An Advisor’s Guide to Engaging the Modern Family
INTRODUCTION

The following scenario is all too common: An advisor works with a couple successfully for many, many years, and over that time, the advisor’s efforts result in the accumulation of a sizeable nest egg from which the couple begins drawing income in retirement. Even after a decade or more of withdrawals, a considerable sum remains. All too often, after the passing of the spouse with whom the advisor had the primary relationship, the surviving spouse closes the account and moves to another advisor. Similarly, when a child or children or others inherit the wealth, the nest egg is removed and the advisory relationship begun by the parents ends because the inheritors have no tie to the advisor.

Whenever such events occur, advisors may be surprised or even hurt by the seeming betrayal after years of successful and appreciated service. But the transfer of assets after the death of the person we can call the “primary client” is almost always the result of a failure of the advisor to develop a relationship with a less-involved spouse and the client’s or clients’ adult children.

The loss of assets that occurs due to a lack of engagement results not only in loss of immediate income for the advisor but also a decline future wealth due to a lower value for their business, say advisory firm valuation experts.

To help advisors stanch the outflows that too often occur when clients pass away and to assist them in developing relationships with heirs, this guide is offered as a practical resource, both to increase wallet share with existing clients in the short term and to improve retention rates in the long run. It will cover four key elements: developing an engagement plan, engaging the non-involved spouse, understanding the needs of Millennials and Gen Xers in order to succeed in developing relationships with clients’ children, and working with elderly clients and their families.
DEVELOPING AN ENGAGEMENT PLAN

The underpinnings of a successful engagement plan require taking a holistic view of clients and their families in a way that extends beyond the traditional “know your customer” efforts required by regulations that were created at a time when most advisory relationships were largely investment oriented and transactional.

Developing an engagement plan will put an advisor in a distinct—and advantaged—minority, since such plans currently are absent among most advisors. Recent research conducted by InvestmentNews reveals that fewer than 24% of advisors currently have an engagement plan in place. Importantly, 57% of advisors at firms of all types have no formal plan or strategy in place for developing relationships with their clients’ children, with the remaining 19% of advisors also having no plan in place currently, but expecting to develop one. In that latter group, about two-thirds expect to have a plan in place within a year, and one-third within one to three years. When those with a plan were asked about its success in retaining clients’ children, most advisors—about 56%—judged those plans to be moderately successful, with about 31% saying that the lack of a relationship with adult children was the single biggest reason for failing to retain them.

Developing a plan to engage an often neglected spouse and, importantly, a couple’s children or other important family members should begin by gathering information about the entire family, if not immediately then as soon as reasonably practicable. This information should include:

- The total financial assets of both spouses, including assets held by each spouse in qualified accounts and nonqualified accounts held elsewhere.
- An understanding of the couple’s retirement intentions, including when they think they may stop working full-time.
- The identity, ages and contact information for the couple’s children and grandchildren, if any.
- An understanding of the couple’s potential legacy wishes.
- Any information about trusts the couple may have created.
- Information about 529 plans and other funds earmarked for education that may be held elsewhere.

Having a full range of client information and a motivation to make family engagement an integrated part of the business is an important first step. The next is working on ways to engage all family members.
ENGAGING THE NON-INVOLVED SPOUSE

Despite an advisors’ best efforts when dealing with married clients, there are many times when one spouse is less engaged than the other. Often, the reason for the disengagement is a disinterest in matters financial or deference to the spouse who assumes responsibility for the family’s finances. Among older couples especially, the wife often is most likely to be the disengaged spouse. But among Boomers and younger clients, wives very often are the chief financial decision-maker, and husbands are likely to be the disengaged spouse.

For advisors, the price of spousal disengagement is high. As many as 70% of widows, according to many estimates, leave their advisor upon the death of their spouse. To be sure, advisors have difficulty engaging a spouse who is neither knowledgeable nor interested in the couple’s finances, which is a common advisor observation. In those cases, advisors must encourage the creation of a relationship in which the less-involved spouse feels comfortable asking questions and in which advisors provide information that is free of jargon on the core issues the less-involved spouse cares about. Advisors also must strive to include the less-involved spouse in all discussions and decisions (or follow up in writing if in-person discussions can’t be arranged), and see that the spouse’s personal and family goals are incorporated in the couple’s plans.

In addition, where appropriate, advisors should encourage a frank discussion of the couple’s plans and wishes if one of them were to die. Starting off with a discussion of what the husband would like for his wife if he were to die first and what the wife would like in the event she predeceased her husband can begin a process by which the less-engaged spouse feels comfortable discussing their goals and plans with the advisor in the event their spouse were to predecease them.

UNDERSTANDING AND WORKING WITH A CLIENT COUPLE’S ADULT CHILDREN

Developing closer ties to the adult children of clients is the core of any family engagement program. The numbers alone make a compelling case: An estimated $30 trillion will pass from Baby Boomers to Generation X to Millennials over the next three decades, and even if the numbers are off by several trillion dollars, they remain staggering.

Currently about two-thirds of adult children fire their parents’ financial advisor after they inherit their parents’ wealth, according to an InvestmentNews survey. There are many reasons for the loss, but the primary one is a lack of any ongoing relationship between the advisor and the client’s adult children. More than half (54%) of advisors surveyed by InvestmentNews said they meet with the adult children less than once a year. The second largest percentage of advisors, 18%, say they do not meet with the children at all. Just 8% said they meet two or three times a year, and less than 2% said they meet quarterly or more frequently.
Given the age of the advisor population, as well as the typical age of their clients, many advisors may not have a substantial number of client relationships with those in the age range of their clients’ children. Adult children of many advisory clients tend to be either members of the post-Boomer generation called Gen X—whose ages range from 40 to their mid-50s—or Millennials, typically the children of Baby Boomers, ranging in age from about 20 to 40. Of these age cohorts, advisors are more likely to have primary relationships with the older end of the Gen X generation, but understanding the motivations, needs and communication styles of both these groups is important in developing an engagement plan aimed at them.

Just as not all Baby Boomers are identical, not every member of Gen X or the younger Millennials is alike. Yet research has produced some defining characteristics. Let’s start with Gen Xers.

Growing up in a more gender-equal world, they are the first generation raised with two working (sometimes divorced) parents, and many were latchkey children who spent weekday afternoons without supervision. Many struggled to find jobs after college and they were hardest hit by the real estate bust in 2007 because many had bought homes at the peak of the bubble and lost money. For Gen X, improving health, planning for the future, and paying off debt are the most common goals for the next 10 years.

For Millennials, saving for the unexpected tops their list of financial concerns. They realize they should save more, and many do, but as a group they are anxious about putting away enough while still trying to pay off student loans—which about one-quarter still have. Millennials account for about half of all households with children, which means they often are the parents of advisory clients’ grandchildren. Research has found that Millennial parents are worried about medical expenses and managing their credit card debt; less than one third think they will have an easier time financially than those who came before them.

Helping the Millennial and Gen X children of older advisory clients with the non-investment-related personal finance issues that are of particular concern to them can demonstrate to clients’ children not only the value of maintaining their parents’ advisory relationship but also that the advisor truly is interested in their well-being.
Specifically, elements of an effort to engage adult children can include:

- Reviewing a child’s/grandchild’s college loan situation and suggesting ways they may be able to pay down the debt earlier or help with better techniques to juggle monthly payments.

- Conducting “New Parent” and “New Grandparent” sessions for clients and the adult children of older clients. The purpose is to acquaint new parents and grandparents with various financial aspects of parenthood with which they may not be familiar, especially Section 529 qualified tuition plans and other ways to save for college or post-high-school education.

- Reviewing the insurance needs of young families with children, explaining the differences between term and permanent life insurance, and providing guidance on how to buy the appropriate type and amount of insurance coverage.

- Explaining the importance of having a will and other important legal documents (healthcare power of attorney, etc.) in place.

- Reviewing workplace savings plans, including 401(k)s and the choices available in the plans.

- Reviewing credit card loans and other consumer debt and helping the teenage children/grandchildren of clients (and sometimes even older adult children of clients) understand the basics of personal finance.

- Reviewing the financial aspects of a college education, and helping to review plans for college loans, budgeting and living expenses while in college.

- Helping the children/grandchildren of clients with the economics of first-time home-buying and understanding mortgages and borrowing costs.

- Including young families in all firm general emails and written communications regardless of whether they are clients themselves.

- Setting up a young people’s page on the advisor’s website that contains links to financial information useful to families with young children and the children themselves.
For advisors whose clients’ children or grandchildren are under about age 35, developing general educational programs can pay dividends in the form of greater appreciation on the part of a less-engaged client spouse, as well as planting the seed among members of the younger generations that “grandma and grandpa’s” advisor is their advisor too.

Next-generation education and counseling is helpful too in that it can allay fears and concerns among the client couple that their adult children will misuse or squander whatever inheritance is given them. Raising the issue of wealth transfer with clients within the context of a program of financial education demonstrates that the advisor cares about the future success of their children.

Having younger members of an advisory team or an advisor’s junior partner serve as the link to adult children can be an effective way to carry out the engagement program. A client’s adult child in his or her 30s or 40s is probably correct in assuming that a parent’s advisor in his or her 60s will not be available to provide advice when the adult child is on the brink of retirement. Moreover, the older advisor is not likely to communicate in the style of the adult child—who may prefer text messages to phone calls, for instance, or a FaceTime chat to an in-person meeting. An attempt at serving a multigenerational family with a multi-generation advisory team, therefore, offers greater odds of success.

A key way to engage adult children in the relationship is simply to provide them with financial advice even if their wealth or income falls below an advisor’s regular minimums. Much like family offices for the extremely affluent, an advisor whose clients are modestly affluent can help their adult children with the wide array of financially related issues that arise at their life stage. These can include buying a house, starting college savings programs for their young children, making sense of their workplace retirement plans, budgeting, understanding the importance of having in place legal documents such as wills and medical power of attorney forms, and understanding their insurance needs.

Helping adult children with these issues—again, perhaps by having younger team members do the work and manage regularly scheduled interactions—cements the advisor’s ties to adult children and underscores the sense of the relationship’s continuity even after the parents pass away.
WORKING WITH ELDERLY CLIENTS AND THEIR FAMILIES

The increase in longevity and the growing numbers of advisory clients in their late 80s and 90s have given rise to a relatively new dynamic for advisors trying to engage the next generation—dealing with the children of clients who themselves are nearing or are in retirement.

Many of these aging “children” may already have advisory relationships, but many may not. Others may have multiple or unsatisfactory advisory relationships and would be willing to move assets to an advisor who they felt understood and addressed their needs. Working with them by providing information and assistance with their aging parents can be an effective way to engage them.

Helping to provide valuable information—or referrals to experts—in the areas of detecting and preventing elder fraud and abuse, assisted living and nursing home care, Medicare and Medicaid procedures, attorneys specializing in elder law, and guidance about hiring aides and companions can be a godsend. Older children dealing with the often bewildering complexity of helping elderly parents can feel overwhelmed when those duties are added to dealing with the challenges of their own lives as they near or enter retirement, when they find themselves juggling the demands of their own adult children and grandchildren. Any assistance and guidance advisors can provide is often greatly appreciated, and demonstrates the advisor’s professionalism and level of care.
CONCLUSIONS AND KEY TAKEAWAYS

For advisors looking forward to many more productive professional years and who have a desire to increase business value as well as maintain and increase their income, an important strategic goal is retaining assets that all too often are moved by adult children upon the death of their parent or parents.

Developing an engagement plan to involve the adult children of older clients is an effective way to help retain those assets, as well as foster better ties with current clients. The plan can start with educating young parents about college savings plans and financial basics, such as proper insurance coverage, and then move into more comprehensive assistance and planning with adult children. Helping even older adult children as they enter retirement themselves is another important element of a plan for advisors with clients in their late 80s and 90s.

The keys to any engagement plan are:

- Establishing contact
- Maintaining regular communication
- Providing useful assistance to address the financially related issues the clients’ children face at different stages of their lives.

Since technology will play a greater part in future relationships, especially among generations that has grown up with technology and are wedded to their smart phones, be sure that the elements of the engagement plan are delivered in ways that are in sync with the expectations and demands of the younger generations.
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