

ADVISOR'S ALPHA®

# Across the years: Preparing and preserving intergenerational wealth

**Vanguard**



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# A generational shift:

Over the next two decades,

**\$68 trillion**

in wealth will change hands

Source: Cerulli Associates, as of 2020.

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# What could that mean for you?

If you manage

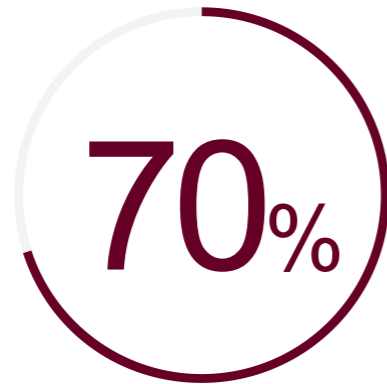
**\$200 million,**

what would a

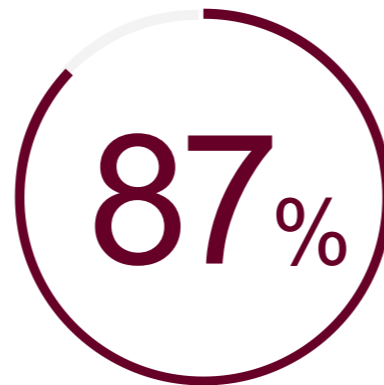
**30% reduction**

in business do?

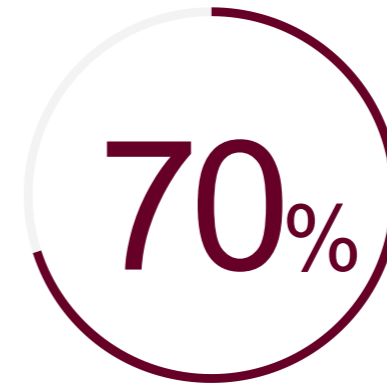
# What the future could hold:



of women leave their advisor following the death of a spouse



of children intend to fire their parents' financial advisor after they receive an inheritance



of wealthy families lose their wealth by the 2nd generation and 90% will lose it by the 3rd generation

Sources: Pooneh Baghai, Olivia Howard, Lakshmi Prakash, and Jill Zucker, 2020. Women as the next wave of growth in US wealth management. McKinsey & Company, available at <https://www.mckinsey.com/industries/financial-services/our-insights/women-as-the-next-wave-of-growth-in-us-wealth-management>. Investment News, 2019. Only 13% of adult children would use parents' adviser: Cerulli. Available at <https://www.investmentnews.com/only-13-of-adult-children-would-use-parents-adviser-cerulli-79471>. The Williams Group.

# Agenda

Learn why family wealth-transfer conversations matter

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Review your client base

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Have the conversation

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See the process through



# Learn why family wealth-transfer conversations matter

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Learn why family wealth-transfer conversations matter

# Communication and trust are crucial

## Reasons family wealth is lost

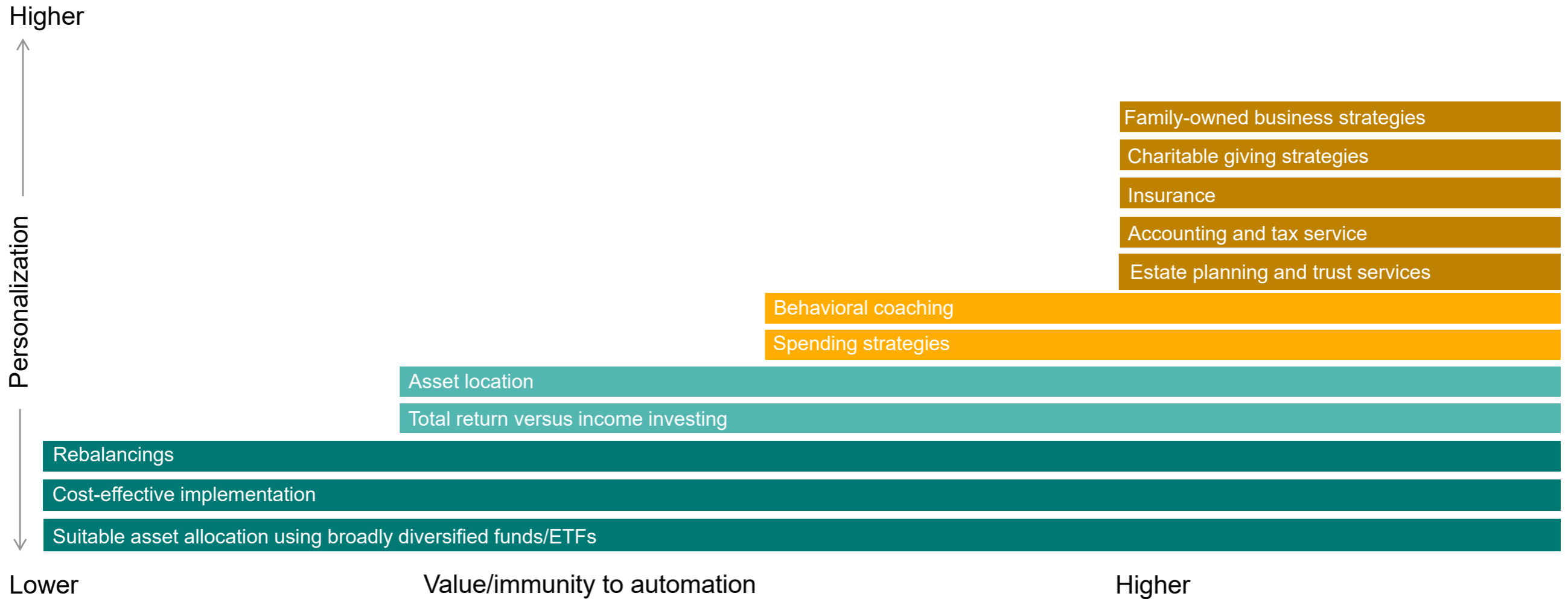


Fortunately, as an advisor, you are in a unique position to help

Source: Roy Williams and Vic Preisser, 2010. Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values. San Francisco, Calif.: Robert D. Reed Publishers, 2010. (The Williams Group.)

Learn why family wealth-transfer conversations matter

# Helping families plan a financial legacy is a uniquely human activity



Source: Vanguard.

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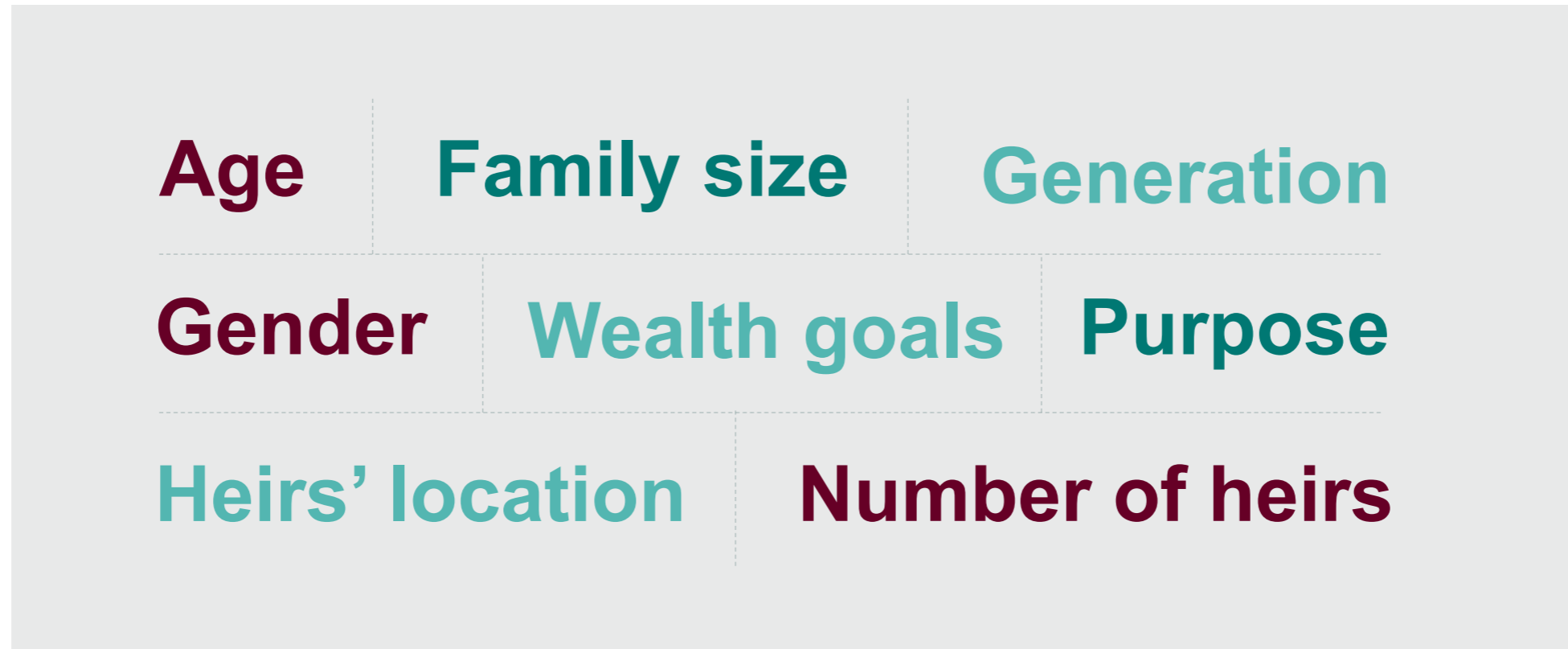


# Review your client base

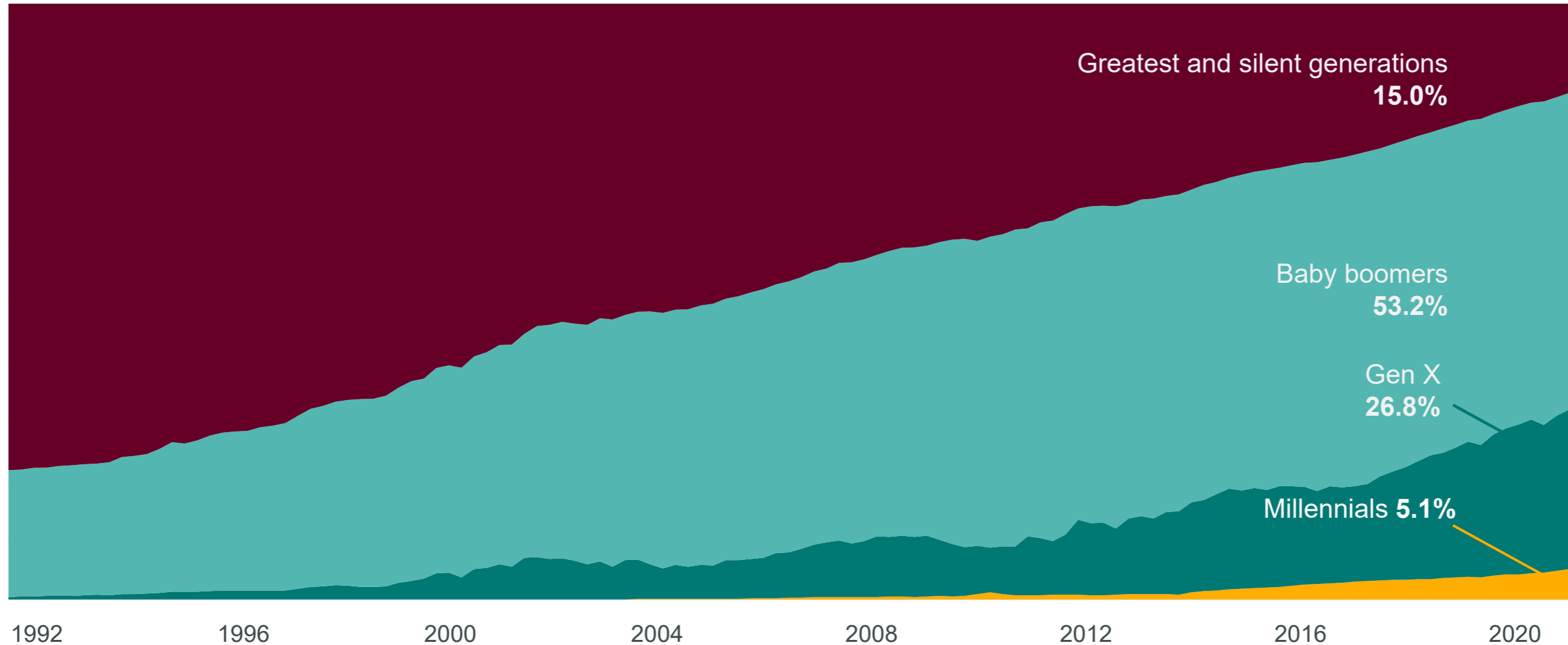


Review your client base

**Instead of segmenting by AUM or requests, consider classifying them by other demographic measures:**



# Distribution of household wealth in the U.S. since 1989\*



Sources: Survey of Consumer Finances and Financial Accounts of the United States, Federal Reserve Board. Data as of September 30, 2020.

\* Figures do not add up to 100% because of rounding.

Review your client base

# Defining the generations

## Greatest, 1901–1927

## Silent, 1928–1945

### Predominant values

- Respect for authority, conformity
- Work ethic
- Seniority determined by age

### Lives shaped by

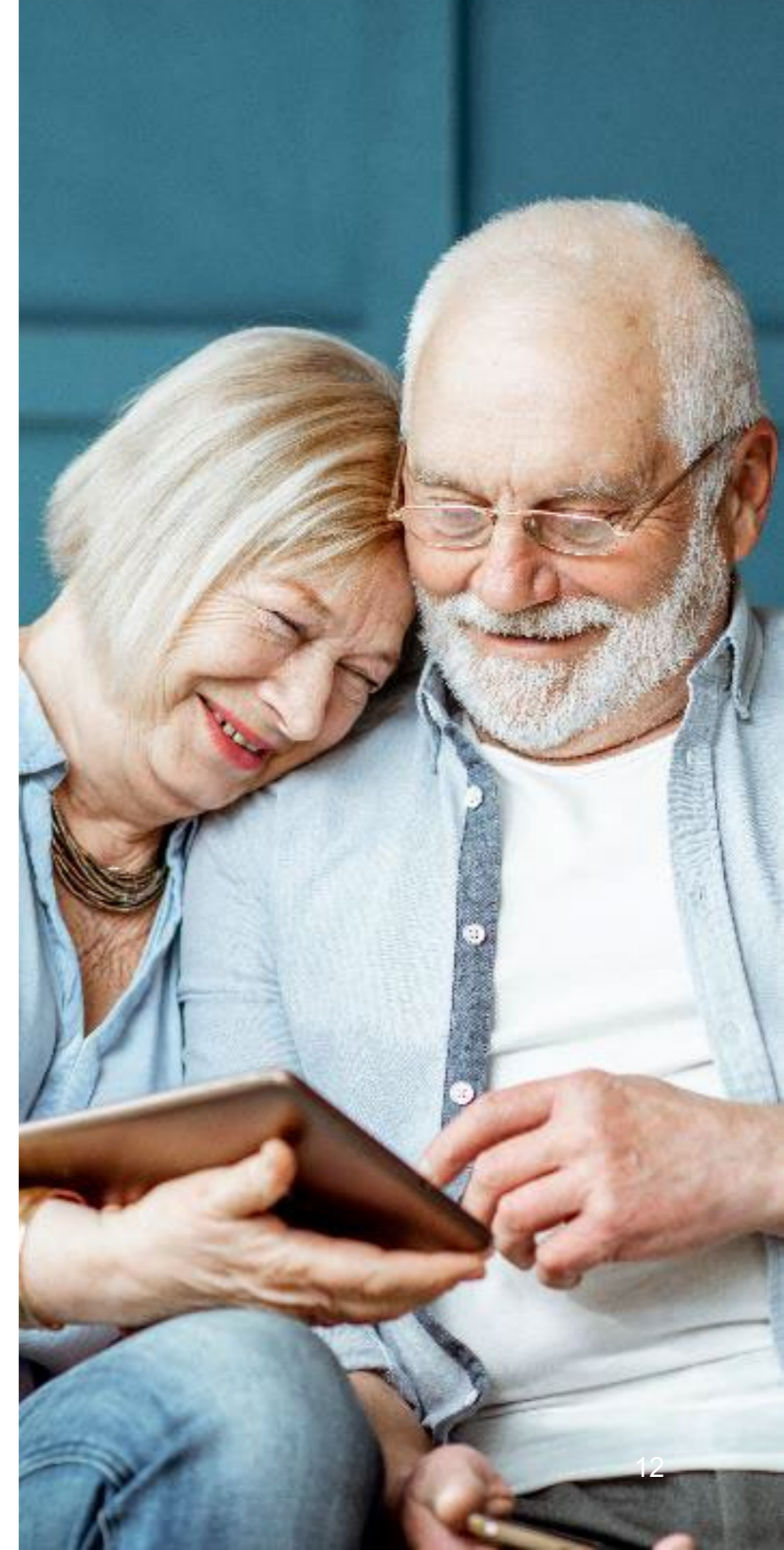
- The Great Depression
- World War II
- FDR's New Deal
- G.I. Bill
- Radio and television

### What was popular?

Katharine Hepburn, zoot suits, radio dramas

Sources: Vanguard, Purdue University Global.

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Review your client base

# Defining the generations

## Baby boomer, 1946–1964

### Predominant values

- Loyalty to company
- Sense of duty
- Teamwork and competitiveness

### Lives shaped by

- Civil rights movement
- Cold War
- Antiestablishment/ counterculture movement
- Moon landing
- Vietnam War
- Watergate

### What was popular?

Barbie dolls, The Beatles, go-go boots

Sources: Vanguard, Purdue University Global.

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Review your client base

# Defining the generations

## Generation X, 1965–1980

### Predominant values

- Work/life balance
- Diversity
- Goal-oriented
- Comfortable with direct feedback
- Independence and self-sufficiency

### Lives shaped by

- Reaganomics
- Collapse of Soviet Union
- Pax Americana period of no major wars
- Dot-com boom and bust
- 9/11

### What was popular?

Cabbage Patch Kids, *Back to the Future*, Grunge/Alternative Rock

Sources: Vanguard, Purdue University Global.

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Review your client base

# Defining the generations

## Millennials, 1981–2000

### Predominant values

- Challenge-seeking
- Growth and development
- Work/life balance
- Fun work life

### Lives shaped by

- Global financial crisis
- First African-American president
- Climate change
- Power to challenge Wall Street (GameStop/AMC short squeeze)

### What was popular?

Dial-up internet, Crocs, original iPod and iPhone

Sources: Vanguard, Purdue University Global.

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Review your client base

# Defining the generations

## Generation Z, 2001–2020

### Predominant values

- Diversity
- Personalization
- Individuality
- Creativity
- Tech familiarity

### Lives shaped by

- Lifelong access to internet
- Fractured politics
- Coronavirus
- Unaffordable higher education
- Unprecedented tech growth and convergence (AI, green energy, electric vehicles, genomics, 3-D printing, etc.)

### What was popular?

High-speed internet, Pokemon Go, cryptocurrency

Sources: Vanguard, Purdue University Global.

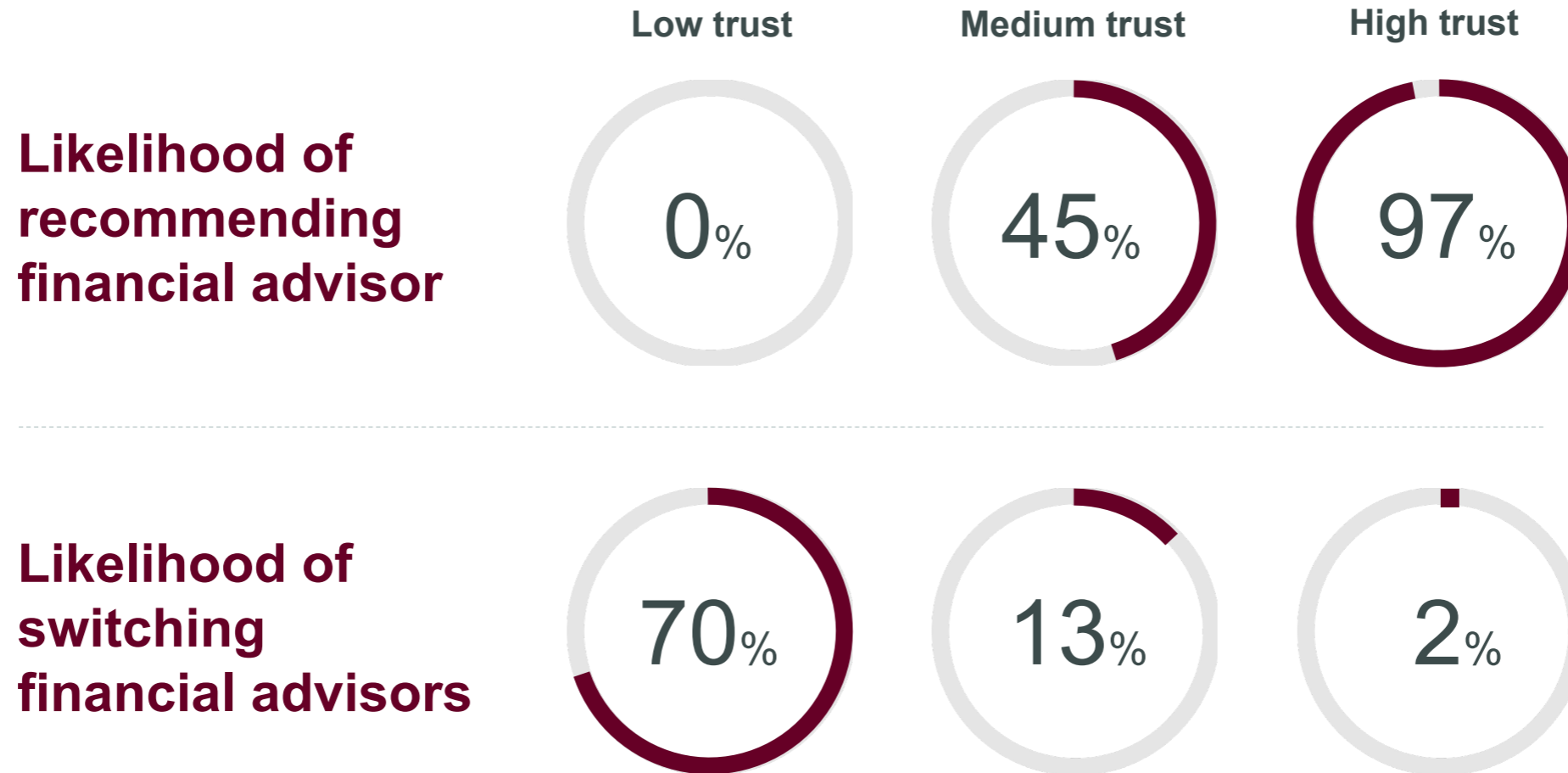
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Review your client base

# No matter what generation you're serving, earning trust is crucial



Source: Anna Madamba and Stephen P. Utkus, 2017. *Trust and financial advice*. Valley Forge, Pa.: The Vanguard Group.

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# Have the conversation



Have the conversation

# Identify the gaps: Business model

Evaluate practice/team model



**1.** Evaluate service model



**2.** Ensure appropriate team members in place

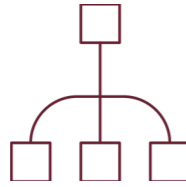


**3.** Focus on technology and user experience



**4.** Use best methods to connect and communicate

# Identify the gaps: Clients

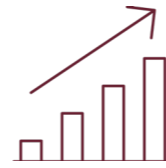


**1. Determine engagement level with clients**

(primary decision maker and spouse)



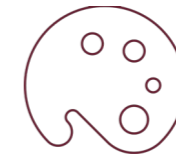
**2. Identify family members—children, heirs, and other stakeholders**



**3. Establish their knowledge of your value add**



**4. Do a self-analysis of whether you've effectively helped/informed them**



**5. Make them aware of opportunities available in a virtualized environment**

Have the conversation

# Making the case with your client— overcoming objections

Money remains a sensitive subject and can be taboo for discussion in many families

## Common objections

Privacy

Heirs aren't mature enough

## Counters

Openness, not secrecy, will lead to solving  
money concerns with family members

### Action step

Choose specific life events to start this discussion ...



Combining finances in a marriage



Buying or selling a home



Graduation

Have the conversation

# Making the case with your client— overcoming objections

## Specific counters to typical objections:

These concerns are valid, but silence won't solve them

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Open dialogue provides structure, and you've seen situations like theirs

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Sharing info can guide better heir outcomes

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Better to get family up to speed in good times versus periods of duress



Have the conversation

# Prep clients for the conversation by using “preparation” as a frame

Discuss the benefits of preparation as a component of wealth planning

Prepare your survivors to know what steps to take and how to take them

Have a plan in place to allow for quick action in case of emergency

Give family members greater peace of mind, less stress

## Action step

Use the tools referenced in *Help clients preserve and grow intergenerational wealth* (see Appendix)

Have the conversation

# Use questions to open conversations about family legacy planning

Wealth planning done to date?

How have you communicated it to family?

How prepared is your family to receive the wealth?

If they aren't aware or prepared, is there a reason?

## Action step

Have your primary client or members of a client couple complete the *Critical Financial Checklist* or *Partner Preparedness Assessment*



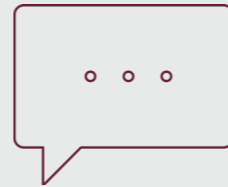
Have the conversation

# Additional action items



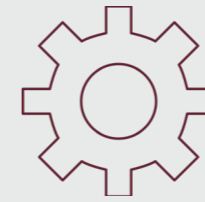
## Plan

Adjust your product or service offer, review your communication plan, and adopt new tools as appropriate



## Communicate

Facilitate discussion between family and advisor, as well as between generations. Establish a plan to maintain dialogue. Be their coach



## Engage

Bring family members into the decision-making process. From high schoolers to adults, involve everyone. How can you help them share the decisions or educate them on how to make decisions?

# See the process through



See the process through

# Implement and follow up

- ✓ Consider method for sustained communication leading up to the asset transfer
- ✓ Schedule annual reviews
- ✓ Define family roles: Who is the family manager/key point of contact?
- ✓ Establish which heirs to be managed by associates on the team
- ✓ Offer education opportunities: Products that help family meet stated goals

See the process through

# You are solving several major problems

## Empowering your clients

Setting them on the path to create and preserve generational wealth

Opening the door to higher-value services they will need

## Empowering your practice

Helping your business endure and grow assets in a time of massive change

Creating another avenue for referrals

## Appendix

# Client tools and resources

## Critical financial checklist

This checklist helps establish a baseline assessment of your client family's important financial information.

<https://advisors.vanguard.com/iwe/pdf/FAWLIGFC.pdf>

## Critical financial checklist

Complete this summary of your most important financial information (with your partner if you have one) and keep it in a secure place. Set target completion dates for obtaining documents you may have not yet addressed.

You can print this worksheet and write your answers by hand or fill in the information fields directly on your computer.

|  | COMPLETION DATE | NOTES<br>(List details such as names of service provider companies, responsible individuals, or brief instructions; do not include passwords or other account-access information.) |
|--|-----------------|--|
| <b>Estate planning documents</b>                                     |                 |  |
| <input type="checkbox"/> Wills/Trusts in place                       |                 |  |
| <input type="checkbox"/> Guardianships                               |                 |  |
| <input type="checkbox"/> Durable power of attorney                   |                 |  |
| <input type="checkbox"/> Medical power of attorney                   |                 |  |
| <input type="checkbox"/> Appropriate asset titling                   |                 |  |
| <input type="checkbox"/> Executor appointed                          |                 |  |
| <input type="checkbox"/> Successors appointed                        |                 |  |
| <b>Insurance/Umbrella policies</b>                                   |                 |  |
| <input type="checkbox"/> Life insurance                              |                 |  |
| <input type="checkbox"/> Disability                                  |                 |  |
| <input type="checkbox"/> Home  |                 |  |
| <input type="checkbox"/> Long-term care                              |                 |  |
| <b>Financial management</b>  |                 |  |
| <input type="checkbox"/> Emergency cash reserves                     |                 |  |
| <input type="checkbox"/> Income/Expense budget review                |                 |  |
| <b>Retirement savings</b>  |                 |  |
| <input type="checkbox"/> Projected income/Expense analysis           |                 |  |
| <input type="checkbox"/> Registered with Social Security             |                 |  |
| <b>Education planning</b>  |                 |  |
| <input type="checkbox"/> Projected cost analysis completed           |                 |  |
| <input type="checkbox"/> Review alternatives                         |                 |  |
| <input type="checkbox"/> Savings in place                            |                 |  |
| <b>Safe document storage</b>   |                 |  |
| <input type="checkbox"/> File location shared with partner           |                 |  |
| <input type="checkbox"/> Online account information                  |                 |  |
| <input type="checkbox"/> Checklist of asset location                 |                 |  |
| <input type="checkbox"/> Contact information for financial providers |                 |  |
| <b>Aging plan</b>  |                 |  |
| <input type="checkbox"/> Review of long-term care wishes             |                 |  |
| <input type="checkbox"/> Final arrangements upon passing             |                 |  |

FAWLIGFC 05/2021

## Appendix

# Client tools and resources

## Family meetings educational brochure

You can use this brochure to help clients understand the importance of structured family meetings as a tool for achieving a smooth wealth transition and enduring financial legacy.

<https://advisors.vanguard.com/iwe/pdf/FASCHAND.pdf>

Vanguard®

## Family meetings

### An important step in successful wealth planning

Few things are as important as your financial legacy and the well-being of your heirs. While traditional estate planning is a fundamental component of wealth planning, three often-overlooked factors actually have the greatest influence on a family's ability to successfully transition its wealth:<sup>1</sup>

- Strong communication and a sense of trust among family members.
- Thorough preparation of heirs.

• A cohesive purpose for family wealth. As you can see, communication and preparation are vital. That's why structured family meetings are an important part of wealth planning.

### Paving the way for a smooth transition

Structured meetings can help you open a dialogue about important issues, strengthen family harmony and trust, and educate and prepare your heirs for future responsibilities. A foundation of communication and cooperation will enable your family to more readily avoid common challenges during transition, such as family feuding, litigation, and poor investment decisions, all of which can lead to an unnecessary loss of assets.

### What to expect

Typically, meetings provide a forum for collaborative discussion among all family members, with the goal of mutual understanding and consensus. However, each meeting should be shaped to meet the particular needs of your family.

Your advisor will help you develop an appropriate agenda. Meeting topics may include:

- Responsibilities and expectations.
- Education of heirs.
- Shared philanthropy.
- Family history and enduring values.
- Family mission statement.
- Preparation for wealth transition.

### Talk to your advisor

In addition to helping you determine an agenda, your advisor can also facilitate your family meetings. This has two benefits. First, the meetings will be formally guided by an impartial moderator. Additionally, over time your advisor will get to know the unique preferences and personalities of each family member, which will strengthen the advisor's ability to provide support during the eventual transition of your wealth.

<sup>1</sup>By Williams and Vic Reiser, 2003, *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values*, San Francisco, Robert D Reed Publisher.

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Approved for client use.

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## Appendix

# Advisor tools and resources

## Financial education assessment

For new clients, or existing clients' family members (whom you might not yet know well), this tool can be useful for making you all aware of their financial knowledge strengths and gaps.

<https://advisors.vanguard.com/iwe/pdf/FAWLIGFE.pdf>

### Financial education assessment

As you manage your own portfolio or assume additional roles and responsibilities related to your family's financial legacy, it's important to understand a few key financial and investment concepts.

To assess your current level of understanding, please select or circle the most appropriate number for each of the following statements.

| Statement   | Strongly disagree          |                            | Moderately agree           |                            | Strongly agree             |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 1. I feel confident in my ability to establish a monthly budget or budget for a special project and adhere to the plan.       | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 2. I understand the mechanics of credit and debt and how to manage them prudently.  | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 3. I understand the mechanics of saving, compound interest, and the importance of using them to meet long term goals.         | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 4. I understand the importance of focusing on saving for retirement.  | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 5. I am clear on my investment goals.   | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 6. I understand investment concepts such as asset classes, asset allocation, diversification in a portfolio, and rebalancing. | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 7. I understand stock and bond market concepts such as risk, return, and volatility.  | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 8. I have the time, willingness, and ability to manage my investment portfolio.   | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 9. I understand the purpose and structure of basic estate planning vehicles such as wills, trusts, and power of attorney.     | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 10. I understand the roles and responsibilities of grantors, trustees and beneficiaries.                                      | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 11. I understand the rules around different gifts and charitable deductions that can be made without incurring penalties.     | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 12. I understand how different estate planning vehicles can be used to minimize taxes in a wealth plan.                       | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |

## Appendix

# Advisor tools and resources

## Help clients preserve and grow intergenerational wealth

This advisor guide quickly sums up key points from our “Across the years” presentation and explains how to use the embedded client tools. You’re able to download the PDF tools (which diagnose clients’ current levels of financial knowledge and preparation) and share them with your clients.

<https://advisors.vanguard.com/iwe/pdf/FAIGWPLC.pdf>



**Help clients preserve and grow intergenerational wealth**

You understand that the efficient transfer of assets from your clients to their beneficiaries has vast potential for both the stewardship of their wealth and the growth of your practice. As a longtime provider of advice to wealth clients, Vanguard has developed a number of tools and best practices for helping families manage their wealth across generations. Use this guide to leverage the resources and expertise Vanguard has refined from decades of helping retail investors build and sustain their family wealth.

Over the next two decades, **\$68 Trillion** in wealth will change hands in the United States.

**Be the exception...**

- 70% of advisors have their adviser following the death of a spouse
- 87% of children have their parents' advice after receiving inheritance
- 70% of wealthy families lose their wealth in one generation

**Why family wealth (and advisor AUM) slips away ...**

|                                     |                         |                    |       |
|-------------------------------------|-------------------------|--------------------|-------|
| NO CONTACT WITH ASSET COMMUNICATION | TOO LATE TO TAKE ACTION | NO FAMILY MEETINGS | OTHER |
| 60%                                 | 25%                     | 10%                | 5%    |



# Client tools and resources

## Partner preparedness assessment

From insurance, to beneficiary designations, to taxes, a family member's death can mean significant red tape and unnecessary complications for survivors. This diagnostic can help clients prepare for emergencies by identifying critical financial resources beforehand.

<https://advisors.vanguard.com/iwe/pdf/FAWLIGPP.pdf>

### Partner preparedness assessment

We've all heard a story of an acquaintance or friend who suddenly lost their partner. Along with the pain of loss, this can create chaos, trauma, and confusion for the remaining partner and perhaps other survivors. Have you considered whether you're prepared to manage your wealth and financial plan independently? While going through this exercise can be challenging, it's an essential step in your overall planning.

#### Why should we discuss "being prepared" as part of our wealth planning?

- In an emergency, having a plan in place can help partners act quickly.
- If something unexpected happens, partners will know what steps they need to take and how to take them.
- Knowledge is power. When both spouses have access to important information, it alleviates stress and anxiety.

**Activity:** How do I know if I'm prepared? The following assessment may help.

**Step 1:** Each partner should take this assessment independently and rate their level of agreement with each of the following statements.

| Statement  | Strongly disagree          |                            | Moderately agree           |                            | Strongly agree             |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 1. I know and understand our approximate net worth.  | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 2. I know how to make payments for our living expenses and how to access our financial accounts.   | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 3. I know where all our important documentation is located so I can access information quickly.  | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 4. I understand what steps I need to take in our plan and the order in which to take them if an emergency occurs and my spouse or partner can't help me. | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 5. I know where our financial assets are located and which financial providers we use.   | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 6. I have relationships with our financial providers, so I feel comfortable calling them when needed.  | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |
| 7. I understand the purpose and structure of our estate planning vehicles such as wills, trusts, and powers of attorney.                                 | 1<br><input type="radio"/> | 2<br><input type="radio"/> | 3<br><input type="radio"/> | 4<br><input type="radio"/> | 5<br><input type="radio"/> |

# Important information

**For more information about Vanguard funds or ETF Shares, contact your financial advisor to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.**

Please remember that all investments involve some risk, including possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

ESG funds are subject to ESG investment risk, which is the chance that the stocks or bonds screened by the index sponsor for ESG criteria generally will underperform the market as a whole or that the particular stocks or bonds selected will, in the aggregate, trail returns of other funds screened for ESG criteria.

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date.

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