

# The Great Wealth Transfer:

Building trust and relationships across generations

**Vanguard**



This is directed at professional investors and should not be distributed to, or relied upon by retail investors.

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The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

# Agenda

- Coming soon: The Great UK Wealth Transfer
- Legacy: A very difficult topic
- The role of the adviser



# Globally-built expertise in legacy and practice management



## Adviser partner

- >\$3 Trillion of assets through advisers
- Active on 3 continents



## Retirement provider

- ~5million DC retirement accounts



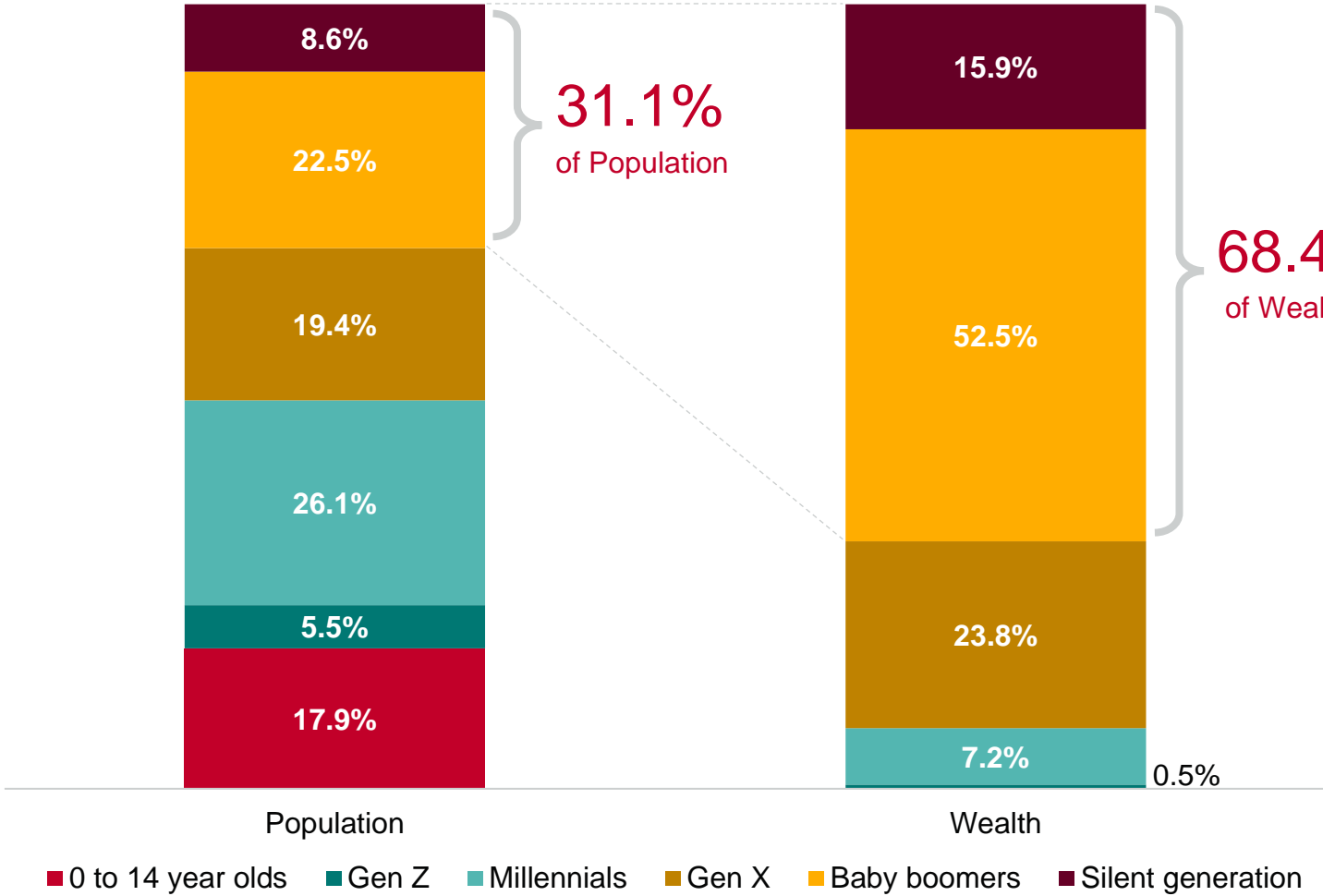
## Advice provider

- >400k US advised clients
- >\$300bn AUM in the US

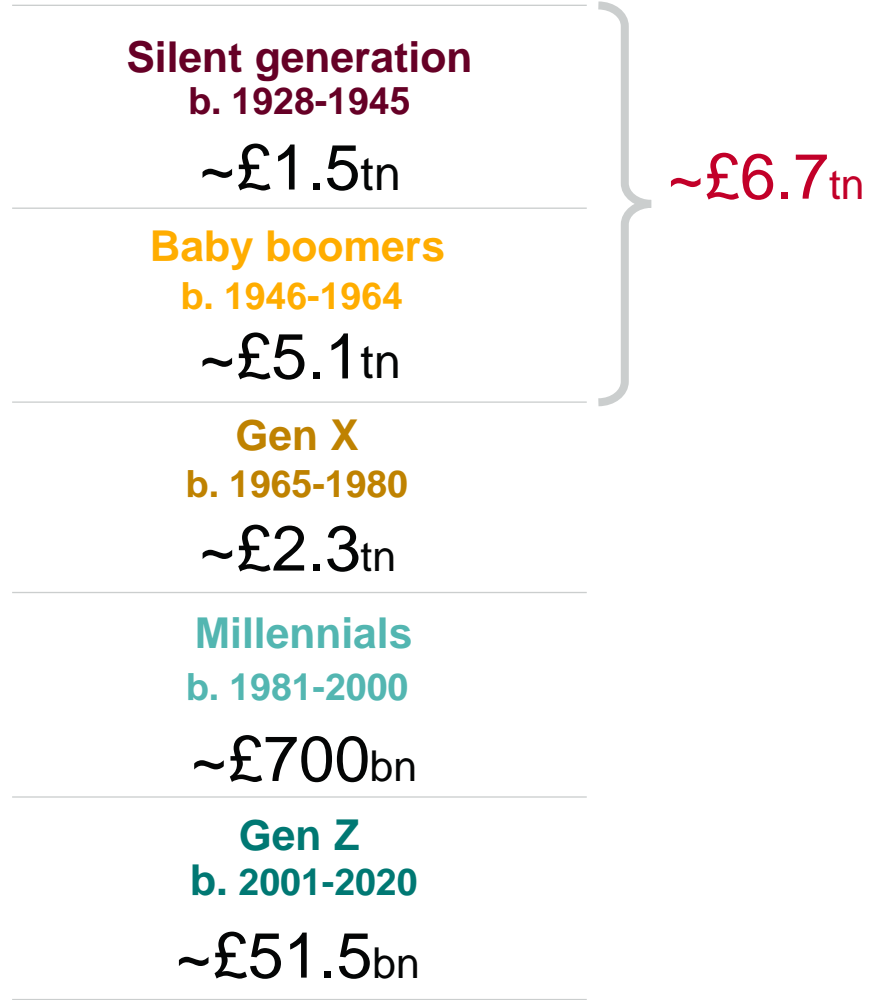
Our purpose: To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success

# Coming soon: The Great UK Wealth Transfer

# Population and wealth by generations in the UK - 2020



## Total Wealth by Generation £



# A generational shift:

Over the next three decades,

~£7 trillion

in wealth will change hands

UK inheritances currently ~£100bn  
annually, rising each year

Source: Vanguard Analysis based on ONS 2020 Wealth and Assets Survey, and 2020 National and Subnational Mid-year Population Estimates for the UK, Demos: A new age of inheritance (January 2023)

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# Generational wealth challenges: spanning borders and cultures

70%

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

Source: The Williams Group

*“From shirtsleeves to shirtsleeves in three generations”*

Often attributed to the Scottish-born American industrialist and philanthropist Andrew Carnegie (1835–1919) but is not found in his writing.



*“From shirtsleeves to shirtsleeves in three generations”*



*“From clogs to clogs in three generations.”*



*“From the stables to the stars to the stables.”*



*“The first generation creates wealth, the second maintains it, the third studies history of art and the fourth degenerates.”*



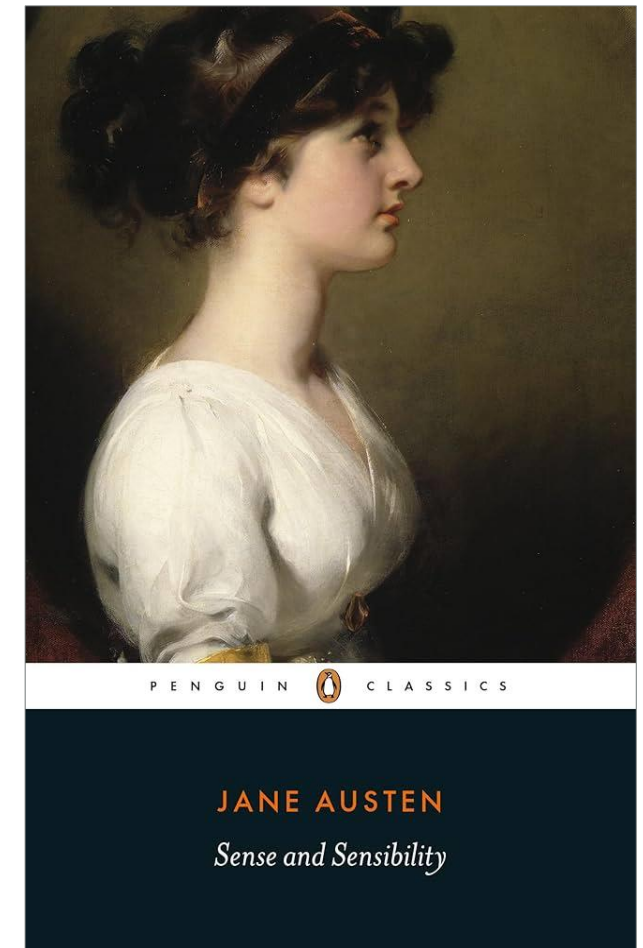
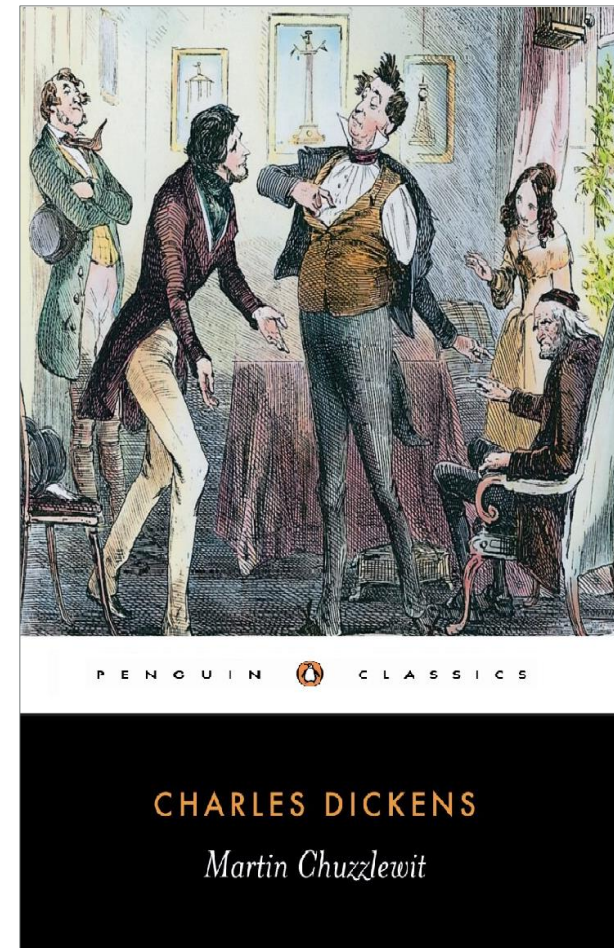
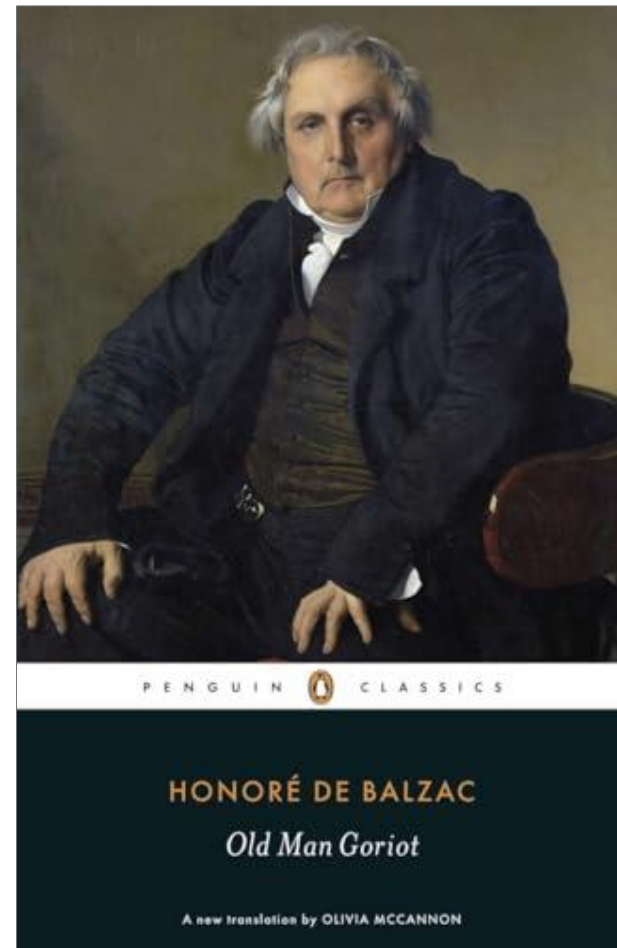
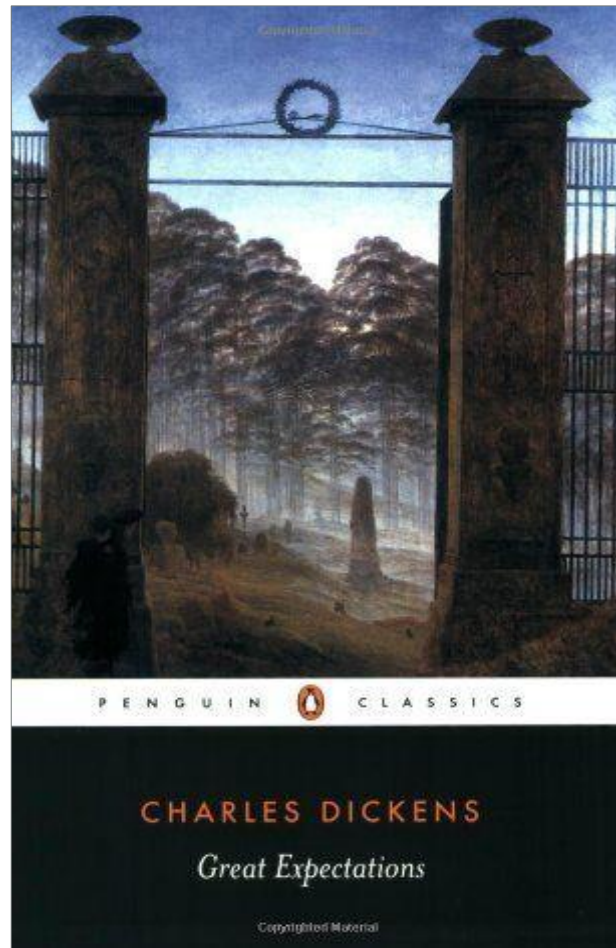
*“Third generation ‘ruins the house.’”*



*“Wealth does not survive three generations.”*

Sources: Wiktionary.org, www.gutzitiert.de/

# Inheritance is everywhere





**Inheritance is everywhere**

**Poor Legacy Planning:**  
A story by Guy Ritchie



# Painting a picture of the UK landscape

**10,000** wills disputed  
in the UK annually<sup>1</sup>

**300,000** families apply  
for probate each year. Process  
takes more than 30 weeks<sup>2</sup>

**36%** of Gen Zers & **29%**  
of Millennials (26-41) say they're not  
focusing on saving for their retirement  
because they're expecting to inherit<sup>3</sup>

**13,000** failed  
PETs in 2020-21<sup>4</sup>

More than **1m**  
LPAs registered in 2023<sup>5</sup>

**4 in 5** adults  
do not have an LPA in place<sup>6</sup>

While **60%** of baby boomers  
intended to leave money to the next  
generation, only 17% had a formal  
plan in place<sup>7</sup>

**41%** of Gen X and Millennials  
found it "uncomfortable" to discuss  
inheritance and wealth transfer with  
their parents<sup>7</sup>

**37%** of wealthy individuals  
reported family conflict around  
inheritance<sup>8</sup>

# Painting a picture of the UK landscape

36% of Gen Zers & 29% of Millennials (26-41) say they're not focusing on saving for their retirement because they're expecting to inherit<sup>1</sup>

While 60% of baby boomers intended to leave money to the next generation, only 17% had a formal plan in place<sup>2</sup>

# Women and advice

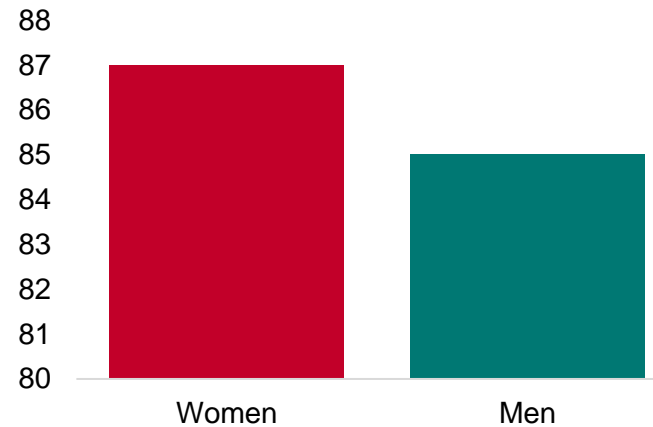
## Women are “Dual inheritors”

- Extra c2 years of Life expectancy on average<sup>1</sup>
- Women c2 years younger than spouse on average<sup>1</sup>

## Later life care

- In the UK, women outnumber men 3:1 in nursing homes<sup>2</sup>

Life expectancy at age 60<sup>1</sup>



70%

Up to 70% of women will move away from the financial adviser after the death of their partner<sup>3</sup>



# Children and advice

Some leading reasons:



Lack of previous engagement



Depletion of portfolio size



Mis-match in brand, generation, gender



?% of children would not consider retaining their parents' adviser after they receive an inheritance

# Children and advice

Some leading reasons:



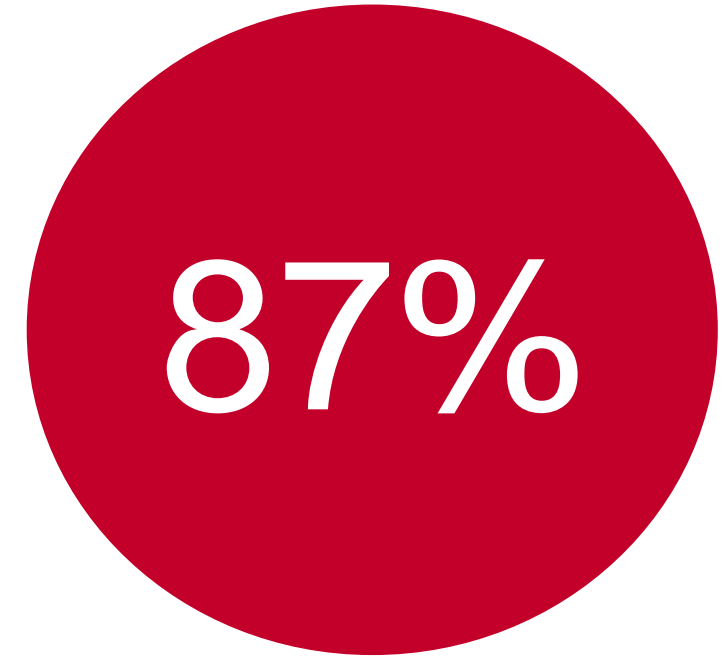
Lack of previous engagement



Depletion of portfolio size



Mis-match in brand, generation, gender



87% of children would not consider retaining their parents' adviser after they receive an inheritance

# Your practice: Consider some illustrative numbers

**87%** of children intend to fire their parents' financial adviser after they receive an inheritance

**70%** of women leave their adviser following the death of a spouse

# Your practice: Consider some illustrative numbers

87% of children intend to fire their parents' financial adviser after they receive an inheritance

70% of women leave their adviser following the death of a spouse

54%

×

70%

=

38%

Estimated Baby Boomer and older proportion<sup>1</sup>

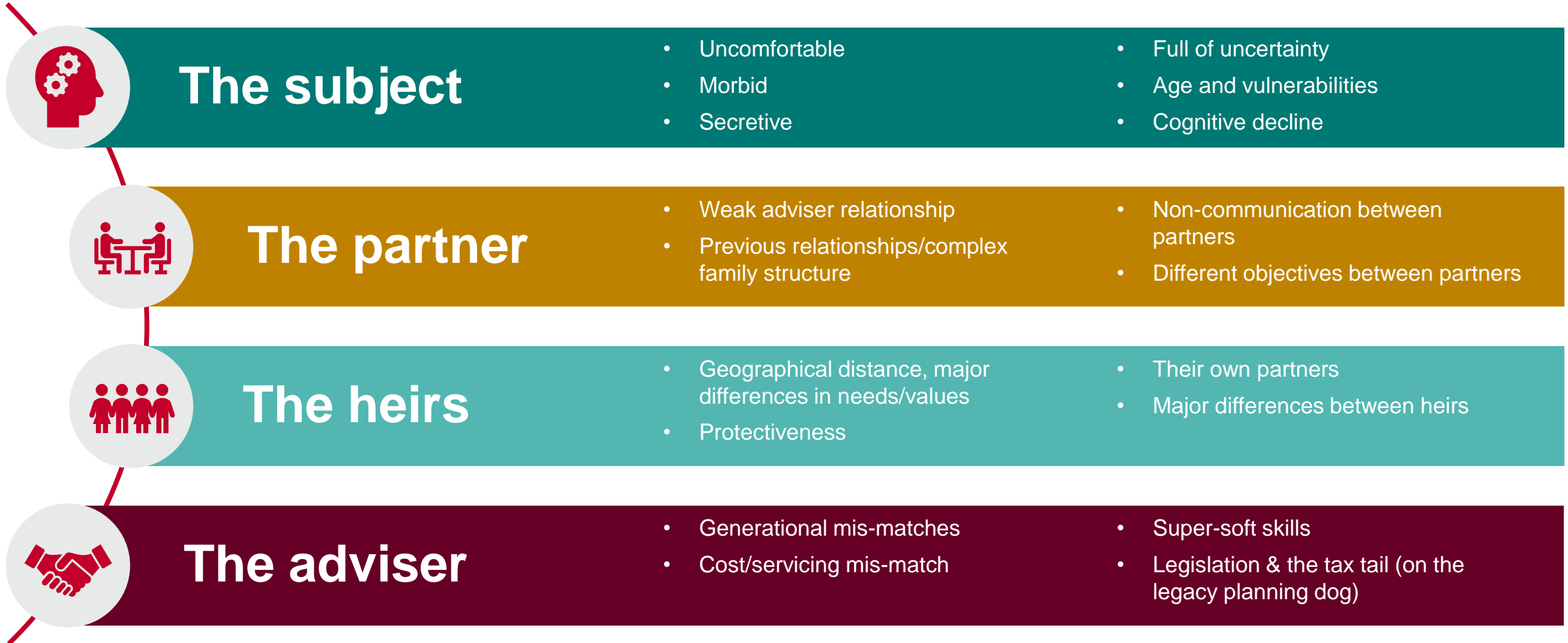
Advisers unappointed by client's survivors

Proportion of existing client bank not retained

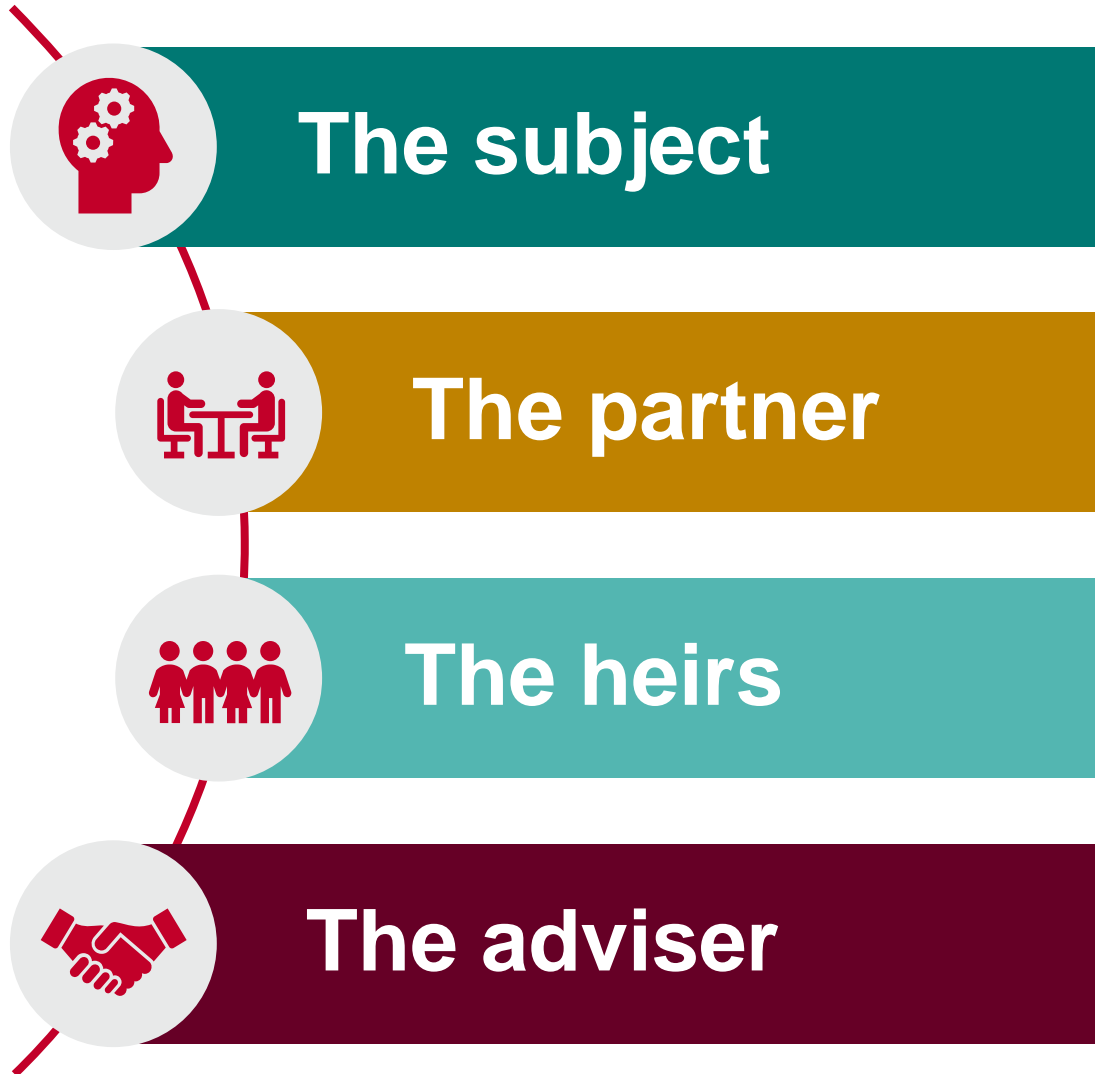


# Legacy: A very difficult topic

# Why so difficult?

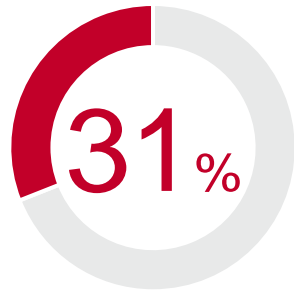


# Why so difficult?

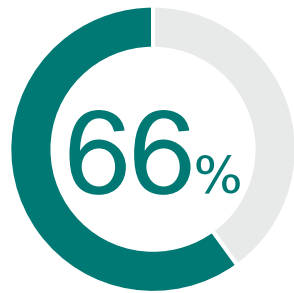


Which of these are the most difficult?

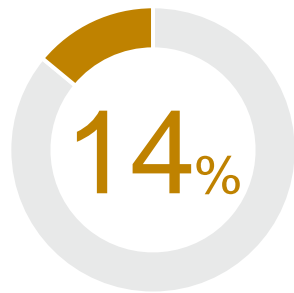
# Cognitive decline is a real risk



The lifetime risk of dementia is about 31% (37% for women, 24% for men)



Two out of three people can expect to experience cognitive impairment (both with and without dementia) in their lifetime.



The perceived cost of mistiming (from the investor's perspective) is estimated to be equivalent to 14% of net worth.

The image shows the cover and first page of a Vanguard Research report. The cover features the Vanguard logo in the top right corner, the title 'The risk of cognitive decline: Investors' perception and preparation' in white text on a red background, and the date 'August 2021' in the bottom right. The report content includes the author's name 'Anna Madamba, Ph.D.' and a bulleted list of findings. The first bullet point states that cognitive decline is characterized by cognitive impairment with or without dementia, and that estimates in the academic literature show that two out of three adults will experience cognitive decline, with about one in three suffering from its severe form, dementia. The second bullet point discusses how investors would manage the possible onset of cognitive decline, noting that a family member, especially a child, was the main choice of agent in case of incapacity. The third bullet point mentions that investors generally have some plans in place to address cognitive decline, but planning for more task-specific duties is less common. The fourth bullet point states that timing the transfer of control of finances correctly is key and can have significant implications for investor well-being. The report also includes an acknowledgments section at the bottom.

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## The risk of cognitive decline: Investors' perception and preparation

Vanguard Research August 2021

*Anna Madamba, Ph.D.*

- Cognitive decline is characterized by cognitive impairment with or without dementia. Estimates in the academic literature show that two out of three adults will experience cognitive decline, with about one in three suffering from its severe form, dementia. Our findings show that investors' estimates of their own cognitive decline risk are more in line with the risk for dementia than with the broader risk of cognitive decline.
- In our study, we assessed how investors would manage the possible onset of cognitive decline: who they would choose as agent to act on their behalf, any preparations they had made to mitigate this risk, and how they would handle the eventual transfer of financial control. We found that a family member, especially a child, was the main choice of agent in case of incapacity. In the absence of a child, other family members (such as siblings, nieces, or nephews) were often chosen, as were friends and institutions.
- Investors generally have some plans in place to address cognitive decline, such as having a power of attorney and a living will. But planning for more task-specific duties, such as identifying a person who will check mail or pay bills, prearranging care, and providing guidelines for the transfer of control of finances, is less common.
- In the event of cognitive decline, timing the transfer of control of finances correctly is key and can have significant implications for investor well-being. Our study measured the welfare cost of a mistimed transfer, which captures the value of being able to control when to hand over finances to an agent in case of cognitive decline. On average, we estimate that this cost is equivalent to 14% of net worth.

**Acknowledgments:** Thank you to Annette Bonner, Sophia Bunyaraksh, and Fu Tan for their support of the survey; to Kevin Wick, Andrew Yorgey, and Jacklin Youssef for planning consultation; and to the Vanguard Research Initiative (VRI) team of John Ameriks, Andrew Caplin, Minjoon Lee, Matthew Shapiro, and Christopher Tonetti for the joint academic research this paper is based on.

# The role of the adviser

# The Source of Advice Value



## Vanguard's 4 Pillar Framework for Advisers' Value

1

### **Financial value:**

advisers help investors to meet their financial goals and overcome obstacles and challenges along the way.

2

### **Portfolio value:**

building a well-diversified portfolio matched to the client's risk tolerance.

3

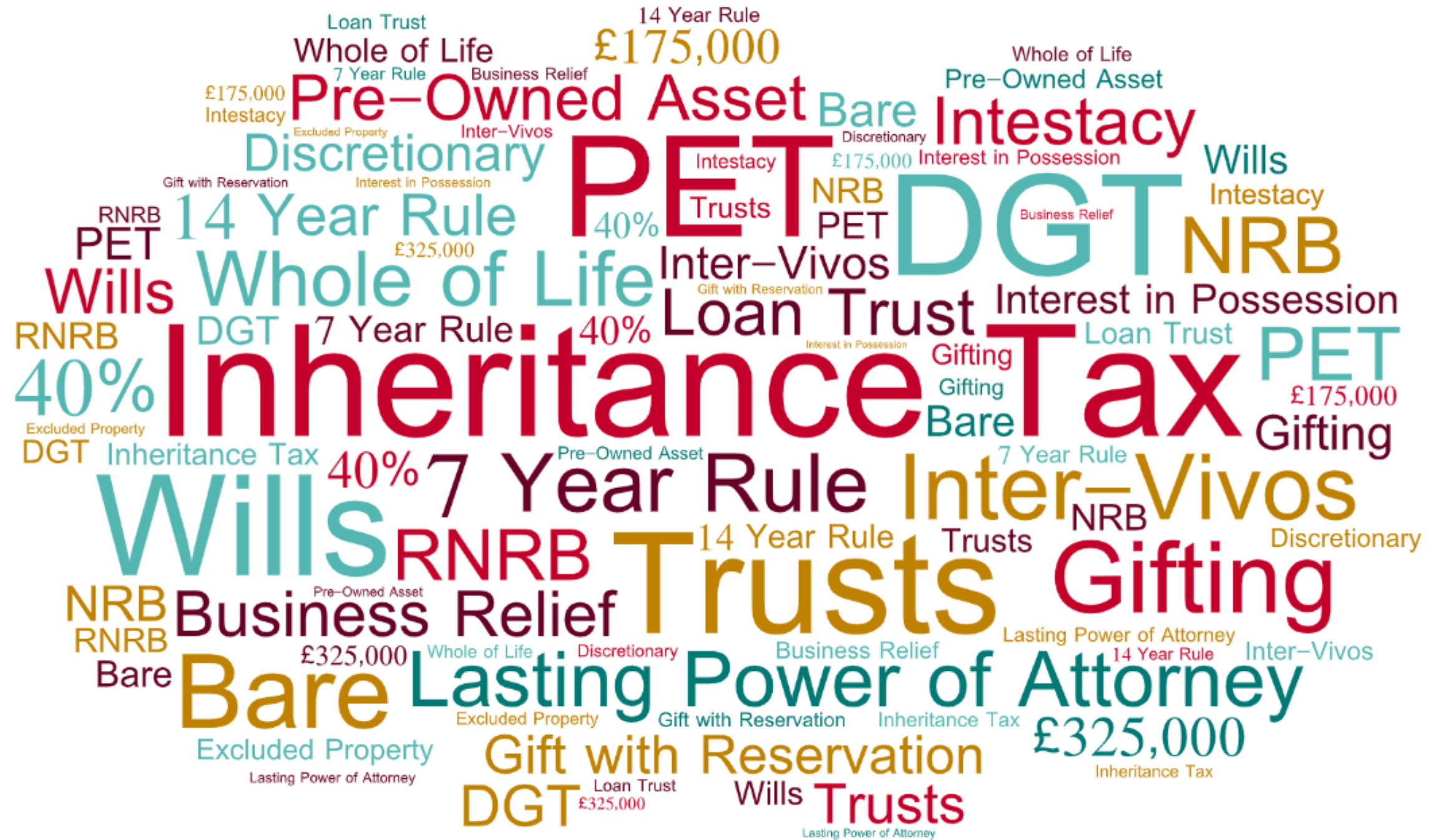
### **Emotional value:**

helping investors achieve financial well-being or peace of mind and instilling confidence in them.

4

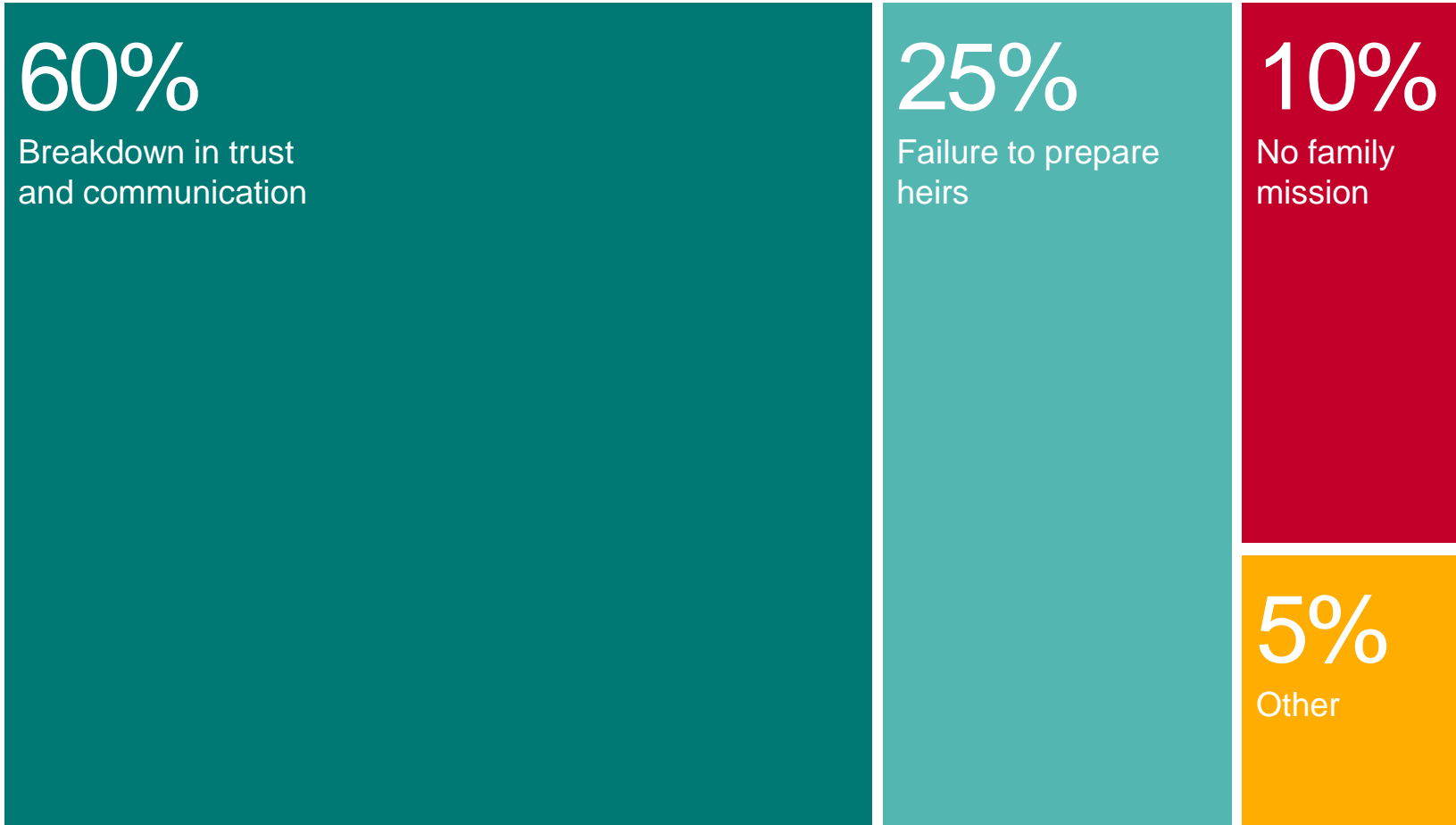
### **Time savings value:**

performing tasks for your clients that they may not have the capacity or knowledge to undertake themselves.



# Communication and trust are crucial

## Reasons family wealth is lost



## The components of trust

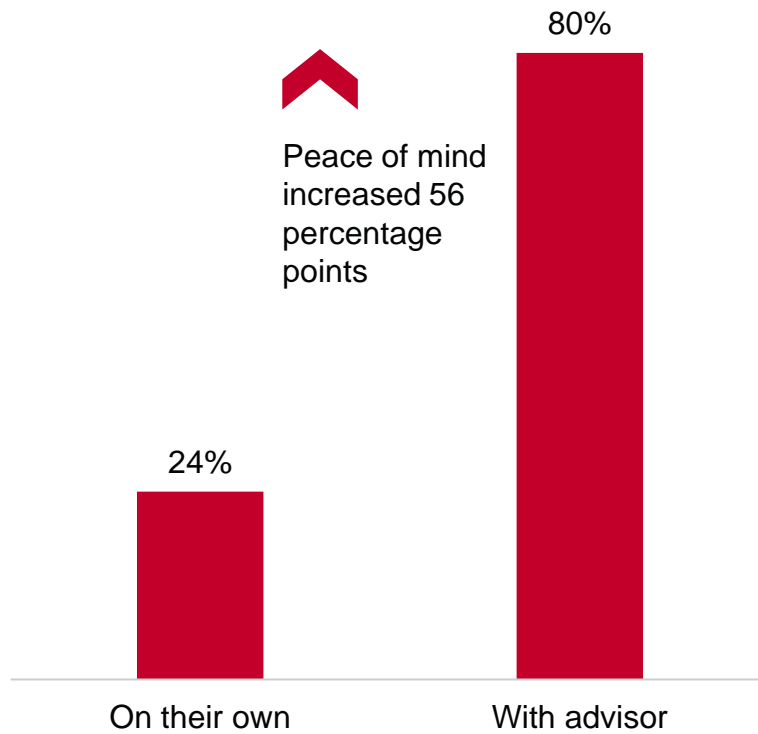




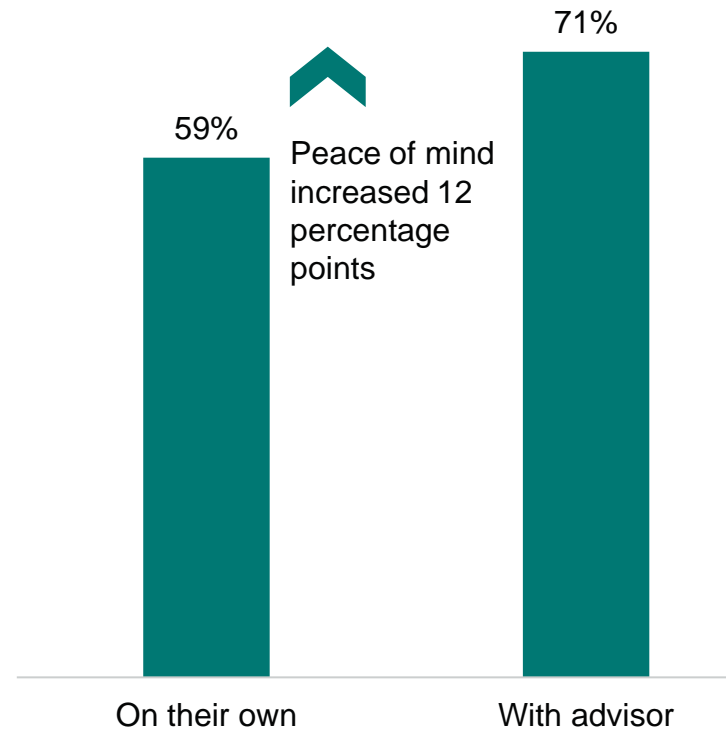
# Human advice retains the advantage

## Peace of mind added

### Human-advised



### Digital-advised



**Vanguard**


Vanguard research February 2022

## Quantifying the investor's view on the value of human and robo-advice


In this paper, we quantify how much investors value financial advice and where they believe advisors add value. Using a survey of more than 1,500 investors who reported having a human advisor, a digital service, or both, we found the following:

- **Advice adds value across the board.** Regardless of the method of delivery, investors believe advice provides higher incremental portfolio value than going it alone. The perceived value-add to annual performance was 5% for human advice and 3% for digital-only advice.
- **The loyalty to human advisors is enduring.** While more than 90% of human-advised clients say they would not consider switching to digital, 88% of robo-advised clients would consider switching to a human advisor in the future.
- **Clients prefer emotional support from human advisors.** Investors using human advisors estimate being \$160,000 closer to achieving their financial goals. Three times as many investors report having strong peace of mind when working with a human advisor as compared to going it alone.
- **Digital advice also serves a role.** Investors prefer digital advice for certain portfolio-management services such as diversification and tax optimization.
- **The preference for advice delivery type is not dictated by client age or wealth.** Across the board, clients suggest that human advisors should consider automating their portfolio management services, leveraging technology to scale their business while strengthening their uniquely human value.

**Authors**



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Ph.D.

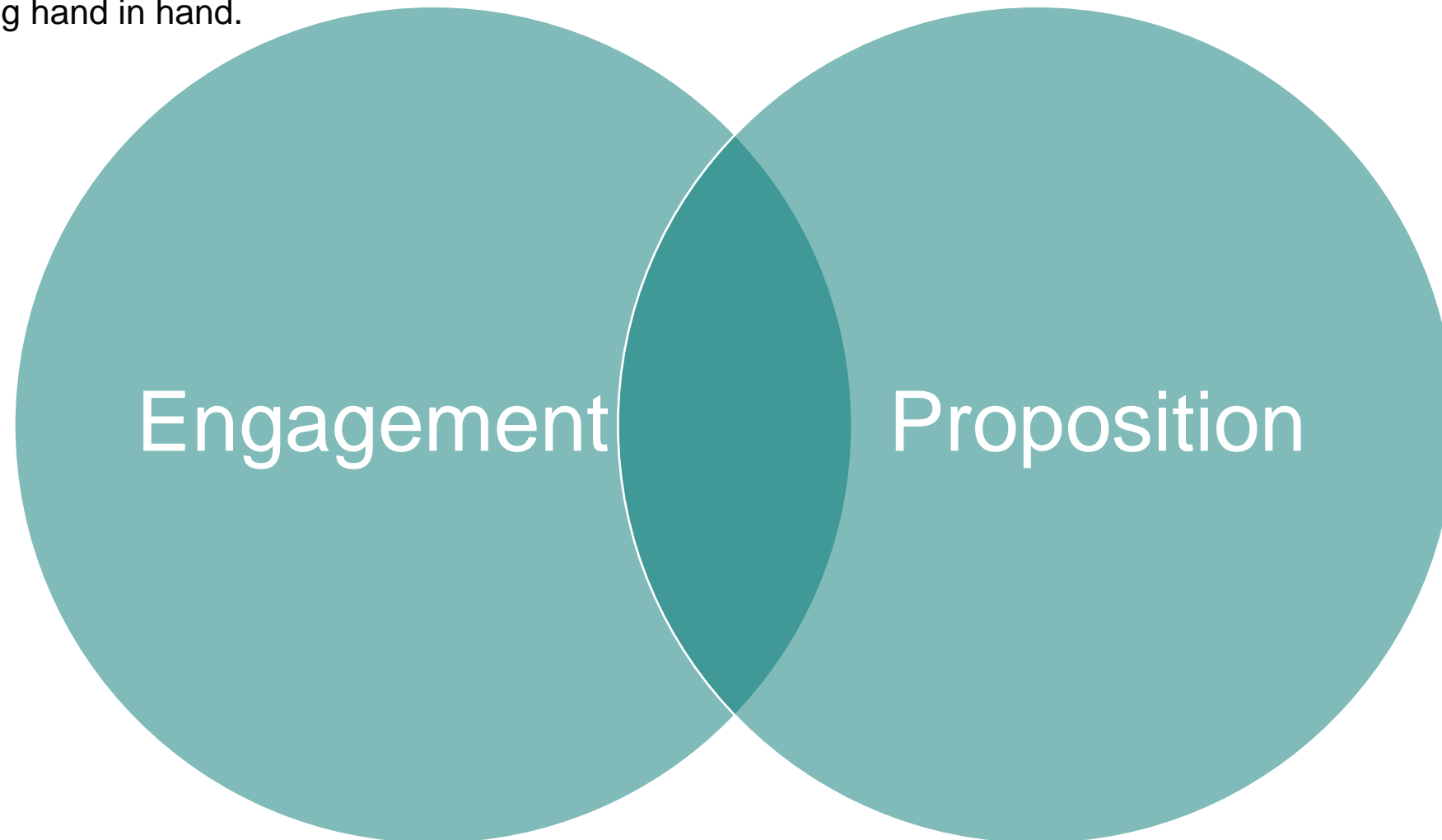


Jane E. Henshaw

Acknowledgments: We would like to thank Annette K. Bonner, Raja Das, Sam McCloy, Elizabeth Miller, and Maria Quinn for their survey development support.

# Two elements to succeed

We believe the key to success will be **engagement** and **proposition** development working hand in hand.



# 1 Prepare and identify opportunities



Explore and Identify Risks



Classify and segment client base



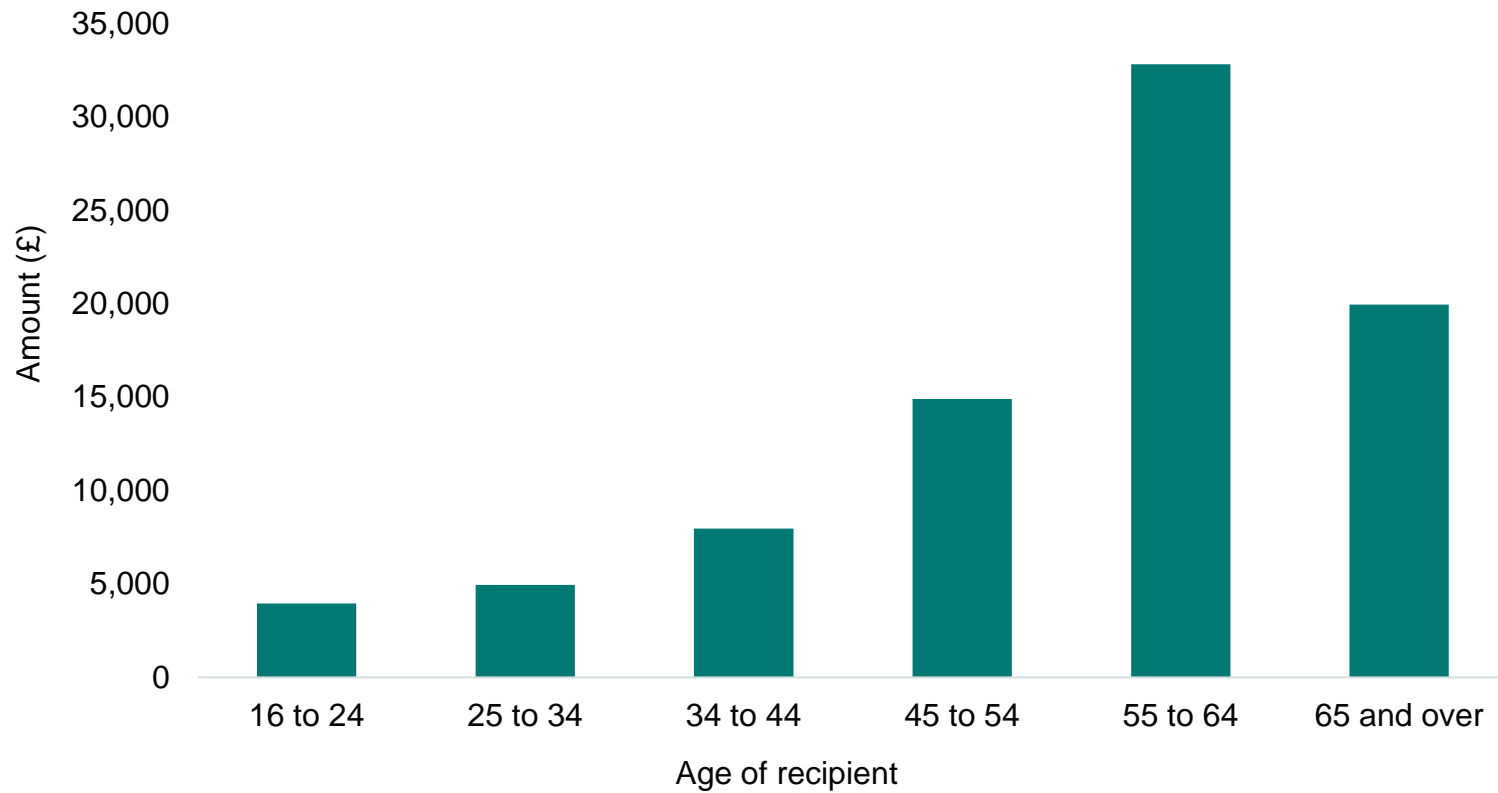
Don't overlook clients without children



# 1 Prepare and identify opportunities

## Know Your Client('s kids)

Median amount received in inheritances of the value of £1,000 or more



## 2 Engage primary clients

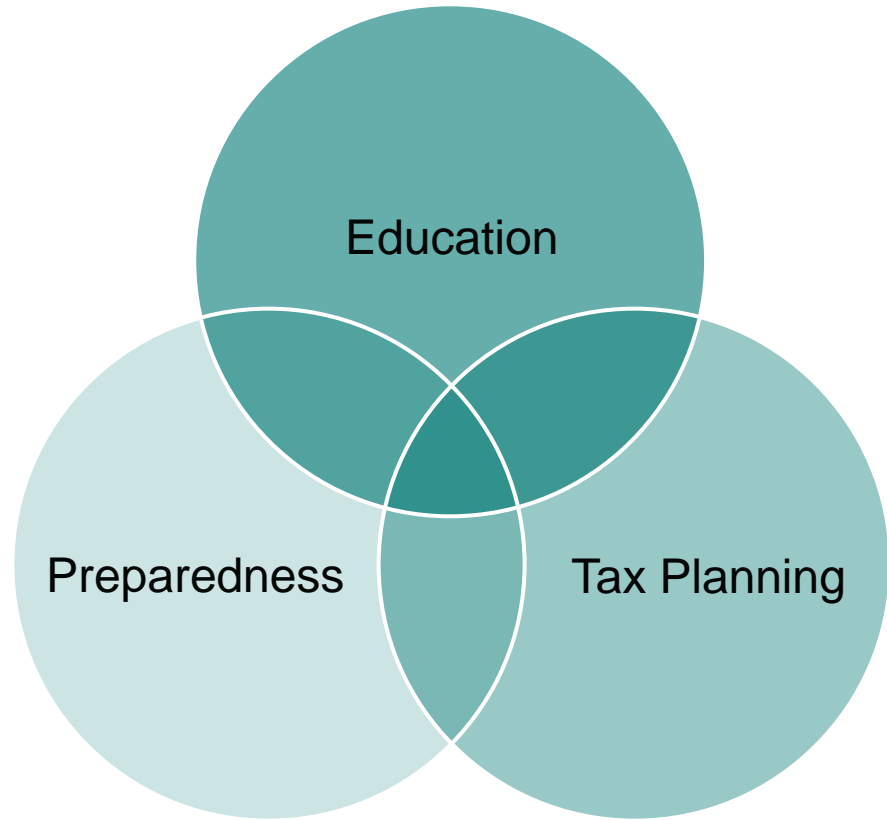
### Opportunity for the Conversation

Initial Onboarding	Second stage of initial Financial Plan	Annual Review
Wills / LPA 	Goal Change	Beneficiary Ages
Beneficiary events	Health Changes 	Just because...



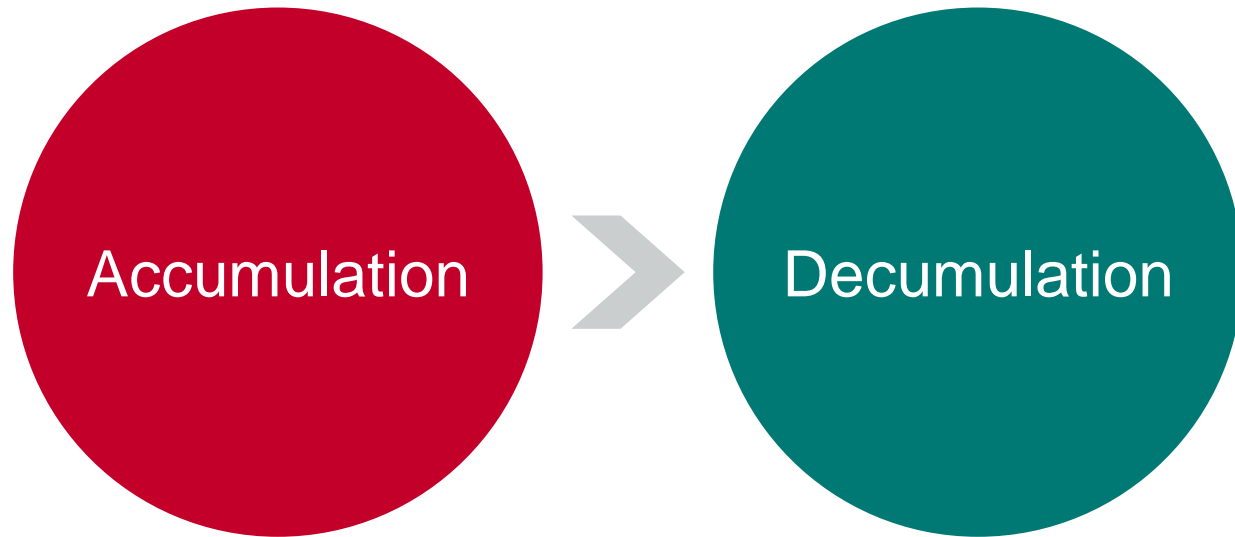
## 2 Engage primary clients

### Positioning



# 1 Hone your advice and service offers

## Needs: Accumulators vs Decumulators



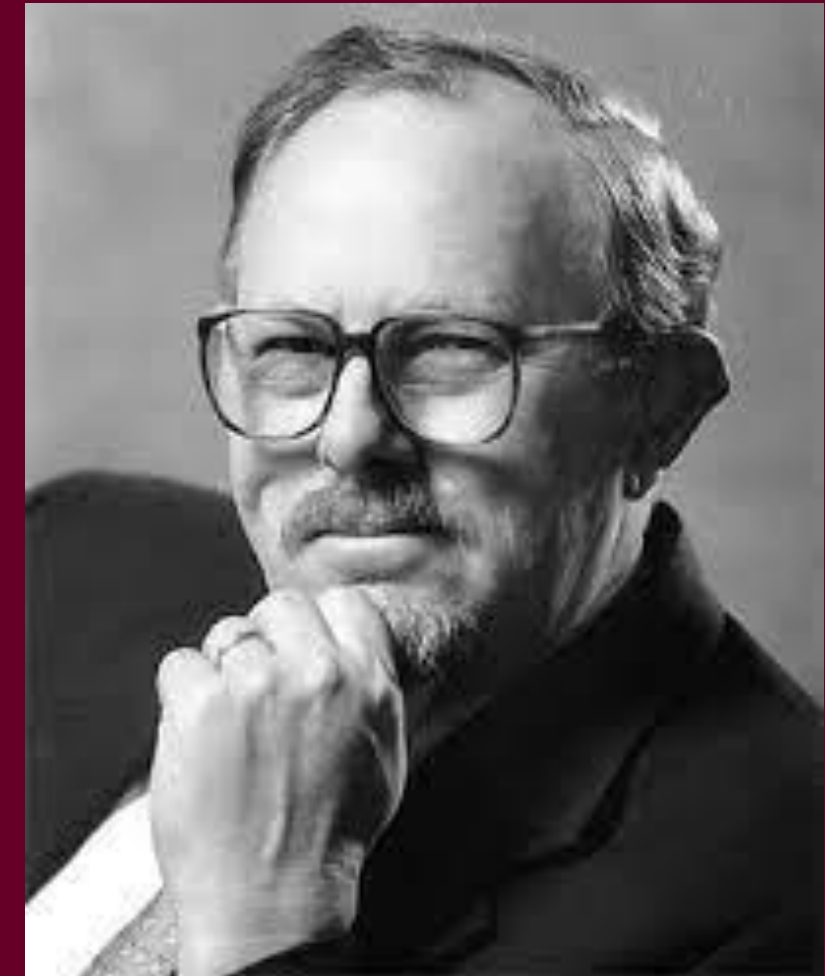
### More Homogenous

- Low fees
- Acceptable returns
- Low effort and low touch

### More Heterogenous

- Excellent Administration
- High interest and high trust
- Highly personalised

“Nastiest, hardest problem in finance”



— William F Sharpe

Economist and Winner of 1990 Nobel Prize in Finance

Source: Vanguard and CoreData collaboration 2024.

# 1 Hone your advice and service offers

Needs: Accumulators' Specific needs

## Accumulation

Deeper Protection needs

Borrowing

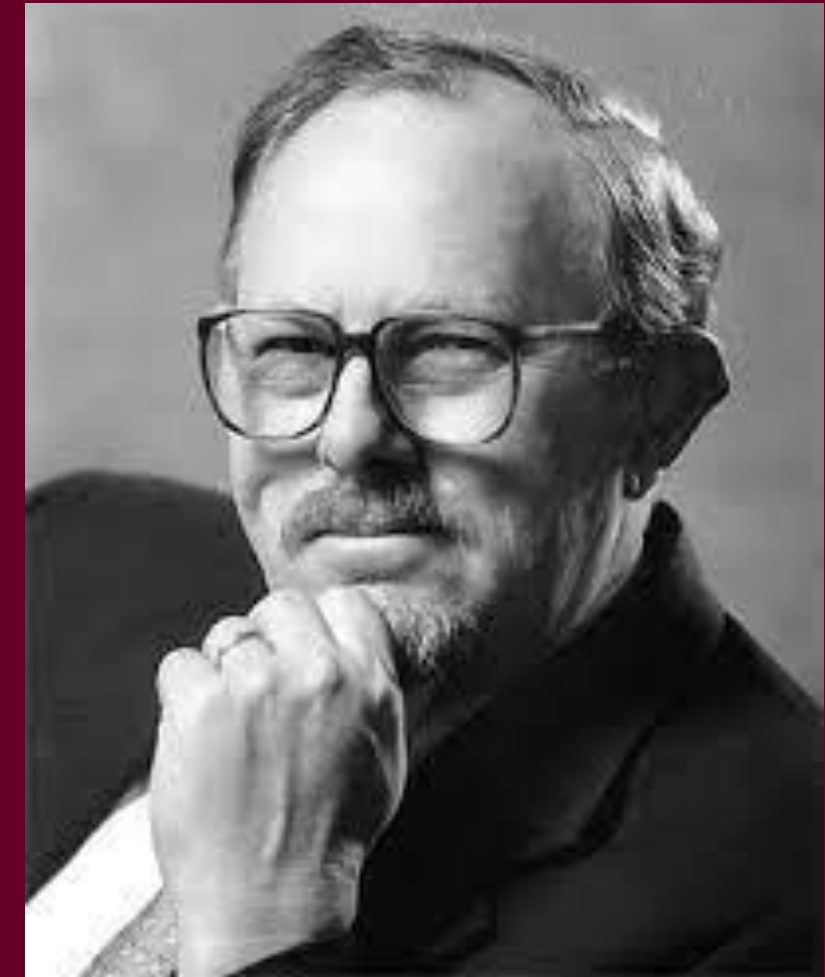
Cashflow Planning (retirement focus)

Servicing debt vs investing

Dual generation dependence

Educational expenses

“Nastiest,  
hardest  
problem  
in  
finance”



– William F Sharpe

Economist and Winner of 1990 Nobel Prize in Finance

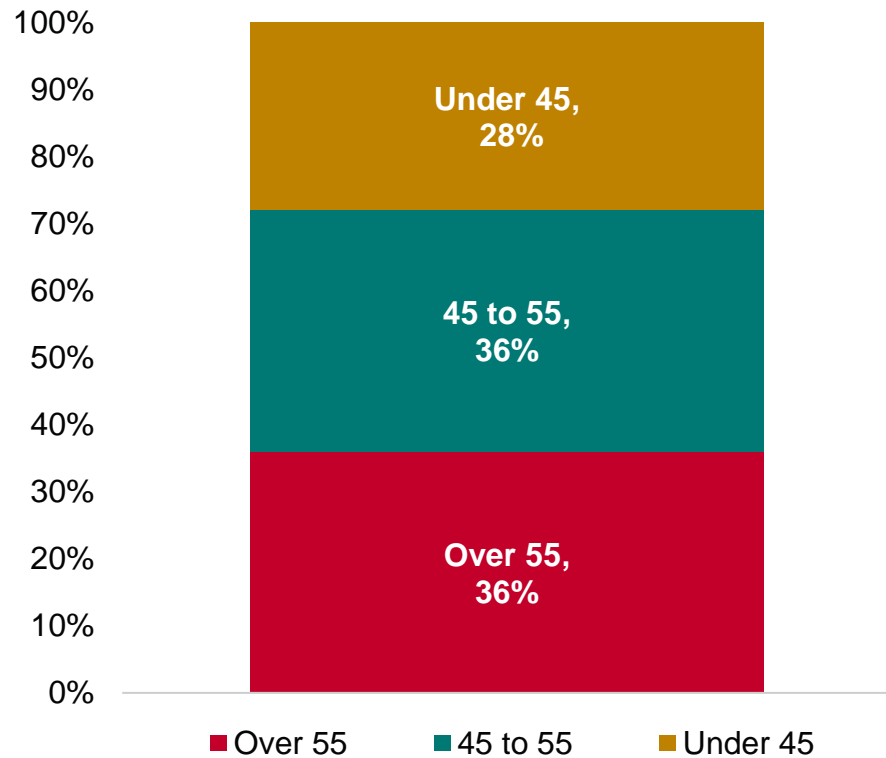
Source: Vanguard and Coredata collaboration 2024.



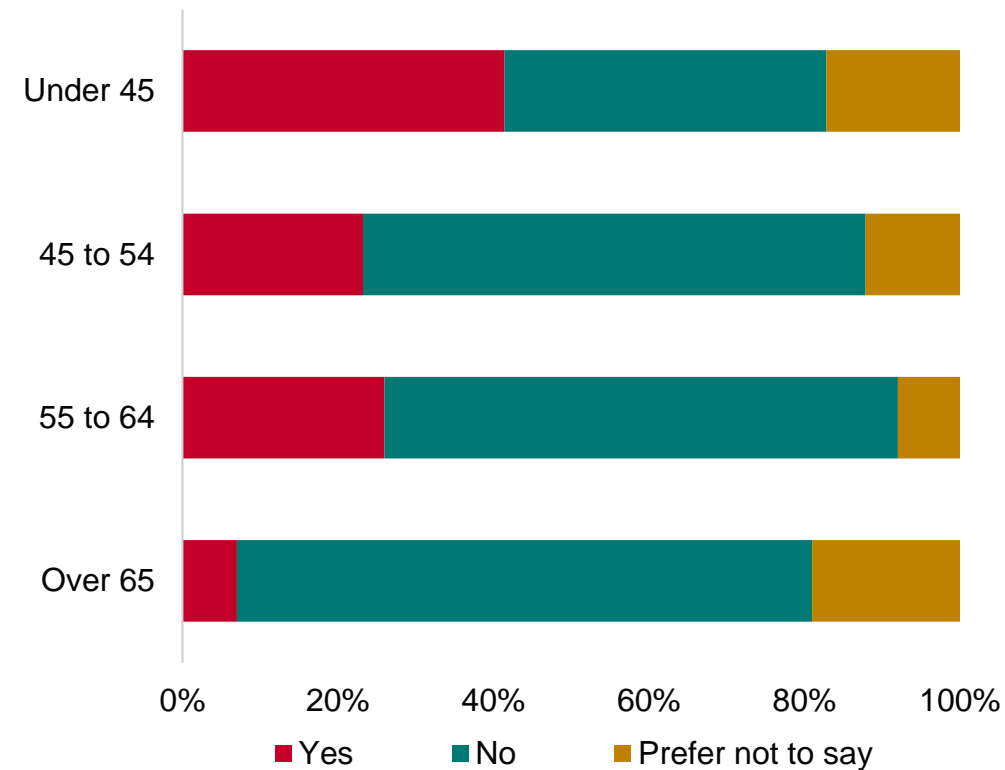
# 2 Develop your business model

## A Diverse and Multi-Generational Practice

Age Profile: UK Financial Planners



Firms looking to attract younger clients by age of adviser



of Chartered Financial Planners are women

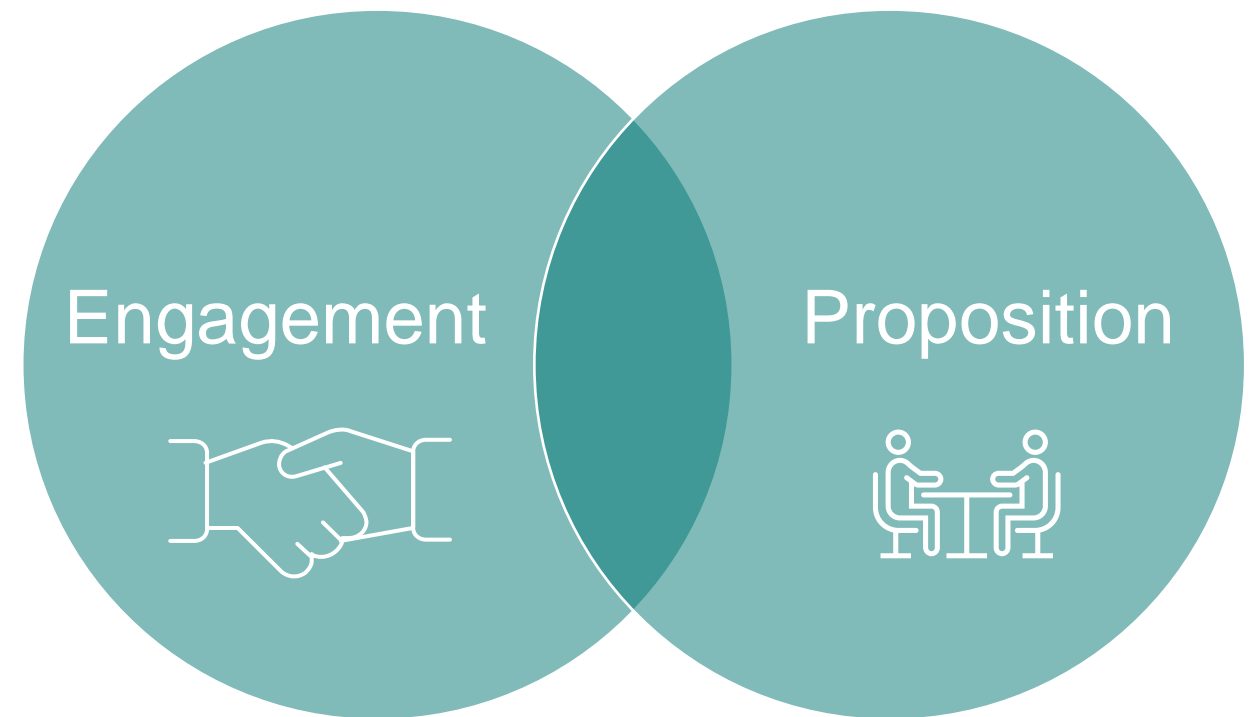
# In summary

**~£7 trillion**  
**UK wealth transfer**  
over the next 3 decades

**UK inheritances currently ~£100bn**  
annually, rising each year

- A threat for firms who do not adapt
- An opportunity for firms who take appropriate measures

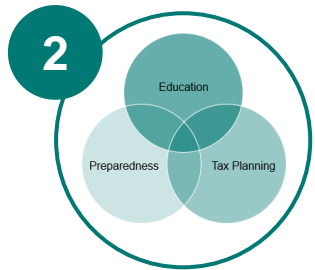
We believe the key to success will be **engagement** and **proposition** development working hand in hand.



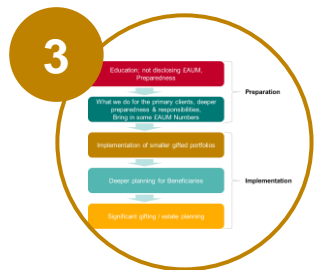
# Adviser call-to-action: first 3 Steps



Examine your client bank and prioritise

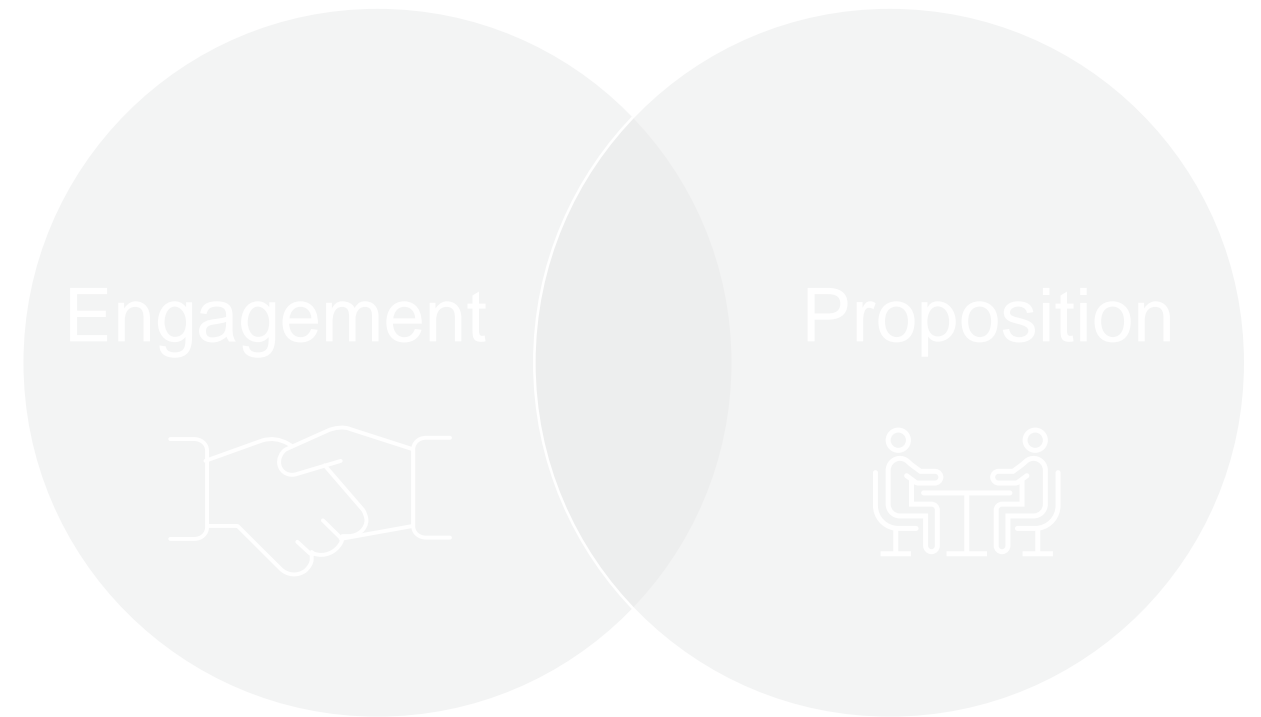


Plan how to position with your first client



Engage primary clients and get a “Yes”

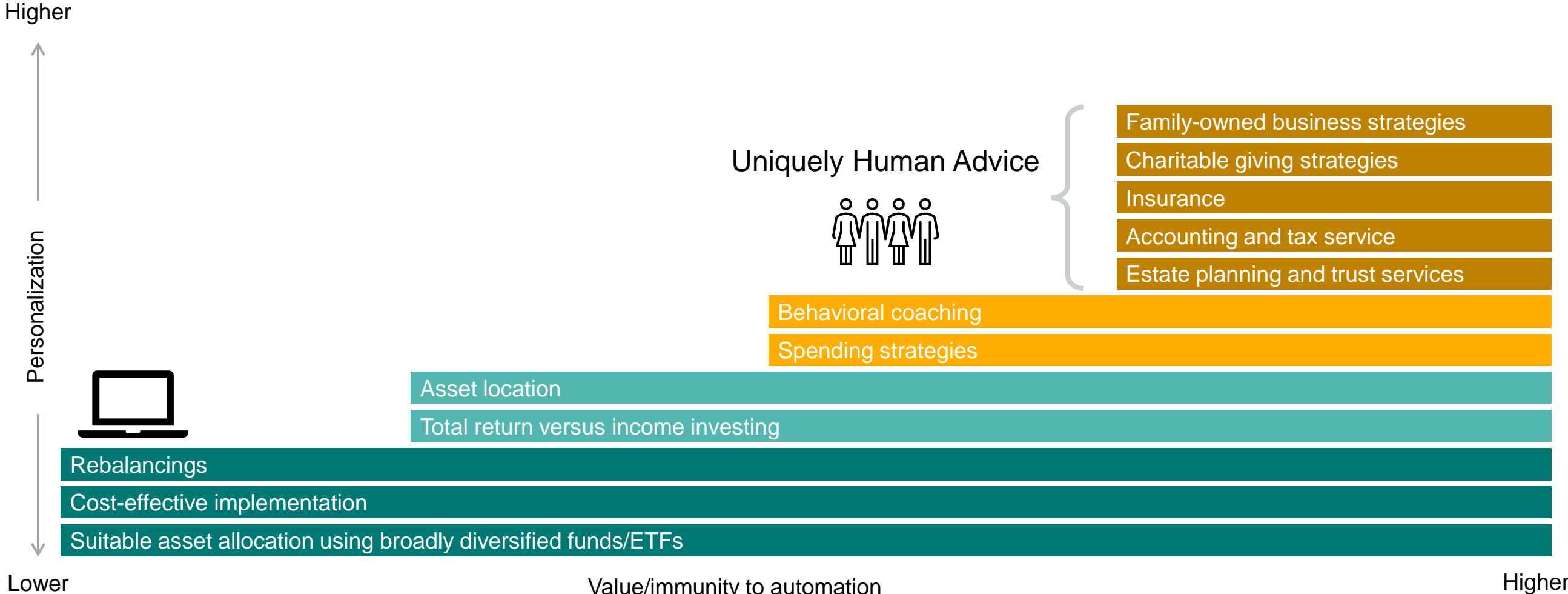
We believe the key to success will be **engagement** and **proposition** development working hand in hand.



# Questions/Discussion Time

# Appendix

# Focus on the uniquely human problems



# Actionable Framework



## Engagement

- 1** Prepare and Identify opportunities
- 2** Engage primary clients
- 3** Bring the next generation into the conversation



## Proposition

- 1** Hone your advice and service offers
- 2** Develop your business model
- 3** Embrace technology

# Resources you can share with your clients

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## 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 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 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
2. I understand the mechanics of credit and debt and how to manage them prudently.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
3. I understand the mechanics of saving, compound interest, and the importance of using them to meet long-term goals.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
4. I understand the importance of focusing on saving for retirement.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
5. I am clear on my investment goals.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
6. I understand investment concepts such as asset classes, asset allocation, diversification in a portfolio, and rebalancing.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
7. I understand stock and bond market concepts such as risk, return, and volatility.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
8. I have the time, willingness, and ability to manage my investment portfolio.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
9. I understand the purpose and structure of basic estate planning vehicles such as wills, trusts, and power of attorney.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
10. I understand the roles and responsibilities of trustees, and beneficiaries.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
11. I understand the rules and tax impacts around making charitable gifts.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
12. I understand how different estate-planning approaches can be used to mitigate inheritance tax.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>

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## Couple 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 finances independently? While going through this exercise can be challenging, it's an essential step in your overall planning.

**Why should you discuss "being prepared" as part of your 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 partners in a couple 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.

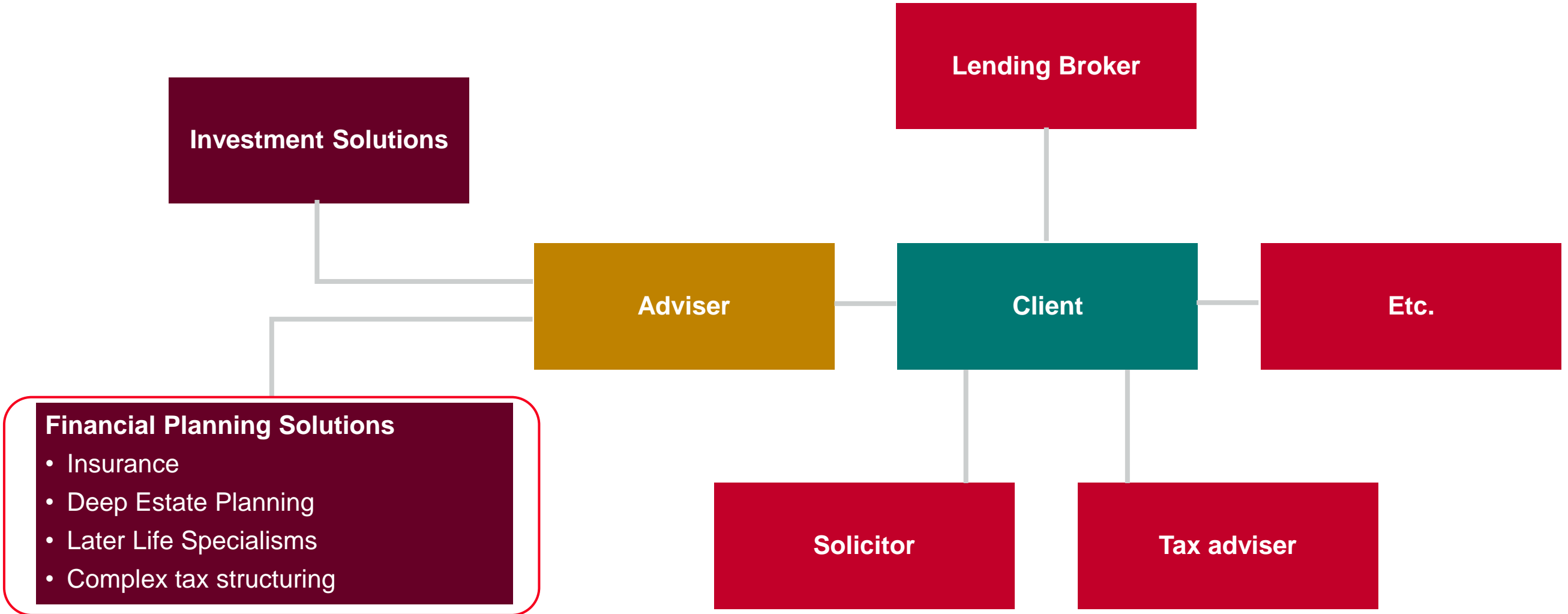
STATEMENT	STRONGLY DISAGREE		MODERATELY AGREE		STRONGLY AGREE
1. I know and understand our approximate net worth.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
2. I know how to make payments for our living expenses and how to access our financial accounts.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
3. I know where all our important documentation is located so I can access information quickly.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <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 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
5. I know where our financial assets are located and which financial providers we use.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
6. I have relationships with our financial providers, so I feel comfortable calling them when needed.	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>
7. I understand the purpose and details of estate planning arrangements we have in place such as wills, trusts, powers of attorney	1 <input type="radio"/>	2 <input type="radio"/>	3 <input type="radio"/>	4 <input type="radio"/>	5 <input type="radio"/>



## 2 Develop your business model

### Partnering and Specialisms

#### Traditional model



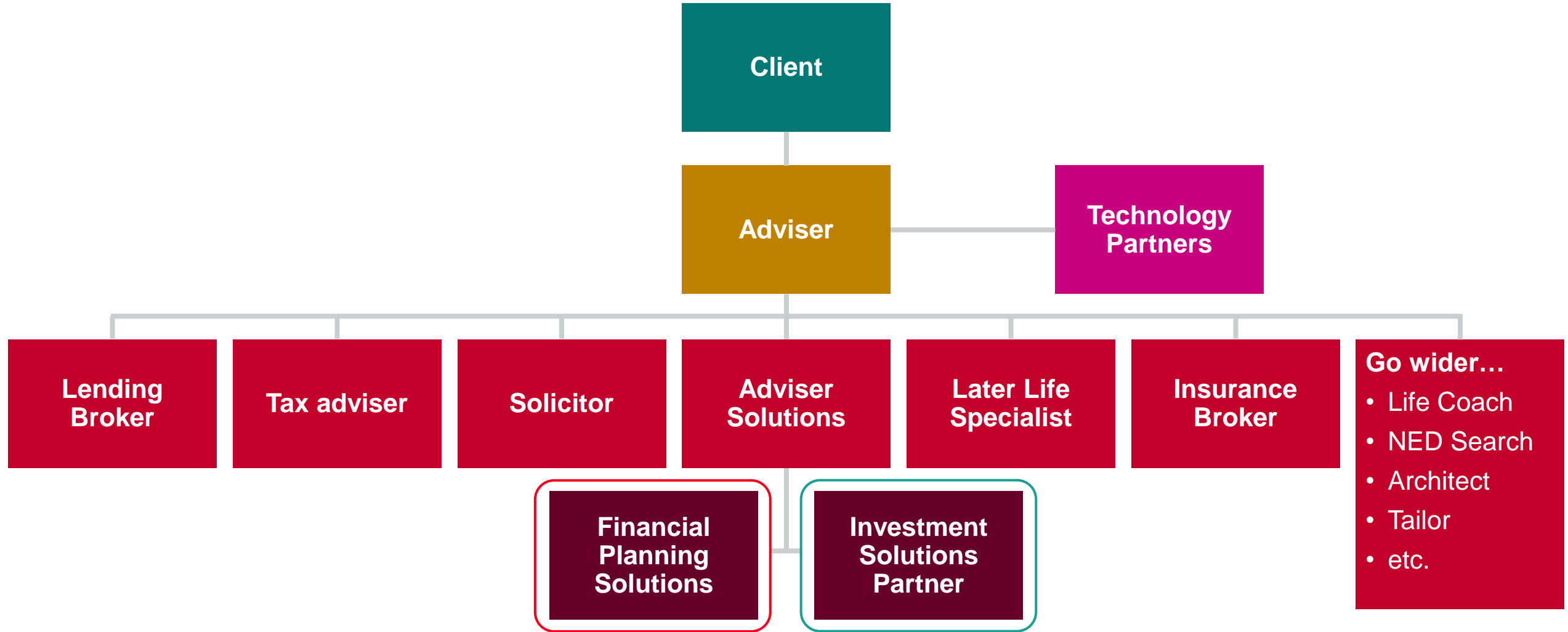
**Financial Planning Solutions**

- Insurance
- Deep Estate Planning
- Later Life Specialisms
- Complex tax structuring

# 2 Develop your business model

## Partnering and Specialisms

### Specialism Model



# Investment risk



The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

## Important information

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