



Opportunities in Wealth Transfer Planning

Guiding mature, affluent clients through successful wealth transfer and solidifying client relationships across generations.

WEALTH TRANSFER PLANNING AND ADVISING

FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR USE WITH THE PUBLIC.

Background	Methodology	Key Objectives
<p>The MassMutual Trust Company, FSB, the Private Client Services subsidiary of Massachusetts Mutual Life Insurance Company (MassMutual), commissioned a third-party research firm (GDC Research) to conduct this study to better understand the challenges and opportunities that financial advisors face in helping mature, affluent clients transfer wealth to heirs and beneficiaries.</p>	<p>The research combines primary independent study, supplemental secondary research, and GDC's proprietary research and insights. GDC conducted in-depth interviews with a diverse range of financial advisors to understand the planning and advising approaches used with clients in different age brackets, with a focus on more mature clients who desire seamless and efficient wealth transfer.</p> <p>The study also incorporates perspectives from industry experts in financial planning and trust services.</p> <div data-bbox="618 827 1045 989" style="border: 1px solid #4a5568; border-radius: 15px; padding: 10px; margin-top: 10px;"> <p>Insights from the advisors interviewed for this research are included in quote bubbles throughout this paper.</p> </div>	<p>Understand trends driving the need for innovation in financial services.</p> <p>Explore the expressed and unexpressed needs of mature, affluent clients.</p> <p>Assess the extent to which financial advisors actively address wealth transfer needs.</p> <p>Gain insights on delivering best practice wealth transfer and generational planning services.</p> <p>Outline effective ways to incorporate children and centers of influence, e.g., attorneys and accountants, into the wealth transfer planning process.</p>



GDC Research

GDC Research, an independent consulting and research firm, conducted advisor interviews and directed the study. GDC is not affiliated with MassMutual or MassMutual Trust Company.

MassMutual Trust Company FSB
MassMutual Trust Company, FSB sponsored the study.

Key Findings

- Significant disruptive trends continue to transform the financial services marketplace.
- Mature, affluent clients (defined as those who are approaching pre-retirement and have accumulated wealth) are thinking about how to transfer their assets to the next generation.
- Financial advisors have historically performed well in meeting the investment and insurance needs of clients in the earlier stages of their lives. Financial advisors are less effective in knowing how best to meet the more complex needs of mature affluent clients beginning at pre-retirement and spanning through the sunset years.
- Advisors have not developed sustainable relationships with clients' spouses and children, thus putting assets at risk when clients die.
- To capture additional assets, retain clients and grow their practices, advisors must incorporate wealth transfer implementation strategies and generational advising into their offering.
- The risks of failing to adopt a wealth transfer and multi-generational advising model are significant, as are the opportunities in adopting such a model.

Baby Boomers' Evolving Needs



The 111 million baby boomers born between the years 1946 and 1964 have tremendous influence on innovations. Their habits, preferences and needs have transformed and fueled growth of the financial services industry for the past 30 years. Boomers looked to financial advisors for help accumulating and protecting wealth and planning for retirement. With those milestones in the rear view mirror, however, their concerns have shifted. Boomers now seek advice on how to successfully preserve and transfer wealth to the next generation and the causes they care about.

Baby boomers' evolving needs have given rise to a demand for asset protection and preservation as well as wealth transfer strategies, thus creating the need for a new planning and advisory discipline known as **Wealth Transfer Planning and Advising**. Keys to success in serving this market are knowing when a client enters the **Wealth Transfer Zone** (refer to page 4) and following a tailored discovery process to assess the issues and sentiments around wealth transfer.

Once the issues are fully understood, the advisor can adequately design and execute a plan to consolidate, protect, preserve and effectively transfer wealth. Trusting relationships between the advisor and their clients as well as with spouses, heirs, and centers of influence (e.g., attorneys and accountants) are necessary to ensure that the transfer of wealth serves its intended purposes. These relationships are important to help ensure that heirs are prepared to steward inherited wealth and to solidify a trusting advisory relationship with future generations.

Megatrends Driving Change

Several megatrends tell a linear story about the changing needs of mature, affluent clients.

Baby boomers, particularly those who are affluent, are now contemplating the purpose their money should serve once they pass on.

- Baby boomers and older Americans now own 63% of U.S. financial assets.¹
- Baby boomers will pass on \$59 trillion over the next 45+ years.²
- Millennials will inherit most of their baby boomer parents' wealth. Nearly \$39 trillion will be passed from baby boomers to their millennial heirs.³

Few baby boomers have taken steps to plan for and to ensure that their wealth goes to the people and causes that mean the most to them.

- More than 60% of Americans don't have a written will.³
- The vast majority of Americans who could benefit from more formal estate plans and trusts do not have them in place.
- Of those Americans who are over the age of 65 and have a will, one in six is outdated.³

The modern family structures of today are very different than those of 10, 20, and 30 years ago. Such varied family structures make wealth transfer more complex.

- One out of two marriages end in divorce, but 75% of divorcees remarry.⁴
- 41% of first marriages and a much larger percentage of second and third marriages end in divorce.⁵
- 1,300 new step-families are formed every day.⁶
- Most parents in traditional family structures know how they will pass on their wealth, but over two-thirds (67%) of people in modern family structures feel unsure.⁵
- 71% of people believe financial guidance solutions are geared more toward the traditional family structure versus the modern family structures that exist today.⁷

Clients have more information, choice and transparency than ever before. As a result, client retention by advisors has suffered.

- Over half of widows fire their advisor upon their husband's death.⁷
- Two out of three children fire their parents' advisor upon receiving their inheritance.⁷

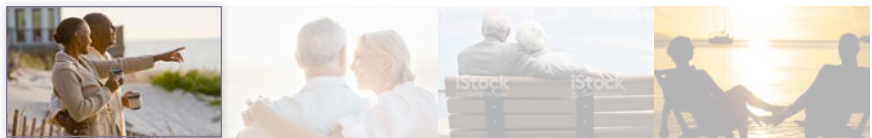
The Wealth Transfer Zone Emerges

“The discovery process leads to a solid understanding of the financial underpinnings and family dynamics that will drive the wealth transfer strategy.”

Financial advisors have historically performed well in meeting the investment and insurance needs of clients in the earlier stages of their lives. Financial advisors are less effective in knowing how best to meet the more complex needs of mature affluent clients beginning at pre-retirement and spanning through the sunset years – a period of time that we define as the **Wealth Transfer Zone**.

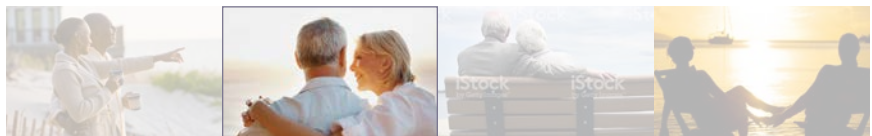
One reason for the shortfall is a lack of attention to events that could trigger wealth transfer planning considerations. Traditional financial planning categorizes stages in a person’s financial life; in each of these phases, the emphasis has been on accumulating and managing wealth. When planning for the eventual transfer of wealth becomes a focal point, the considerations differ from wealth accumulation and management.

Wealth Transfer Zone Considerations



Pre-Retirement

- Vision of lifestyle in retirement, income strategies and second careers
- Family dynamics and their potential impact
- Comprehensive estate plan
- Succession planning for a business
- Residence in retirement and the plan for additional real estate purchases
- Health care and long-term care expense risks
- Financially dependent loved ones
- Charitable involvement and philanthropic goals



Retirement

- Lifestyle, health care and legacy planning
- Impact of encore careers or business ventures on both financial and wealth transfer plans
- Non-divisible property, such as art and collectibles
- Evolution of a family and its impact on an estate plan

"I talk with my clients about everyone they love, including parents, children and grandchildren. My goal is to help my client articulate the level of financial support he or she wants to provide both in life and beyond."



Post Retirement

- Retirement realities vs. retirement planning
- Legacy and transfer of wealth and control
- Wealth transfer final planning
- Gifting strategy execution
- Plan review with heirs and centers of influence
- Roles and responsibilities discussion with estate administrators



Sunset

- Caregiving issues as mental and physical health declines
- End-of-life treatment plans
- Engagement with spouses, heirs and centers of influence
- Coordination of wealth transfer activities with centers of influence
- Estate settlement and transfer of wealth to heirs
- Inheritance guidance for heirs

Wealth Transfer Life Milestones and Events

Client discovery around the subject of wealth transfer is critical in understanding client needs and wishes, both expressed and unexpressed. During the discovery process, clients may disclose certain life milestones that could have enormous wealth transfer implications. These wealth transfer triggers should serve as a signal to advisors that potential plan modifications may be necessary.

- Remarriage
- Death of the client or spouse
- Adult children remaining financially dependent
- Marriage or divorce of heirs
- Sale of business
- Purchase of second home
- Divorce
- Caregiving for elderly relatives
- Retirement
- Grandchildren
- Chronic illness in the family
- Inheritance
- Blended families
- Child with a disability or special needs
- College planning for heirs
- Family member with a substance abuse problem

Taking an Inclusive Approach

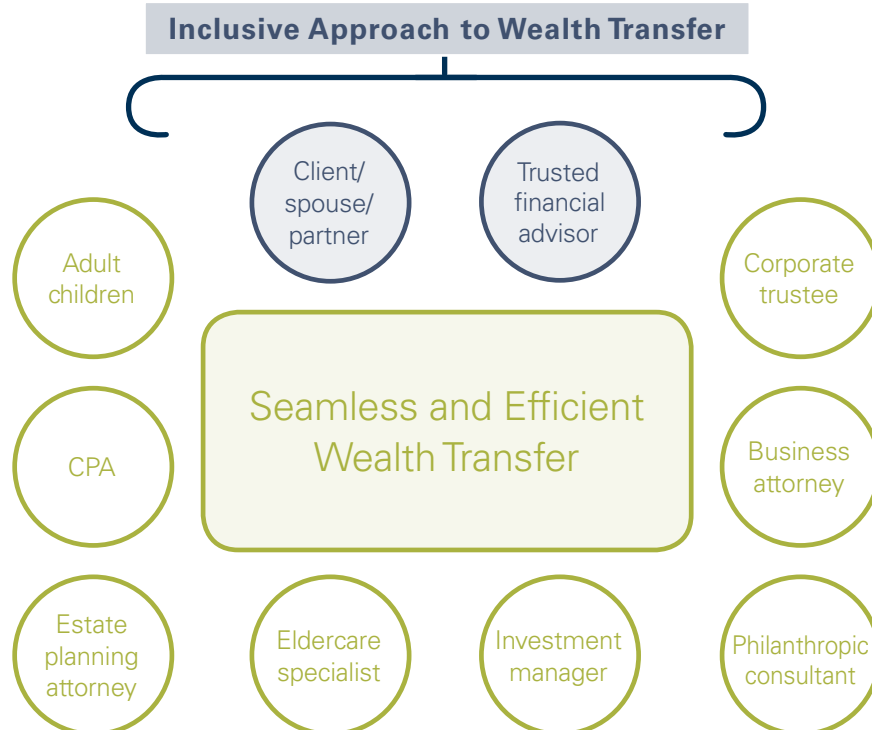
“Most advisors are not willing to put in the time to figure out how to navigate through the process of involving the various parties as wealth transfer plans are formalized.”

“We help clients understand the requirements of estate administration so they pick the people best suited to fulfill certain obligations.”

Heirs play a paramount role in shaping parents’ decisions, communicating those decisions, implementing the plan and ensuring a smooth transition of wealth – but the heirs can also be a distraction. This study reveals that advisors have not engaged the next generation in the process. In fact, almost one-third of advisors claim a lack of relationship as a top reason for not retaining heirs.⁸

By ignoring the role heirs play in the wealth transfer process, advisors have put their ability to retain assets at risk. In addition, they have lost a tremendous opportunity to cultivate new client relationships. Meeting with the children – in person and virtually – creates goodwill with existing clients and serves as an entry point for relationships with the next generation. Networking or employing younger advisors and understanding generational attributes also help to build rapport with the clients’ younger heirs/beneficiaries.

Another key constituency to engage throughout the process is the clients’ trusted centers of influence such as estate attorneys and accountants. Coordination of efforts and collaboration is a key ingredient to the smooth transfer of wealth, and the advisor who brings everyone together establishes him or herself as a trusted resource and chief facilitator and implementer of the wealth transfer.

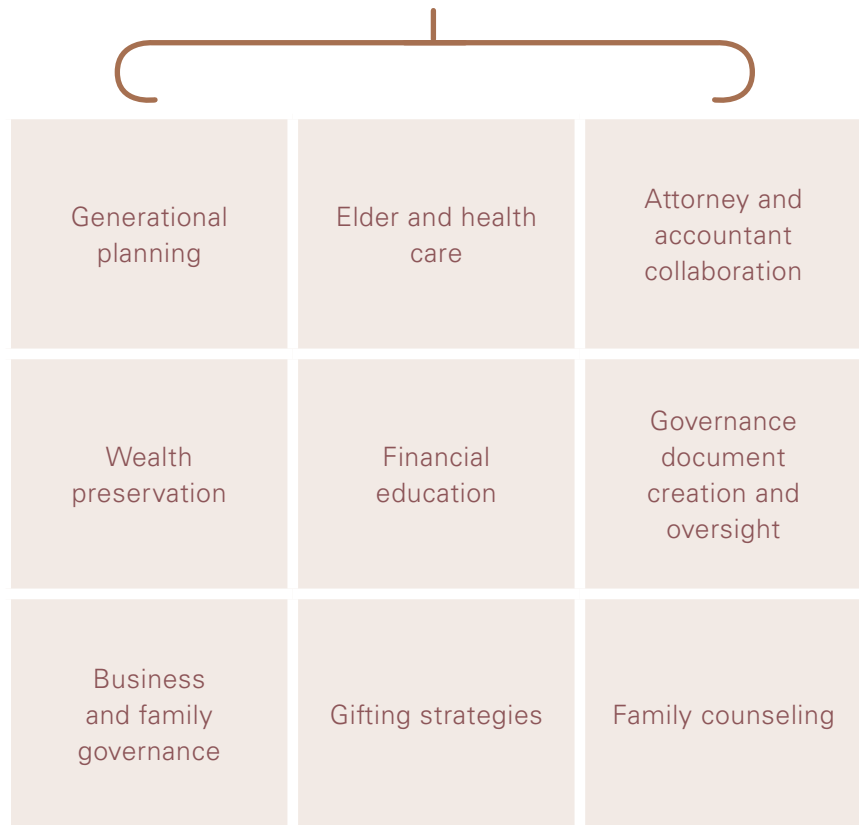


This diagram is adapted from the book *The Right Side of the Table* and used with permission from The Legacy Companies, LLC.

Addressing a Broad Spectrum of Needs

“The failure to create a wealth transfer plan is like tossing an emotional grenade at a family picnic when you aren’t going to be around when it detonates.”

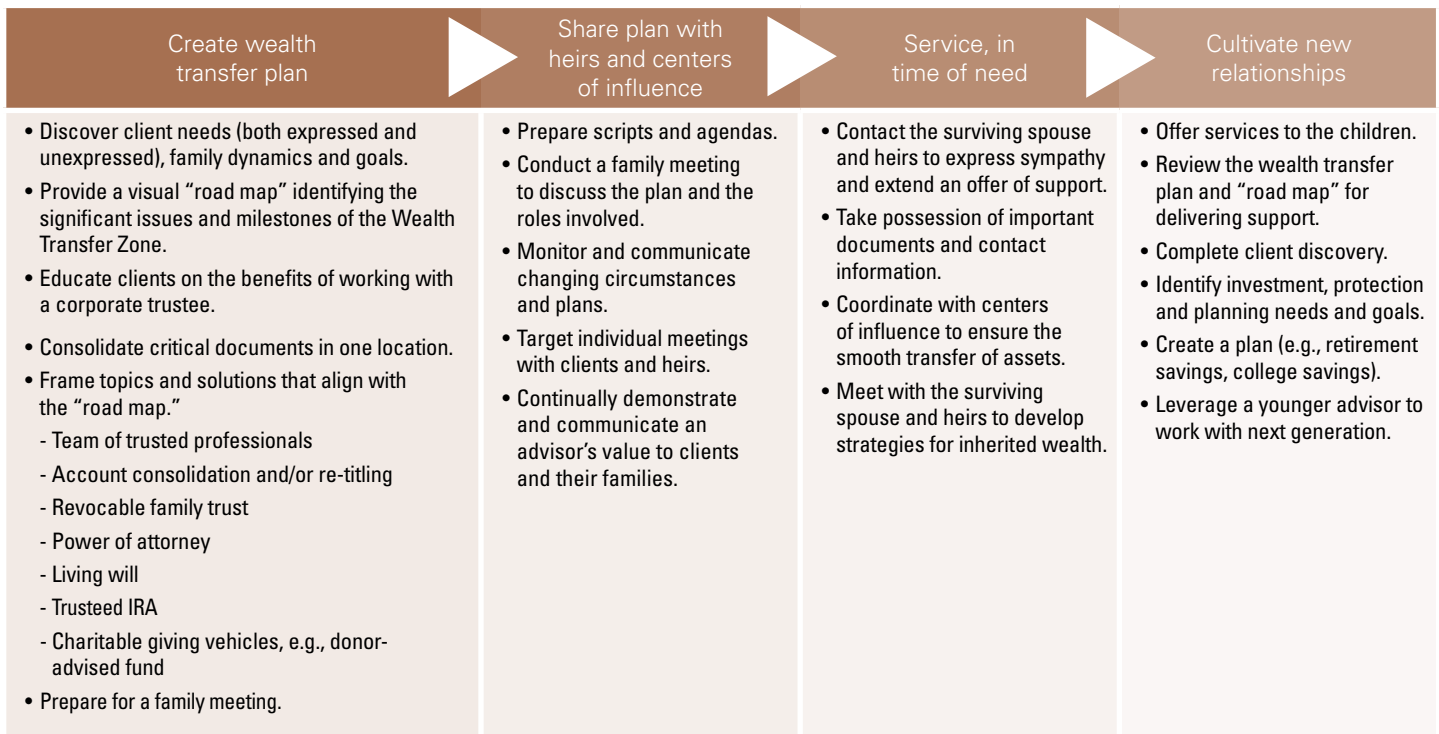
Wealth Transfer Planning and Advising is a multi-disciplinary approach to the complex issues surrounding wealth transfer.



“If we don’t make clients’ children a priority in the wealth transfer process, we are going to lose both today’s clients and tomorrow’s.”

To help clients consolidate, preserve and successfully transfer wealth, advisors need a planning process that supports clients and other stakeholders. This four-step approach engages the family and demonstrates the advisor value in implementing and executing the **Wealth Transfer Planning and Advising** plan. When successfully implemented, advisors are in a better position to retain client assets and engage heirs as clients.

Delivering Effective Wealth Transfer Strategies (a Four-Step Process)



Opportunities for Advisors

By providing Wealth Transfer Planning and Advising services, advisors enjoy many benefits, including meeting clients' expressed and unexpressed needs.

Consolidate Client Wealth

Once the client trusts you enough to share their full wealth picture and all the family dynamics that shape their plan, you will be well positioned to make recommendations on held-away assets and holdings.

Differentiated Service Capabilities

Wealth Transfer Planning and Advising Services give advisors something to offer their mature, affluent clients that will resonate as a valued and much-needed service. Relatively few advisors offer wealth transfer and advising services. Advisors who address these unmet needs will be at a competitive advantage.

Increased Influence

Most clients involve attorneys and accountants in the estate planning process. These professionals don't provide comprehensive services or frequent, ongoing advice. The financial advisor is best positioned to lead the other professionals in a collaborative process.

New Assets and Clients

Many adult children will be in their prime earning years upon their parents' passing. By building rapport with the children and seeking them out as clients, advisors will increase the likelihood of retaining those individuals as clients once the wealth passes.

Growth in Clients and Assets

Most advisors fail to retain assets once their clients pass away. With a Wealth Transfer and Advising Model, advisors build loyalty with clients and their families and increase the likelihood of retaining both clients and assets.

The biggest question for advisors should not be whether to provide Wealth Transfer Planning and Advising services, but how best to incorporate the skills and the process discipline into their practices. Advisors who choose not to incorporate these services into their practices risk a decrease in client and asset retention and may find the sustainability of their practice threatened as the next generation takes control of wealth.

References

1. AARP, MRI, Spring 2014.
2. Boston College Center on Wealth and Philanthropy "Wealth Transfer and Potential for Philanthropy"
3. "A Golden Age of Philanthropy Still Beckons," Boston College Center of Wealth and Philanthropy. National Wealth Transfer and Potential for Philanthropy Technical Report, 2014.
4. USLegalWills.com survey was conducted by Google Consumer Surveys, 2016.
5. The Step Family Foundation and US Bureau of Census Data.
6. Widows and Divorcees Spectrum Group and US Census Data, 2015.
7. UBS Investor Watch, 2015 "Beyond the Picket Fence, Financial Challenges of the Modern American Family"
8. Liz Skinner, "The great wealth transfer is coming, putting advisers at risk," *InvestmentNews*, July 13, 2015.

The information provided is not written or intended as specific tax or legal advice. MassMutual Trust Company, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

The MassMutual Trust Company, FSB is a federal savings bank and a wholly owned subsidiary of Massachusetts Mutual Life Insurance Company.