With $84 trillion wealth transfer coming, advisers should be licking their chops

Cerulli research shows mountains of wealth will be looking for a home over the next 20 years.

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Thanks to the power of compounding, the coming multigenerational wealth transfer continues to swell as an opportunity for enterprising financial advisers, but how or if advisers will ever capture that mountain of assets as it passes to the next generations remains a subject of constant debate.

According to the latest analysis from Cerulli Associates, a whopping $84.4 trillion worth of assets will be transferred through estates over the next two dozen years. About $12 trillion of that will be donated to charity, but more than $53 trillion will be transferred from households in the Baby Boomer generation, representing 63% of all transfers.

For context on the enormous size of the wealth being transferred as people die, consider that in 2018 Cerulli forecasted a $68 trillion 25-year wealth transfer, and in 2011, that total wealth transfer was a mere $38 trillion.

The growth projections are simple math, according to Cerulli analyst Chayce Horton, who said the money is becoming increasingly concentrated among wealthy families.

By way of perspective, in 2019 the entire global gross domestic product was calculated at $86 trillion, $20.5 trillion of which was represented by the United States economy.

Horton, as an analyst focused on the increasingly concentrated nature of wealth, believes financial advisers often miss the opportunity to capture wealth as it transfers between generations because of a tardy and often too-casual approach to next-generation clients.

“For the wealth management industry, the biggest takeaway is that there needs to be a much greater focus on the children of their clients well before the time when the wealth transfer occurs,” Horton said.

And by children, he’s not referring to people in their 20s and younger.

“In the coming decade, people who are now in their 50s will be receiving more money than anybody else through the wealth transfer,” Horton said. “A lot of the wealth out there that is going to be passed along is right now sitting in retirement accounts and brokerage accounts of people in their late 70s, 80s and 90s.”

As transfers lead to changes in family dynamics as well as engagement preferences, financial services providers across the wealth spectrum must adapt their business models, he said.

“Winners of wallet share will need to be prepared for changes to their business model and open to evolving with the needs of a younger demographic,” Horton said.

According to the Cerulli research, family meetings and regular communication (81%) are considered the most effective wealth transfer planning strategy by high-net-worth practices, followed by educational support (59%) and organized succession planning (31%). To improve relationships across generations, Cerulli recommends making family events a regular part of the advisory process.

“Extending interfamily relationships to involve the entire range of stakeholders rather than just the current controllers of that wealth will create a greater sense of responsibility and inclusion among heirs that will help in the likely case that more complex discussions about management of the family’s wealth occur in the future,” Horton concludes.

The idea of wealth transferring through generations is not new to financial advisers. But as the numbers swell well into the tens of trillions, the general attitude is often that there is more than enough money to go around and focusing on highly concentrated pockets can be exhausting and fruitless.

“It’s a hugely challenging issue and one that I sense that the vast, vast majority of advisers are doing nothing to address,” said Paul Schatz, president of Heritage Capital.

“First, we are in the zone where the most advisers are retiring in history, and second, another group of advisers seem content to just run their books out,” Schatz said. “Finally, there are a few who are proactively trying to work with the next generation. It’s not easy as the younger folks have very different behavioral patterns regarding risk, control and fees. I try to get clients to open taxable or retirement accounts for their kids. That helps, but some have transferred their money to friends and advisers closer to their homes.”

Tim Holsworth, president of AHP Financial Services, said while it might appear perfectly logical to go after the younger relatives of current clients, the results are rarely worth the effort.

“There are a lot of consultants to the financial services industry creating programs to get involved with clients’ next generation and ultimate heirs,” Holsworth said. “In my opinion, most of these programs involve tasks and activities that do not involve creating revenue for the adviser, potentially for many years, if at all.”