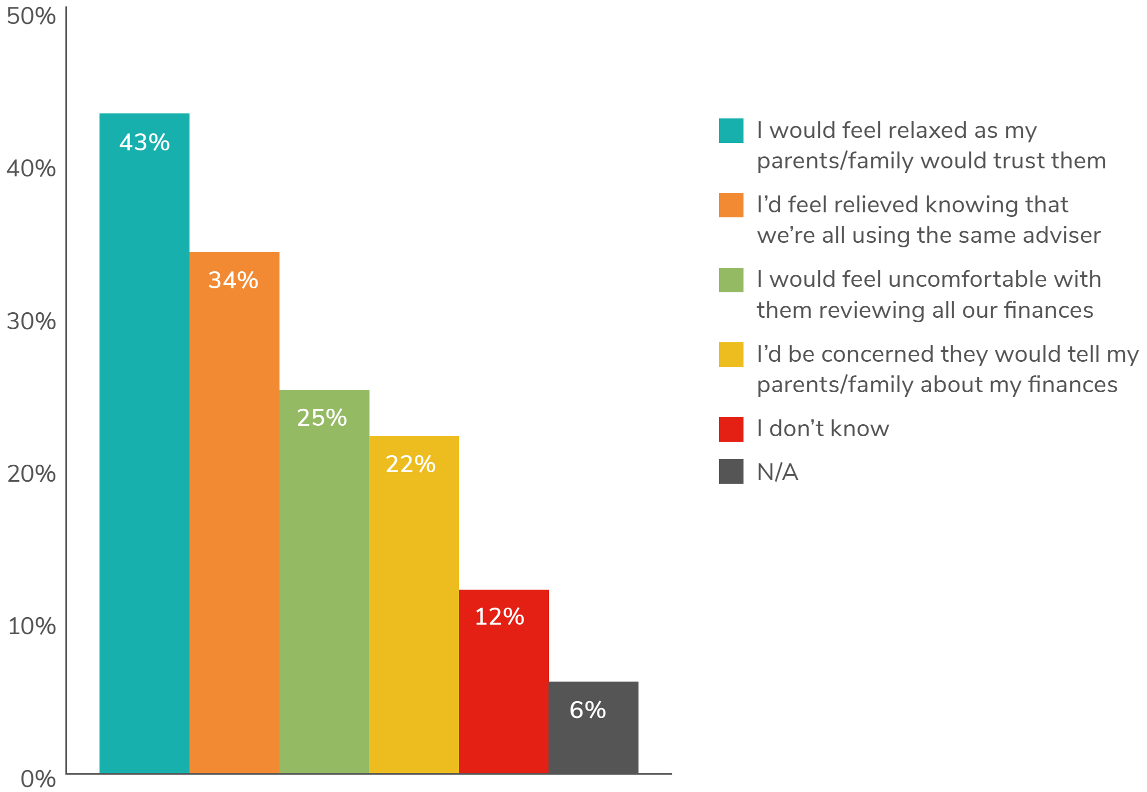
How comfortable are generations with sharing the same adviser?

In the majority, very. Almost two thirds (62%) felt positively about having the same financial adviser as their children, parents or grandchildren. And they're convinced both by a relationship over time and through the family bond, with 43% of all interviewed saying 'they would feel relaxed, as their family already trusts them'. 34% feel even more strongly, saying they would actually feel 'relieved that multiple generations are using the same adviser'.

38%, however, were not comfortable. 25% went further still, saying they were uncomfortable with one adviser reviewing the whole family's finances. And 22% were concerned the adviser would tell other family members about their finances. The guiding principle of client confidentiality needs, perhaps, to be clearly reiterated and understood.

And comfort has translated into usage. 58% of those interviewed have already worked with an adviser that a member of their family uses. Yet the research shows individuals have been instructing advisers for their distinct needs, in place of shared family-wide goals. 53% say they paid their adviser separately – and just 5% had their relatives pay for them, a clear opportunity for both you, as an adviser, and the family's IHT liability.

How would you feel about having the same financial adviser that provided advice to you and all your close relatives?



While shared usage is a reality, how comfortable are the UK's families about talking to other generations about their finances? More than you might think. A healthy 47% of all interviewed 'talk openly to each other about finances', with just 1 in 4 (25%) saying they don't and 18% who simply 'wouldn't'. 22% go further, saying their family is 'too embarrassed to discuss their finances' while 7% reveal they 'don't trust their family members'.

Probing deeper, to understand individual generations' attitudes to family financial conversations, behaviour is more polarised. While 35% of Millennials say their family 'does not discuss anything financial', this plummets to just 3% for the often better-heeled and more mature Boomers. This divergence continues with 31% of Millennials saying they are too embarrassed to discuss finance with their family, while just 3% of Boomers feel the same way (vs 22% average). This older generation perhaps seeking to share and integrate, contrasting with Millennials' desire for privacy and independence.

"Families are becoming more aware of their 'family need' and a single relationship with one adviser could be a very efficient way of meeting that. People are more concerned about their family legacy, and amid Covid-19, there is a growing acceptance that mortality is real."

"Advisers should think about how they develop their proposition, charging and engagement across all generations to meet a family's multiple needs. Families are complex, so having a 'corporate' relationship could be more relevant to a family rather than an individual adviser. Indeed, individual advisers may find themselves conflicted when looking after all generations and their needs. A corporate relationship secured by multiple people and touchpoints could well be an easier way to tackle the generational needs at their different life stages."

Campbell Stanners, Advisory Relationships Director at Bankhall & PMS

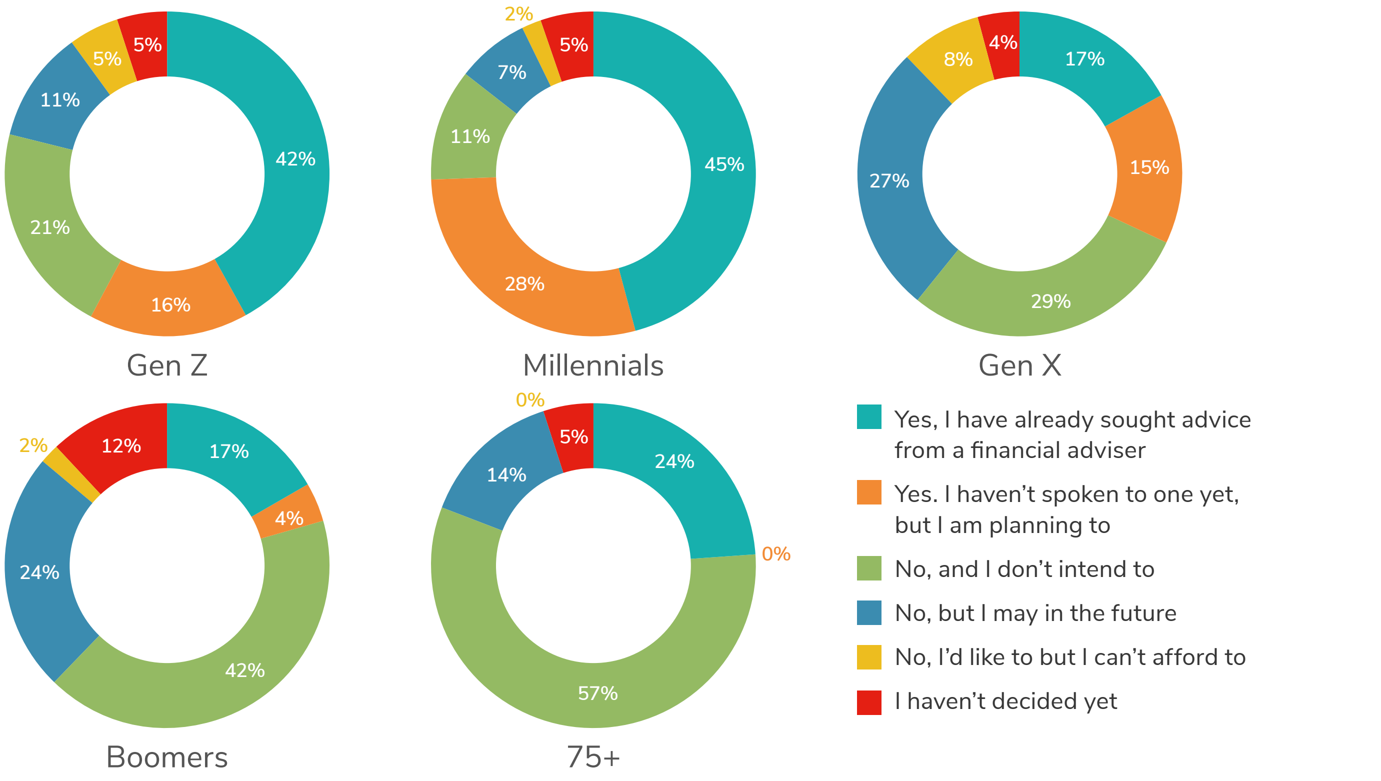
As a result of the pandemic, which generations have most been driven to take advice?

The research also shows how the pandemic has stimulated the need for advice, be it because of pent-up cash levels, market volatility or for income protection. This need was felt greatest among the younger generations, with 74% of Millennials saying they had or were going to see an adviser, and 58% for Gen Z.

This contrasts significantly with just 21% of Boomers and 24% of those aged over 75, who perhaps either felt they had their key financial fundamentals in place – or were more sanguine, having lived through past financial crises.

While the need for advice spans all generations, the research reveals the pandemic appears to have created a pronounced opportunity for you to provide advice to new, younger audiences. And while many assume cost is a barrier to advice, this is not the case in Covid-time – for any of the five generations interviewed. In fact, only 3% of the sample overall said they'd like to see an adviser but couldn't afford to. This is perhaps impacted by the fact that everyone had benefited from working with an adviser in the past five years and was therefore able to separate the value of advice from its cost.

Has the crisis caused by coronavirus/Covid-19 prompted you to seek financial advice from a financial adviser?



How can financial advisers improve their customer experience across the generations?

While the adviser 'experience' has a critical role to play in the retention of your clients, it's clear from our research that different facets are far more important for some generations than others.

Our research first turned to understanding the most important factors in influencing your selection as an adviser – and what you need to focus on to appeal to different generations.

Reputation wins out as the single most important factor in selecting an adviser (31%), but matters more to some generations than others. This feature is more influential for Boomers than other generations (49%), yet matters far less (8%) for the youngest group (Gen Z). To attract new, younger audiences, advisers will need to find ways to communicate client satisfaction levels, as well as achievements.

Second equal most important is Evidence of previous financial performance with an overall average of 27%. This factor is especially important as a selection criterion for both the 75+ group (33%) and Boomers (29%).

Yet the story changes for Gen Z, with just 16% ranking this as important. Given its cross-generational appeal, advisers need to consider how cross-client achievements or anonymised case studies could be further incorporated across their communications channels.

Years of experience is also second equal most important at 27%, something younger advisers will need to over-compensate for on other criteria to compete against. Experience matters most to Boomers (38%) and the 75+ group (33%), with it also mattering highly to Gen Z (24%), the second most important selection criterion for this group.

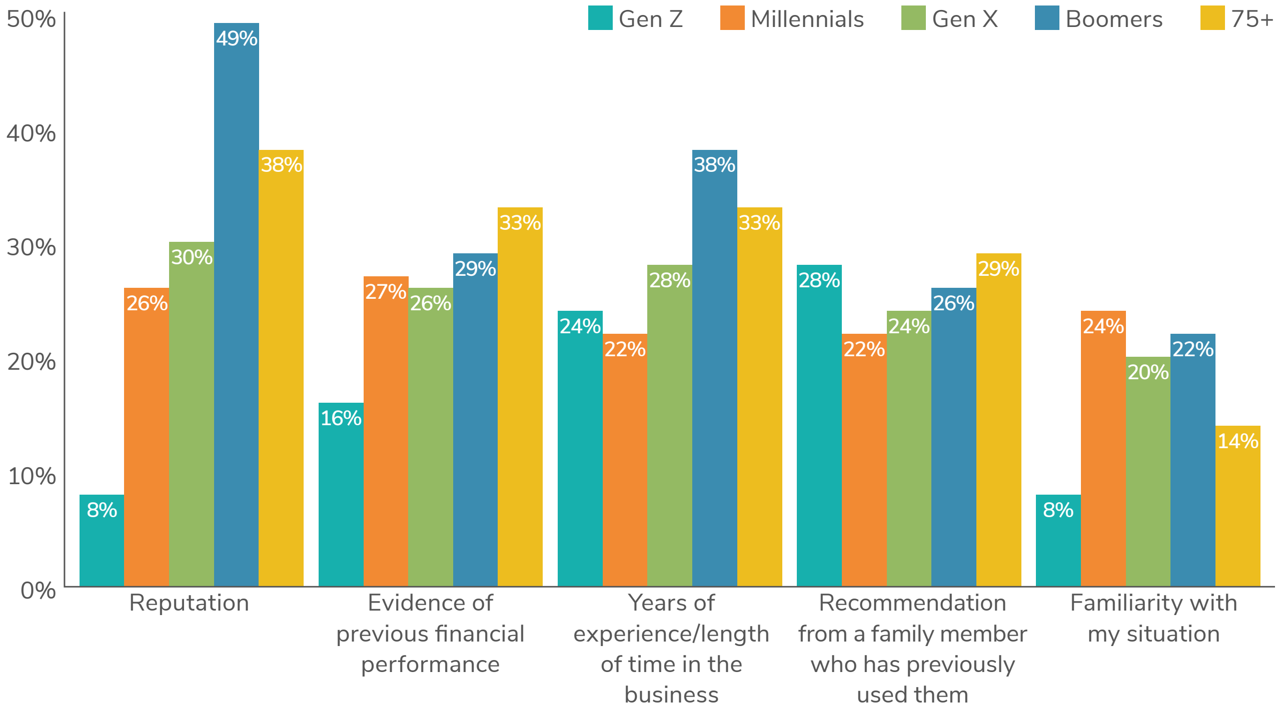
Personal recommendation by a family member. This ranked highly across all generations and averaged fourth highest overall (23%). Seemingly, many advisers are still missing out by not actively asking for recommendations.

The fifth most important selection criterion was Familiarity with my situation (22% overall), indicating a clear opportunity for advisers who can demonstrate that they not just are a trusted family adviser, but have a strong understanding of the family financial context. This scores highly for Millennials (24%), Gen X (20%) and Boomers (22%), while less so for the youngest group (Gen Z) at 8% and the oldest (75+) at 14%.

“Digital capability and accompanying tools represent basic client expectations not differentiators. Firms who lag in the digital space will be viewed as dated. Digitally served investors still value access to the expert financial planning and investment advice advisers provide, but they’re increasingly looking for the ability to dial-up or dial-down their advisory services, depending on their life stage or significant life events.”

Campbell Stanners, Advisory Relationships Director at Bankhall & PMS

On what basis would you be likely to select and be confident in a financial adviser?



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"Advisers must adopt new ways of working. The world has changed and it's not going to return to what it was. Customer expectations are also changing, and Covid-19 has accelerated this. The onus will be on advisers to support in meeting the changing expectations. Future business models will not only need to offer the full flexibility of engagement, they will also need to offer a consistent and valued customer experience. A hybrid mix of human and robo-advice is seen by many as the way forward."

Campbell Stanners, Advisory Relationships Director at Bankhall & PMS

Key to the research was building an understanding of how clients could become better engaged with the financial advice experience, enabling advisers to review and update existing practices. So we asked those who'd already received advice, to detail those areas where you, as an adviser, could most improve the experience for them. In order of areas for improvement...

44% More calculations and projections, be that investment growth, protection or cashflow.

44% Answer any questions I might have, suggesting perhaps the need for increased availability for questions big and small year-round, rather than purely at annual review. And, positively, that your clients are keen to learn more about their situation – as well as the decisions they need to take.

27% Provide me with examples, on income scenarios and what my money could buy in retirement.

27% Use real-life examples, such as case studies and scenario planning to aid understanding.

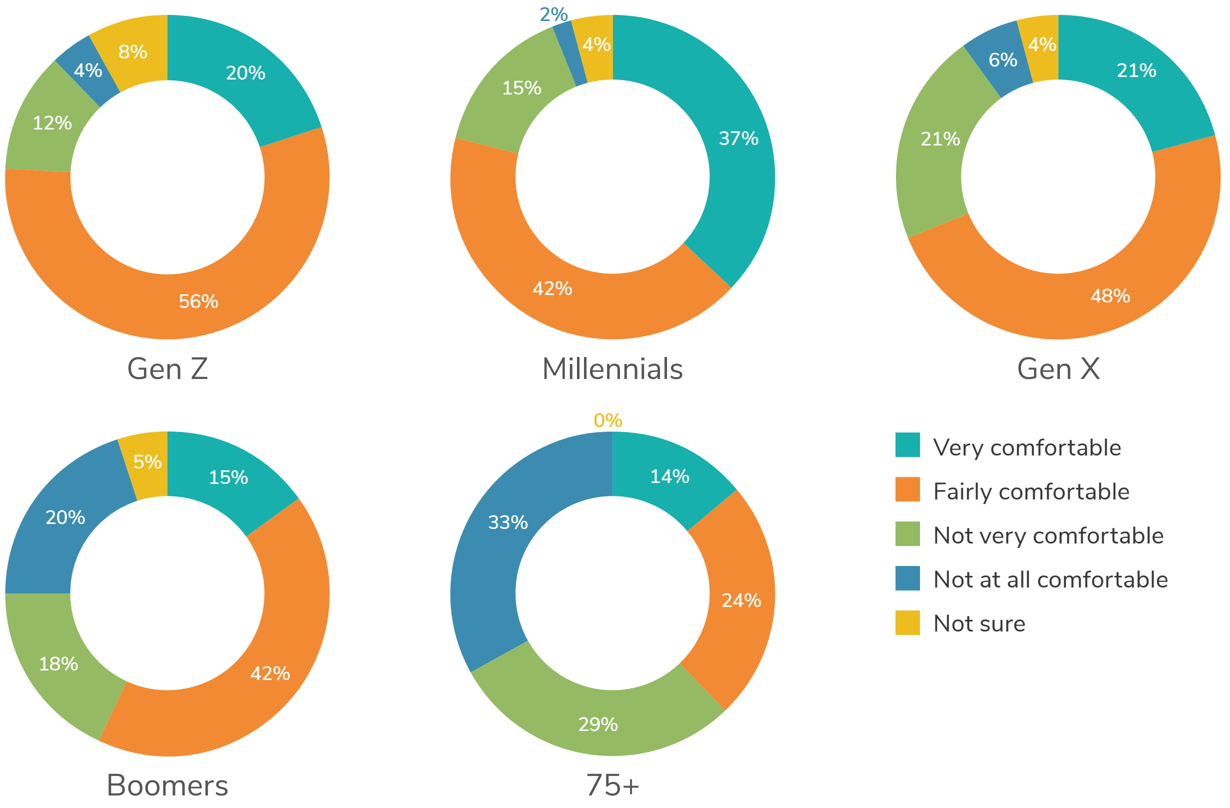
20% Simplify information, both in adviser explanations and in provider and product information.

With online platforms and video calling becoming the norm in everyday life, we also felt it essential to understand how you could best tailor virtual advice and communications to different age groups.

We first asked the five generations how comfortable they were in accessing financial advice remotely (for example video calls, online portals and tools). 57% of Boomers were very or fairly comfortable, rising to 79% and 76% for the Gen Z and Millennials, and 69% for Gen X.

A distinct ‘discomfort’ however, was felt by a sizeable number of the 75+ audience, where just 14% were ‘very comfortable’ and 24% ‘fairly comfortable’. Advisers, such as yourself, will undoubtedly need to find new solutions that enable ready access to platforms and workable financial advice provision for this potential high-net-worth segment.

How comfortable do you feel about accessing financial advice remotely?



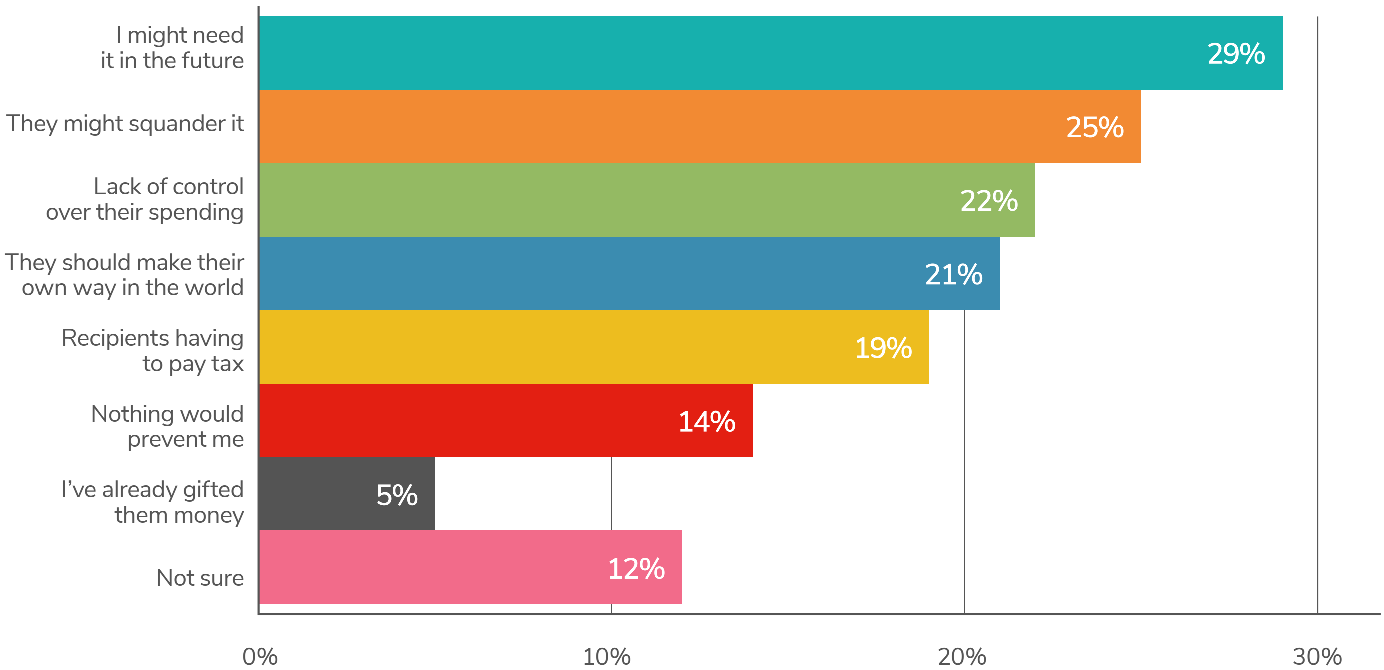
What's stopping clients adopting wealth transfer strategies?

Why do so many families leave in-life wealth transfer so late? We asked our multi-generational audience to give their primary concerns for gifting part of their inheritance early, to enable you to better communicate the human and financial value of this to them.

1. The most common concern was 'I might need it myself in the future', felt by 29% of those interviewed. Understandable, perhaps, given increasing life expectancy and the cost of care.
2. 'Squandering' was second (25%), a concern that generations to come might fritter away the older generation's hard-earned savings.
3. 'Lack of control over their spending'. Echoing 'squandering', in many ways older generations are looking for ways to direct how younger generations put assets to constructive use (22%).
4. 'They should make their own way in the world'. A surprisingly high 1 in 5 people (rising to 29% of grandparents) believes independence is an important life lesson, at least in the early years.
5. 19% of the sample were concerned 'Recipients would need to pay tax' on any in-life gifts, an area you are well placed to advise and educate about.

It's always worth advisers exploring these concerns with their clients and demonstrating how planning could help to reduce their tax liabilities in the long term. While they might be tempted to delay, doing nothing could leave clients worse off.

If you were to gift part of your inheritance early, what concerns might you have?



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Are opportunities for passing wealth to the next generation being squandered?

Education apart, key to more people ensuring hard-earned wealth is passed in line with their wishes to the next generation, is the inclusion of more than one generation in family-wide solutions. Driving increased awareness, understanding and usage of trusts, gifting and personal allowances.

Integration, the research reveals, still has some way to go. On the plus side, families are clearly talking to future generations about inheritance. 18% of everyone spoken to had been told that they will inherit – and had already incorporated this into their own financial plan.

A greater 27% had been told they would inherit, but hadn't as yet made plans to incorporate the impact into their financial plan. For a further 17% the subject hadn't been discussed to date, demonstrating a need for this critical conversation to be re-prioritised within families. A clear opportunity for advisers.

The research also revealed that just 16% have been passed wealth from parents or grandparents for inheritance tax reasons. This compared with far greater numbers gifting smaller day-to-day sums (see page 11), showing that the older generation are missing significant opportunities to help the generations that follow through methodical IHT planning, while also improving their own tax position.

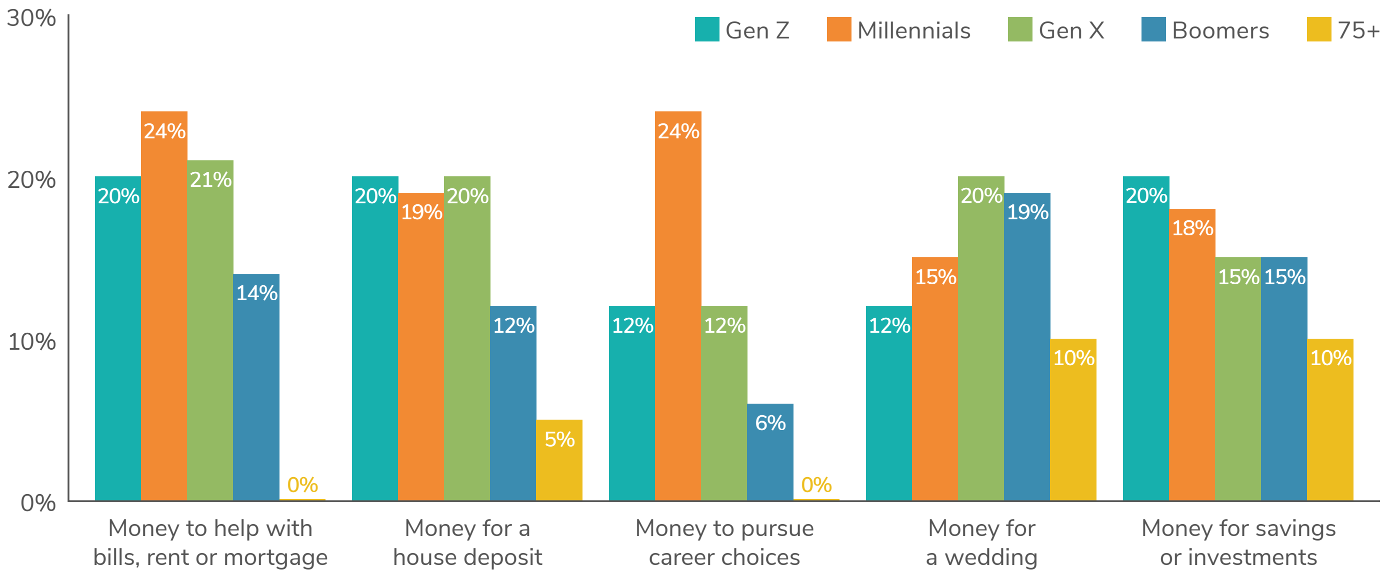
To educate how you can help clients devise improved gifting strategies, we asked our sample to detail for what purpose gifts were being made to the next generation.

Just
16%
across the generations have been passed wealth for inheritance tax reasons

The good news is that gifting, it appears, is being commonly employed, with purpose (and sum size) tailored to the differing requirements of each generation. Asked what financial gifts people had received from their parents, the most common form was money towards bills, rent or mortgage (21%). This was common to all generations bar the older Boomers. 18% had benefited from money towards a deposit, and 17% had received gifts to help their career (internships/qualifications). 16% had received gifts towards school or university costs, this rising to 24% for Gen Z and 20% for Millennials. The area of gifting alone represents a significant opportunity for advisers, adding value by explaining rules, allowances, their potential impact on IHT reduction – and the importance of the order of gifts.

16% of Gen Z, Gen X and Millennials said they had received gifts towards starting up their own business, greater numbers than were gifted money towards a new car (15%). 13% of people said they had been gifted their parents' property.

What financial gifts have you ever received from your parents?



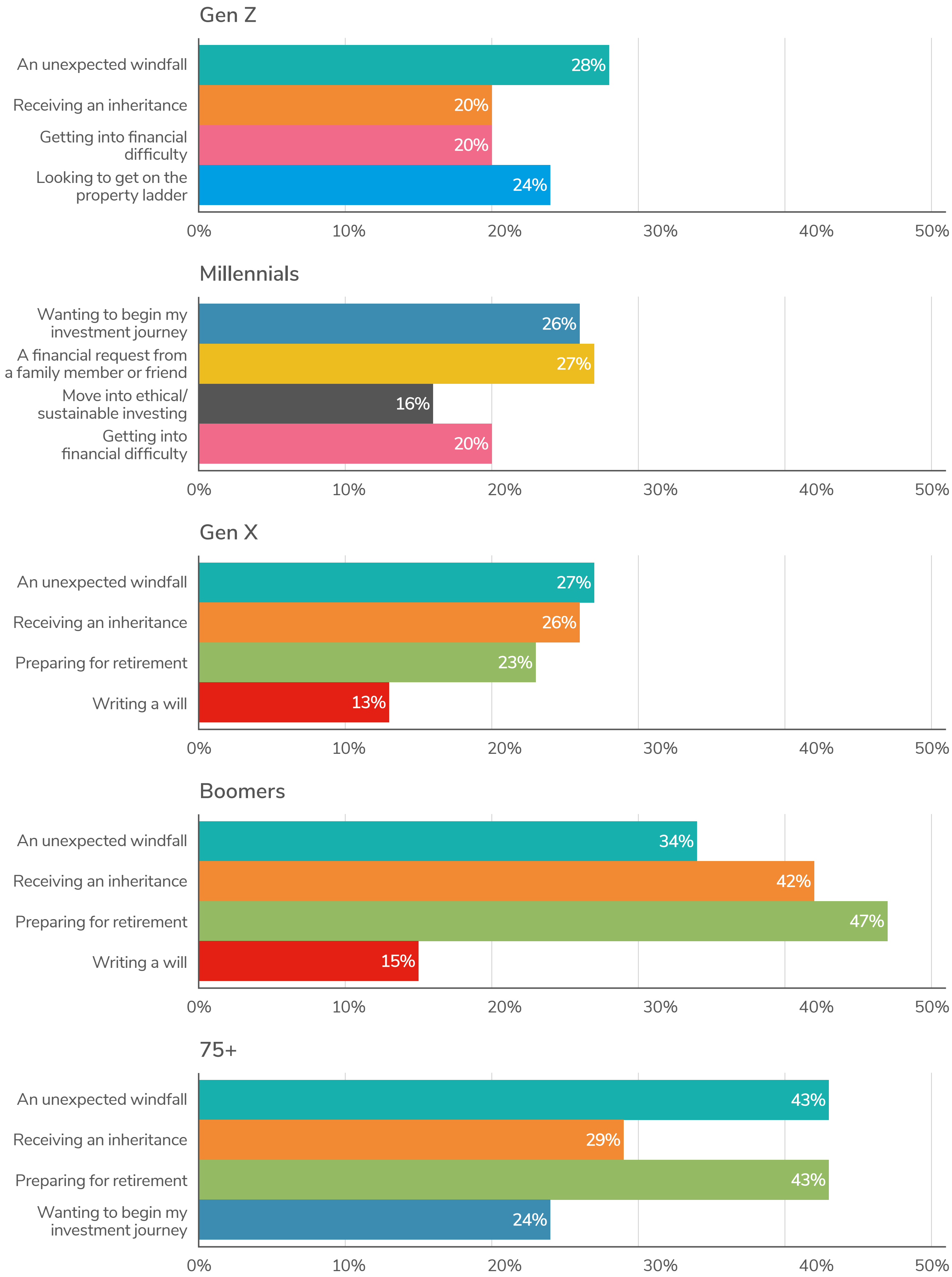
What are the areas individual generations most want advice on today?

While integrating families' financial situations will enable more holistic wealth transfer opportunities, advisers will need to balance these wider needs with individual generation-specific objectives, whether it's saving for a deposit, school fees or planning for retirement.

As a compass for you to deliver increasingly relevant client solutions, our research set out to understand the financial priorities for each generation.

- For Gen Z, the main reasons for seeking advice are 'saving for a home deposit' (24%), 'having got into financial difficulty' (20%) and coming into a windfall (28%) or inheritance (20%).
- For Millennials, this changes significantly. The three primary stepping stones into financial advice being 'a financial request from a family member' (27%), 'wanting to begin my investment journey' (26%) and 'wanting to start investing ethically' (25%). By this age even 'getting on the property ladder' is already less significant than it is for Gen Z (16%).
- For Gen X, planning for retirement becomes one of the top three advice needs (23%), along with the reality of windfalls (27%) and inheritance (26%).
- For Boomers, the spikes for advice are more pronounced, with needs now centred on later life planning and managing an inheritance. The three key priorities being: 'planning for retirement' (47%), 'inheritance' (42%) or 'a windfall' (34%).
- For those over 75, windfall and retirement planning (at 43%) are the two most stated drivers of advice.

What would prompt you to seek advice from a professional financial adviser?



Covid-19 is encouraging the younger generations to seek advice

The research also shows how the pandemic crisis is driving people to seek advice. 53% of those spoken to had either seen an adviser or were planning to, with less than half this number (23%) saying they didn't intend to.

53% said the crisis had prompted them to seek advice from a financial adviser

And it is the youngest generations, Gen Z and Millennials, who are feeling the need to seek financial advice most (58% and 74% respectively), driven by 'getting into financial difficulty' and 'wanting to start their investment journey' (see page 12). Interestingly, while still pronounced, the need decreases slightly with age. With 32% of Gen X, 21% of Boomers and 24% of the 75+ age group saying the crisis specifically had driven them to seek advice. Perhaps because younger generations, who have not necessarily been financially active during a financial crisis, have been made nervous by volatility – or have unspent monies to invest.

Look out for the next chapter of our Prudential Wealth Unlocked report, with more practical and topical insight on the intergenerational landscape, as well as a focus on ESG investing.

Intergenerational planning and Prudential

Prudential has looked after the needs of families for over 170 years. Today, we are able to provide you with a wide range of intergenerational planning solutions, including:

- A specialist intergenerational planning hub providing insight, online tools and calculators, and video content from our technical team.
- The support of both your Account Manager and our technical team to support you on cases.
- A wide range of specialist estate planning and intergenerational planning solutions, including trusts, bonds, OEICs and a pension.

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