INVESTMENTS & WEALTH RESEARCH

FOCUS RESEARCH SERIES

ISSUE 1
2019

SHIFTING DEMOGRAPHICS

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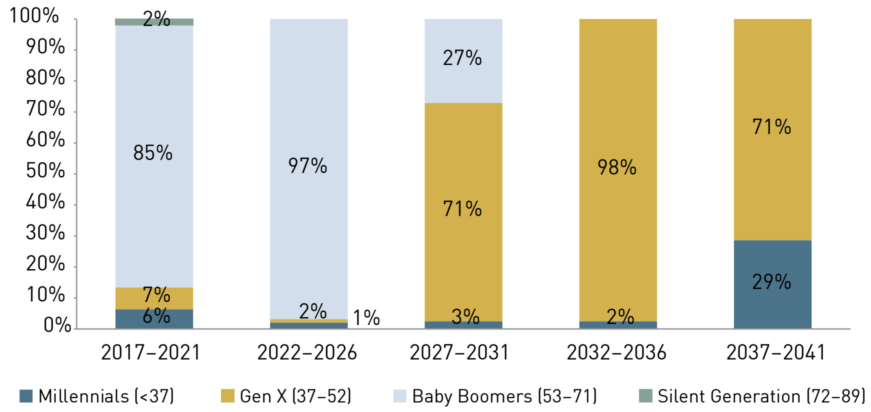
In this edition of *Investments & Wealth Research*, Cerulli Associates explores the changing demographics of both the advisor and investor landscapes. Over the next 25 years, Cerulli Associates estimates that approximately $60 trillion will transfer from households to their heirs. Simultaneously, during the next decade, Cerulli Associates estimates that nearly 40 percent of the advisor force will transition out of the industry into retirement. Examining some of the trends accompanying this changing of the guard can provide helpful insights to advisors, both for those planning for the long-term growth of their practices as well as those beginning to consider how to maximize their practices' value as they consider succession options.

FIGURE 1

ESTIMATED PERCENT OF WEALTH INHERITED DURING NEXT 25 YEARS BY GENERATION, 2017–2041E

FIGURE 1 HIGHLIGHTS: Beginning in 2027, Cerulli Associates expects Generation X households to become the primary recipients of inherited wealth.

KEY IMPLICATIONS: In the coming decade, Cerulli Associates expects a majority of the wealth that is passed on to direct heirs to go to baby boomer households. Baby boomers will continue to accumulate their own assets while receiving wealth passed down from older generations, so serving baby boomers will remain a topic of importance for financial advisors and asset managers.



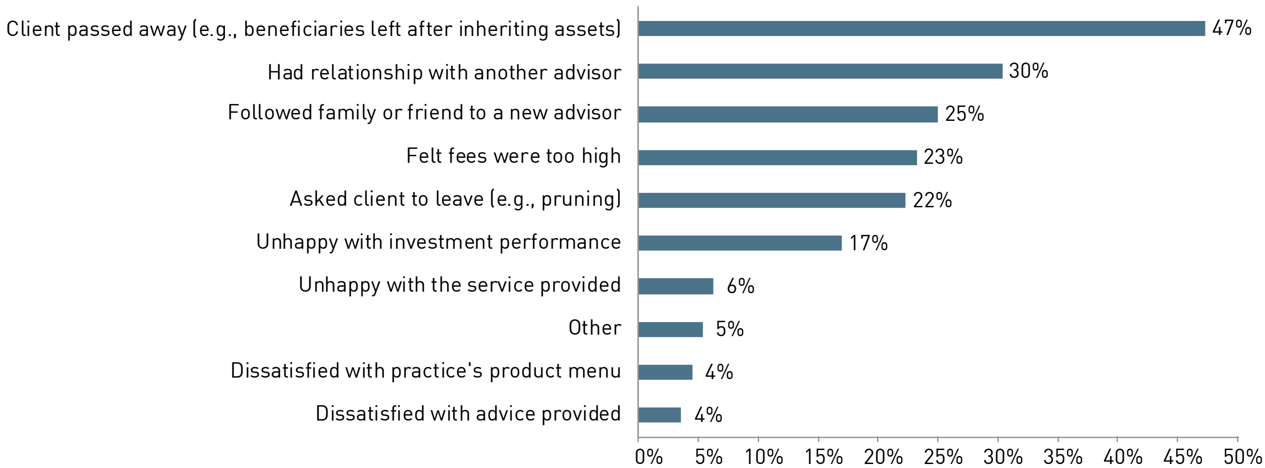
Analyst Note: Ages as of 2018.

Sources: Cerulli Associates, Federal Reserve, U.S. Census Bureau, Internal Revenue Service, Bureau of Labor Statistics, and Social Security Administration

In the next 10–25 years, however, Gen X will have earned itself into the position of being the wealthiest generation in the United States, and Gen X also will be the prime target for receiving the valuable estates of their parents and grandparents. Establishing relationships with this generation, which is now in its peak earning years, is essential for practices positioning themselves for the future.

FIGURE 2

HIGH-NET-WORTH PRACTICES: TOP REASONS WHY INVESTORS LEAVE PRACTICES, 2018



Analyst Note: Respondents were allowed to select more than one choice.

Source: Cerulli Associates

FIGURE 2 HIGHLIGHTS: Almost half of high-net-worth (HNW) practices cite beneficiaries choosing to depart after inheriting assets as a top reason that investors leave their practices.

KEY IMPLICATIONS: Engaging and retaining current clients' heirs poses perhaps the greatest challenge in the next decade, as younger investors continue to distance themselves from their parents' advisors in response to ineffective or sometimes completely absent attempts at communication. Additionally, although a spouse may not technically be considered an heir, a spouse is more likely to be the primary recipient of the estate following the partner's passing.

The event of a client passing away can have tremendous repercussions for advisors, compounding the emotional impact of losing a potentially long-time relationship. Across all practices, advisors reported departing beneficiaries accounting for 16 percent of asset outflows.*

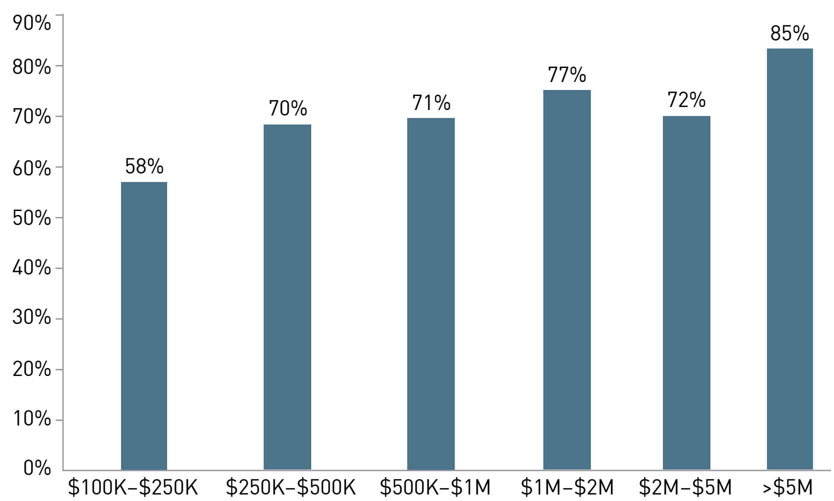
**Data point is not shown in figure 2.*

FIGURE 3

ADVISOR WALLET SHARE OF HOUSEHOLD BY INVESTABLE ASSETS, 2Q 2018

FIGURE 3 HIGHLIGHTS: Overall, 70 percent of respondents indicate holding a majority of their investable assets with their primary advice provider.

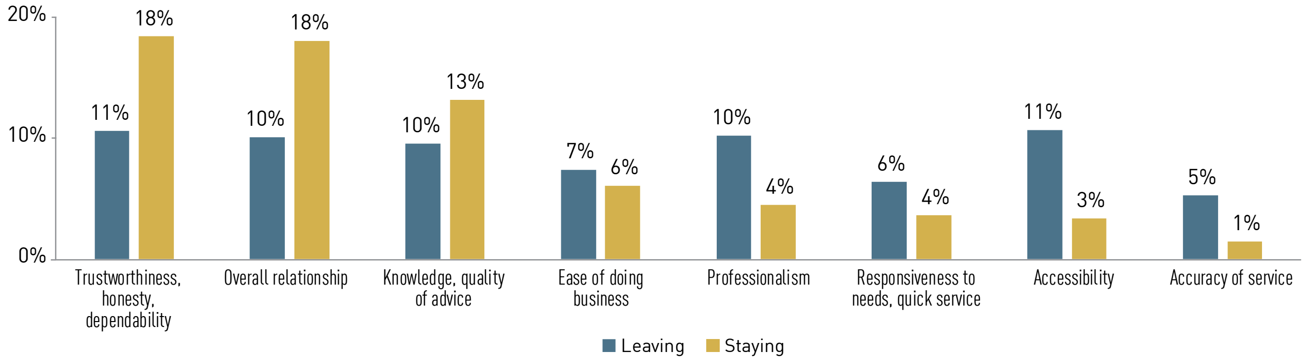
KEY IMPLICATIONS: Entrusting assets to a single provider pits the benefits of holistic advice versus investors' own ideas of risk reduction. Advisors focus on potential outcomes associated with comprehensive planning for all of a household's assets, but investors remain widely reluctant to embrace single-provider solutions. Just 23 percent of investors report placing 90 percent or more of their assets with a single advisor. Although sometimes challenging, having conversations with clients about their held-away assets and incorporating them into dynamic financial plans can help strengthen the advisor-client relationship.



Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 4

INVESTORS: TOP REASONS FOR SATISFACTION LEVEL WITH PRIMARY ADVISOR, 2018



Analyst Note: Staying investors strongly disagree or disagree that they will change providers in the next 12 months. Leaving investors strongly agree or agree that they will change providers.

Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 4 HIGHLIGHTS: Investors who planned on staying with their advisors emphasized advisor trustworthiness and their overall relationship as the primary drivers of satisfaction.

KEY IMPLICATIONS: In 2018, investors reported near-record levels of satisfaction with their current advisors. Fewer than 10 percent of investors reported planning to switch advisors over the course of the next 12 months.* For investors who planned to change advisors, there was no one common factor that affected satisfaction levels. The difference in loyalty ultimately was determined by the quality of the relationship advisors build with their clients and, subsequently, their future inheritors. This will become increasingly important as uncertainty has returned to the markets.

**Datapoint is not shown in figure 4.*

TABLE 1

ADVISORS: BENEFITS OF TEAMING, 2018

TABLE 1 HIGHLIGHTS: Improving the client experience (73 percent) and having backup client support (67 percent) are top drivers for teaming.

KEY IMPLICATIONS: Advisors are increasingly forming teams to facilitate offering a wider range of financial planning services as well as other softer touches focused on improving the client experience. The adoption of team-based practices correlates highly with both assets under management (AUM) and the breadth of services offered to clients. Fewer than one-third of practices with $100 million to $250 million in AUM operate as solo practices and this decreases as practice AUM increases.* A growing number of broker–dealers (B/Ds) are providing resources to help advisors embed rookie advisors within their practices to improve rookie training and retention, and to help practices expand their capabilities and create potential succession opportunities.

**Datapoint is not shown in table 1.*

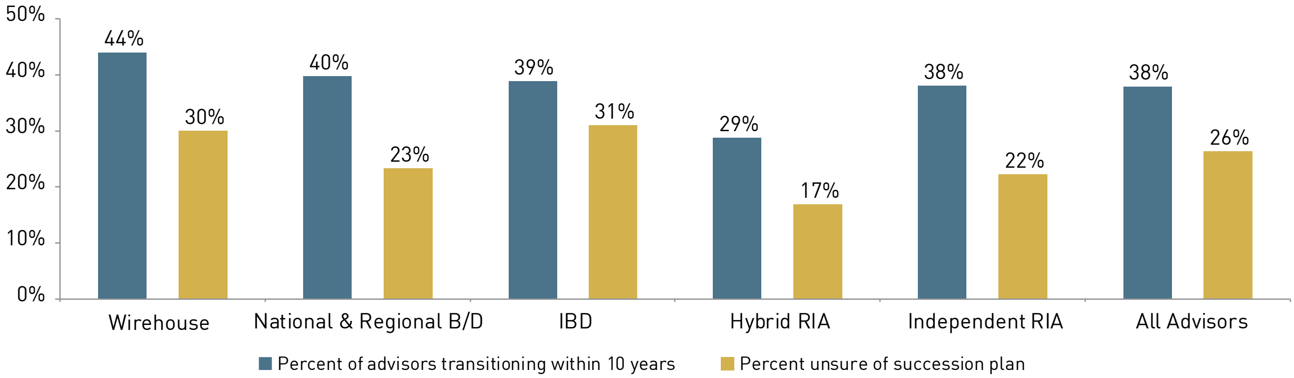
Benefit	All Advisors
Improve client experience	73%
Provide backup for client support	67%
Plan for succession	61%
Increase economies of scale	56%
Provide more services	53%
Specialize based on areas of expertise	47%
Serve more clients	45%
Attract affluent clients	40%
Attract quality staff	31%
Share expenses	25%
Achieve higher payout rate from B/D	17%

Analyst Note: Solo practices include advisors who operate independently with no other senior advisors. Peer teams include partnerships with two or more senior advisors operating with shared decision-making authority. Hierarchy teams with multiple leaders have multiple layers of advisors operating in senior leadership, senior advisor, and possibly junior advisor roles. Hierarchy teams with a single leader have multiple layers of advisors operating under the leadership of a single principal or owner advisor. Firms with specialized staff have at least one designated financial planning, investment research, marketing, or compliance role.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute (formerly IMCA) and Financial Planning Association®

FIGURE 5

ASSETS IN TRANSITION, 2017



Analyst Note: Advisors were asked in Cerulli Associates' annual survey of retail financial advisors the number of years until they expect to retire. The assets in transition model segments advisors based on the number of years indicated. In some instances, advisors may retire unexpectedly at an earlier age. In other instances, advisors may estimate 10 years, but they may decide to extend that timeframe at a later point.

Sources: Cerulli Associates, Meridian IQ, Investment Company Institute, Insured Retirement Institute, VARDS, Strategic Insight/SIMFUND, InvestmentNews*, Judy Diamond, Department of Labor, PLANSPONSOR, S&P Capital IQ MMD,* Financial Planning*,* Financial Advisor Magazine*,* Investment Advisor Magazine*, and Cerulli Associates, in partnership with Investments & Wealth Institute (formerly IMCA), WealthManagement.com, and Financial Planning Association*

FIGURE 5 HIGHLIGHTS: Across all channels, 38 percent of advisors are expected to transition out of the industry in the next decade. This jumps to 44 percent for the wirehouse channel.

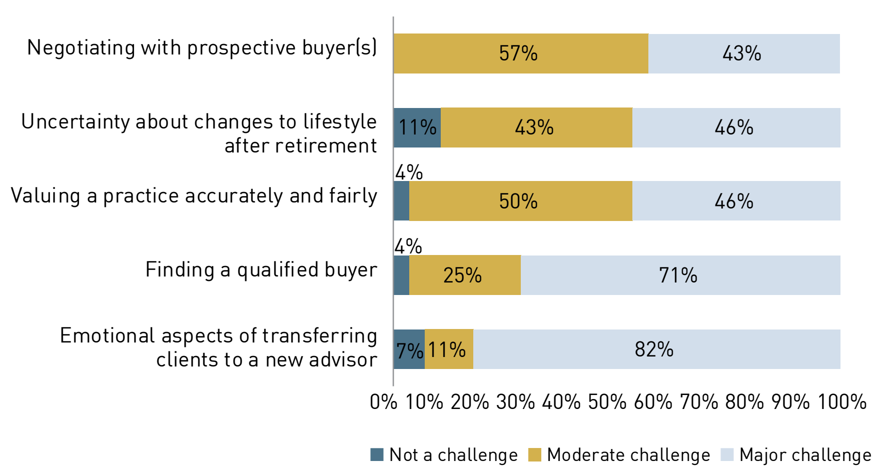
KEY IMPLICATIONS: Stated retirement plans can be somewhat aspirational, and older, more-tenured advisors are more likely to have established meaningful practices. However, more than one-quarter (26 percent) of advisors who expect to transition in the next decade remain unsure of their succession plans. For advisors interested in acquisitions or forming partnerships, this segment of practices can present a mutually beneficial opportunity. Cerulli Associates also expects that many advisors at smaller broker–dealers who may have planned to retire in the next two to three years may consider slightly extending their retirement dates given that the Department of Labor Conflict of Interest Rule has been vacated.

FIGURE 6

PRACTICE MANAGEMENT PROFESSIONALS: TOP SUCCESSION PREPARATION CHALLENGES, 2018

FIGURE 6 HIGHLIGHTS: Practice management professionals cite the emotional aspect of transferring clients (82 percent) and finding qualified buyers (71 percent) as the most commonly encountered major challenges in succession plan preparation.

KEY IMPLICATIONS: Addressing the emotional challenges of client transition underscores the reality that financial advice is a relationship business at its core. Advisors accumulate and assist clients over the course of decades to help them meet their financial goals, developing trusted relationships along the way. Unfortunately, clients' need for advice does not disappear once



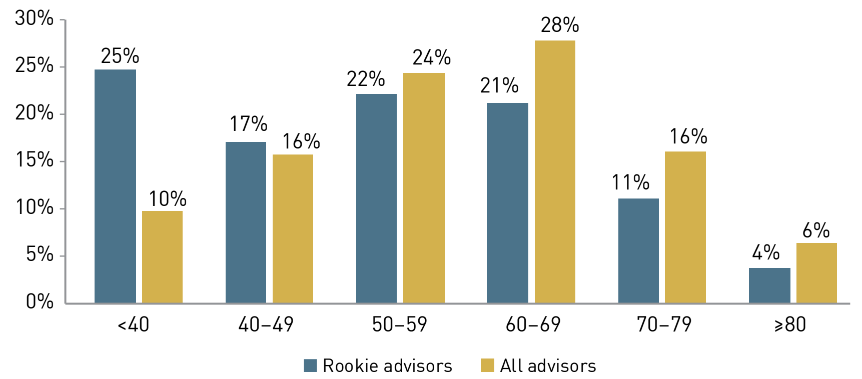
Source: Cerulli Associates, in partnership with Investments & Wealth Institute (formerly IMCA) and Financial Planning Association their portfolios have reached a certain asset value. In fact, assuring that money then lasts a lifetime can be a period of intensified need for advice. For advisors who have made serving their clients a core part of their self-worth, moving clients to a new advisor can be a tremendous challenge fraught with guilt and doubt. By starting this process early and including likely successors in client relationships far in advance of an expected retirement, advisors can reduce their own eventual agita as well as that of their clients.

FIGURE 7

ROOKIES VERSUS ALL ADVISORS: CLIENT AGE, 2018

FIGURE 7 HIGHLIGHTS: Investors younger than age 50 make up 42 percent of rookie advisors' clients, compared to just 26 percent for all advisors.

KEY IMPLICATIONS: As of year-end 2017, the average age for all advisors was 52 and the average age for rookie advisors was 38. Rookie advisors are more likely to work with younger clients with whom they share commonalities and relatability, given their similar life stages. Their ability to engage younger clients is an advantage for their firms. This presents a prime opportunity for intergenerational planning. By engaging next-generation clients, practices also preemptively prepare for the impending wealth transfer. In an industry in which more seasoned advisors tend to serve older investors, the infusion of new assets from younger clients, especially high-earner, not rich yet (HENRY) clients, is a valuable and important long-term strategy.



Analyst Note: Rookie advisors are defined as financial advisors with three or fewer years of experience in an advisory role. Branch network rookie advisors work in wirehouse or national and regional B/D practices; insurance and retail bank B/D rookie advisors are excluded. Independent rookie advisors operate in the independent registered investment advisor (RIA), hybrid RIA, or independent B/D channels. Advisor age data for all advisors is a market sizing calculation as of year-end 2017, whereas rookie advisor age data is survey-based and represents 2018 survey responses.

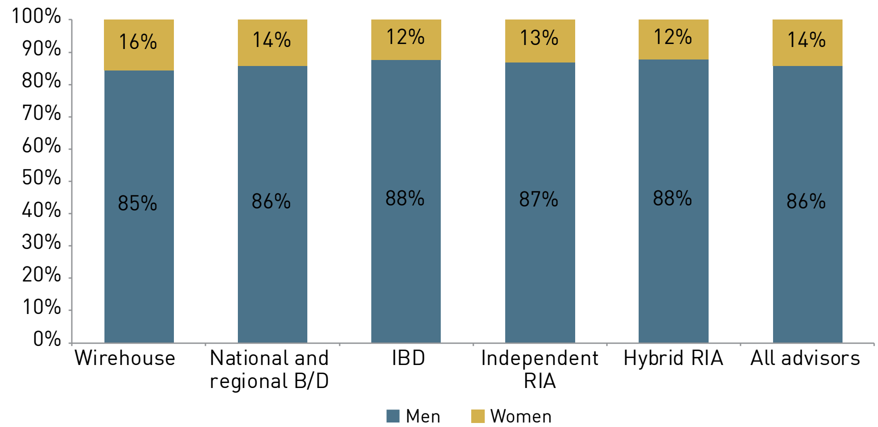
Source: Cerulli Associates, Cerulli Associates, in partnership with Investments & Wealth Institute (formerly IMCA) and Financial Planning Association

FIGURE 8

ADVISOR GENDER: ADVISOR HEADCOUNT MARKETSHARE, 2017

FIGURE 8 HIGHLIGHTS: In 2017, there were 44,513 women financial advisors, representing 14 of the advisor headcount.

KEY IMPLICATIONS: The industry continues to grapple with exceedingly low headcount for women advisors. A handful of large firms are publicly striving for increased gender parity, sometimes partnering with organizations such as the W Source, an organization that helps women establish networking groups, or building their own programs internally. Other firms have started re-entry initiatives targeted at women who have taken career breaks or advisor training programs for



Sources: Cerulli Associates, Meridian IQ, Investment Company Institute, Insured Retirement Institute, VARDS, Strategic Insight/SIMFUND, InvestmentNews, *Judy Diamond, Department of Labor, PLANSPONSOR, S&P Capital IQ MMD,* Financial Planning, Financial Advisor Magazine, Investment Advisor Magazine, *and Cerulli Associates, in partnership with Investment Management Consultants Association, WealthManagement.com, Financial Planning Association, and OnWallStreet* female sales assistants. These efforts are commendable, but they still fail to move the needle for their channels and the overall industry. In part, this is because shifting the tide inevitably will take time; perceptions, processes, and behaviors that have been ingrained over decades will not be dislodged easily. Additionally, the industry needs to reach a tipping point, in which a majority of firms fervently embrace diversity and precipitate an industry-wide cultural shift.

TABLE 2

ROOKIE ADVISORS: REASONS FOR BECOMING AN ADVISOR, 2018

Reason	Not a Factor	Moderate Factor	Major Factor
Desire to help people reach their financial goals	0%	6%	94%
Desire to eventually run my own business	7%	20%	73%
Interested in financial planning topics	4%	24%	72%
Interested in investment topics	1%	34%	65%
Flexibility and control over work schedule	9%	37%	54%
Opportunity to earn a high personal income	8%	48%	43%
Friend or family member is a successful advisor	73%	15%	12%
Participated in an internship in financial services industry	87%	6%	6%

Analyst Note: Rookie advisors are defined as financial advisors with three or fewer years of experience in an advisory role. Branch network rookie advisors work in wirehouse or national and regional B/D practices; insurance and retail bank B/D rookie advisors are excluded. Independent rookie advisors operate in the independent registered investment advisor (RIA), hybrid RIA, or independent broker-dealer channels.

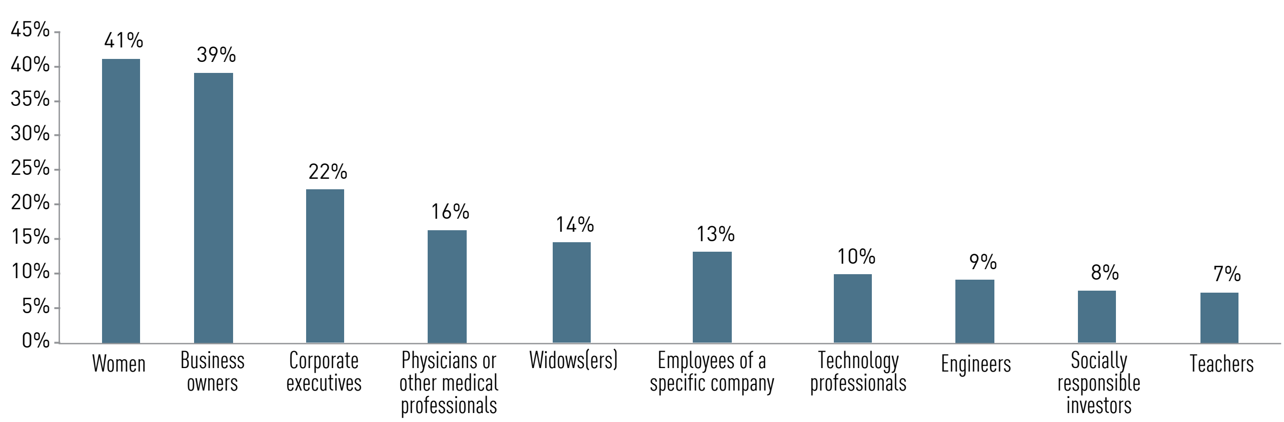
Source: Cerulli Associates, in partnership with Investments & Wealth Institute (formerly IMCA) and Financial Planning Association

TABLE 2 HIGHLIGHTS: Rookie advisors cite the desire to help people reach their financial goals (94 percent) and to eventually run their own businesses (73 percent) as major reasons they became financial advisors.

KEY IMPLICATIONS: Rookies across all channels enter the financial advising profession with a desire to help investors reach their financial goals. This altruistic mindset and desire to learn about financial planning leads to a propensity for integrating goals-based planning more heavily into their practices than previous cohorts of advisors. Only 43 percent of rookies consider the opportunity to earn a high personal income a major factor for becoming a financial advisor, and fewer are highly driven by an interest in investment topics than financial planning ones. Adapting recruiting rhetoric to show the impact and value that a financial advisor can have on a client's life is more likely to attract the purpose-driven next generation.

FIGURE 9

NICHE CLIENT SEGMENTS, 2018



Analyst Note: Niche markets are defined as client segments that comprise 25 percent or more of total client assets.

Source: Cerulli Associates

FIGURE 9 HIGHLIGHTS: Two-fifths of advisors target women and business owners as niche client segments.

KEY IMPLICATIONS: Many practices consider women a niche market, but women make up more than half of the U.S. population and should be treated as a core segment of a practice's client base. Women are more likely to be college graduates, have longer life expectancies, and increasingly are likely to take over family finances eventually if they're not currently the primary decision maker.

In response to the growing financial power of women and their increasing role in family financial dynamics, firms are making concerted attempts to better engage this demographic. Firms seeking to better target this investor segment need to understand the challenges that disproportionately affect women (e.g., outsized caregiving responsibilities, career breaks, the wage gap) and adapt or add plans and policies that help women overcome these barriers.

TABLE 3

PORTFOLIO CONSTRUCTION PROCESS BY ADVISOR GENERATION, 2018

Portfolio Construction Process	Main Influence	Millennials	Gen X	Baby Boomers	Silent Generation
Create custom portfolio for each client	Practice	23%	19%	25%	25%
Start with models developed by practice and alter as necessary	Practice	18%	18%	20%	31%
Use models developed by practice	Practice	15%	22%	18%	13%
Start with models suggested by B/D or custodian and alter as necessary	B/D or custodian	26%	20%	17%	10%
Use models suggested by B/D or custodian	B/D or custodian	2%	8%	7%	5%
Start with third-party provider models and alter as necessary	Third party	13%	4%	7%	5%
Use third-party provider models	Third party	4%	8%	5%	11%
	Total practice influence	55%	60%	64%	69%
	Total B/D or custodian influence	28%	28%	24%	15%
	Total third-party influence	17%	12%	12%	16%

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute (formerly IMCA) and Financial Planning Association

TABLE 3 HIGHLIGHTS: Approximately 45 percent of advisors who are millennials have the main influence over portfolio construction located outside of the practice.

KEY IMPLICATIONS: Older and more experienced advisors are understandably more likely to make investment decisions at the practice level. The increased willingness of millennial advisors to leverage home-office and third-party models, however, is not due solely to a lack of investment sophistication. Millennial advisors' heightened focus on financial planning can organically lead to a decision to outsource part or all of the investment process, given the time commitment that financial planning requires. As practices incorporate younger advisors into their teams, using specialized roles and responsibilities for team members can allow recruits to focus on their specific areas of strength and interest.

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Published by Investments & Wealth Institute, 5619 DTC Parkway, Suite 500 | Greenwood Village, CO 80111 | www.investmentsandwealth.org