Generational Wealth

Transitioning Baby Boomer Wealth to a Next Generation

Over the course of the next decade, until 2030, baby boomers will hit critical age milestones that will result in the acceleration of wealth transition to the next generation. Boomers will experience significant changes in their physical and mental capabilities and encounter increasing healthcare costs and long-term care needs that will move them from wealth accumulation to spending and from investing to selling off assets. In 2030, all boomers will be over 65-years-old, with two-thirds over 70 and more than 40 percent between 75 and 84. Boomers account for 70 percent of current affluent household wealth; the vast majority of what remains in their estate after taxes and other costs to settle the estate will be transferred to the next generation.

During this decade, boomers' advancing age will exacerbate issues regarding decision-making and control within their households. Mental health and competency issues will emerge as a major theme. Studies demonstrate a one percent compounding decline in financial literacy each year after 60 years of age. But a more serious issue is that people do not lose confidence in their ability to manage their finances, even when there is observable significant decline in their capability. Only half of those experiencing significant decline will seek help with their finances.

Families and advisors could face a complex and often uncomfortable set of "change-of-control" scenarios. In many of these scenarios, the wealth and decision-making will be locked into the traditional boomer family hierarchy through times of decline and dependency.

CREATING AN ENVIRONMENT OF TRANSPARENCY

Transparency around wealth, planning, wills, wishes and intentions can be difficult for clients. It does not seem to come naturally to most families. Clients often feel vulnerable discussing their wealth and what they plan to do with it. The "today or someday" question of when to share wealth with children can raise larger issues they are not prepared to address. It often feels better to hold off on those decisions and discussions until later — and for some, until after the primary decision-maker is gone.

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As we look at the life transitions boomers will go through in the next decade, creating an environment of transparency is one of the most critical imperatives for wealthy families. A lack of transparency can cause abiding pain. Sixty-four percent of wealthy individuals surveyed* said they have not talked with family about how they plan to pass on their assets, while only 17 percent said their heirs are well informed about their level of wealth. We have seen families where some children are better informed than others about their eventual inheritance, which adds more emotional energy to an already difficult scenario.

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Because these topics are often uncomfortable to discuss, they can leave families feeling vulnerable. The problem is that the discomfort leads to avoidance, and avoidance can lead to surprise and often disruptive disclosures. More than half of heirs over 50 have said they only learned about their inheritance after the passing of their benefactors.

Many beneficiaries indicate a sense of anxiety and stress as they enter the transitioning wealth process without the tools or team in place to take on the task. Wouldn't the family be better off if there were a period of mentoring and coaching of future benefactors, to delegate small amounts of wealth to manage along the way and allow for mistakes with small pools of investments or assets before handing over a large estate with little or no preparation?

ENGAGING MULTIPLE GENERATIONS

No family is a monolith. Families are communities of socially diverse generations with different experiences, values, views, risk profiles and wealth circumstances. Each generation is at a different life-stage and different stage of wealth accumulation (Gen Xers currently own just 16 percent of household wealth; millennials only 3 percent). They also have different views on technology, different investment profiles and different values and socially diverse experiences.

In an interesting way, the boomer generation, with its economic and social dominance, is the lynch pin and entry point for engaging multiple generations of family members to consider the future. One barrier to engagement is to fixate on the needs of boomer decision-makers and see them and their transition needs as the sole issue. Many advisors then relegate the other generations to other segments and set up other advisors to serve other family members, each with a different business model. This strategy, combined with a lack of vision for creating a future multi-generational value proposition, often keeps advisors and advisory businesses from taking a more collaborative approach to the family wealth system.

Health is a front-of-mind aging reality, and with this reality comes serious concerns. Paying for health care is the number one financial concern of all investors. Then there is the long-term care concern. The boomer generation could produce a 50 percent increase in the number of people requiring nursing home care in the 2020s alone. But perhaps the largest looming overall fear — much more than just a concern—is that of mental health. One in 10 people over 65 and one in three over

85 will be touched by dementia, fueling family and financial risk concerns around competency and care issues. This further reinforces the need to have transition planning in place.

On the one hand, avoidance is understandable. End-of-life conversations are emotional. And talking about diminishing capacity can be even harder. On the other hand, we are talking about the aging of a generation still in the economic and decision-making driver's seat. How can we afford to ignore the acceleration of these aging realities as a group, especially when we know that a boomer investor's sense of confidence in their financial literacy does not wane even in the face of diminished capacity?

So much family and emotional engagement is focused on key life moments or life events. We tend to frame time — both looking backward and forward — by the personal and family life events we experience. As we age, those moments and events seem even more special and meaningful to us. During the coming decade, boomers and their families will traverse new and significant life moments together. Many of their planning goals will be realized and others set as they move through this next stage of life.

As an advisory firm tied to a large accounting and consulting firm, we at HBKS® have always approached our business through the lens of the family relationship. We believe it is our role to help families transition wealth, to work with their estate planning attorney, CPA, other advisors and family members. That role will become increasingly important during the next two decades as baby boomers move into their 70s and 80s.

* Survey data is derived from the Fidelity Center for Family Engagement.

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