ADVISOR INSIGHT

Great wealth transfer will be $30 trillion—yes, that's trillion with a T

COMMENTARY

Cam Marston, special to CNBC.com
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The "great wealth transfer" is under way.

According to a study from consulting firm Accenture, baby boomers have started to pass along their life savings to their heirs, and this process will continue over the next few decades. When done, some $30 trillion will be transferred from one generation to the next.


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The key for financial advisors is finding a way to capture that wealth—and the loyalty of those soon-to-be-enriched Generation X and Generation Y investors. They may not be the most desirable client segment right now, but they will be important in the years to come.

Despite entering the workforce at the start of the recession, Gen Y investors, also known as millennials, still have a reputation as an entitled generation. The key question revolves around how this plays into their expectations around money, as well as how much they may inherit.

Meanwhile, Gen X investors have always wanted to forge their own way. However, are they secretly waiting for their parents' inheritance to "catch a break," as dark as that may sound?

While there's big talk around the amounts the baby boomers will leave behind, what happens if those boomers, in their zeal to live forever, spend it all?

The questions are generational, and the answers are quite personal. Financial advisors are in the best place to facilitate the many conversations.

Whether your clients represent the older or younger generations, it is important to uncover the expectations of both the parents and their children. Understanding how each generation thinks and communicates can help you facilitate what could otherwise be an uncomfortable discussion.

Baby boomers: Boomers tend to be success-oriented. Many dedicated their lives to their careers. It is where they found fulfillment and identity. They may expect that level of self-reliance and stick-to-it-iveness from their children. "The only inheritance you'll get is a good work ethic," some say. Still, legacy is important.

Advisors need to center the discussion on expectations for their own retirement years and the financial security of their children and grandchildren. Find out if they are at odds with one another. If so, help them develop a plan to achieve some balance.

Boomers may be interested in inheritances that skip a generation. It may sit better to provide college tuition for the grandchildren rather than a general trust for adult children. They may consider the spending they do today as a living gift. Visiting family or helping care for grandchildren can be both a financial consideration and part of enjoying retirement.

Questions to ask baby boomer clients:

- Do you plan to leave an inheritance to your children? If so, what type and how are you planning for it?
- Have your plans regarding inheritance changed in recent years?
- Are your children aware of your plans? Do they understand precisely how they are included (or not) in your investment strategy?
- Do you yourself expect to receive an inheritance at some point?

Generation Xers: Gen X has seen the establishment falter. They prefer to do things on their own, and they possess deep appreciation for what matters most. They want strong ties with their children and may see money as a way to stay connected. They also can be slightly unrealistic when it comes to financial planning.

Conversations with Gen X clients should involve details. They are hesitant to divulge information and may only want to talk generalities. Help them see that details will allow them to achieve their goals.

Gen X is quick to assume ulterior motives, so clear, precise language is important. Unaddressed assumptions will quickly derail important discussions.

Here are some questions to ask them:
- Do you expect or hope to receive a family inheritance (from parents or grandparents?)
- If so, are you clear on what that inheritance may be or how it will be structured?
- When was the last time you discussed this with your family? Do you have plans for it?
- Do you wish to leave an inheritance for your own children? What kind?
- What might keep you from being able to achieve that goal?

Millennials: Gen Y grew up in a time of relative prosperity. Millennials are also the first generation collectively expected to fare worse than their parents. Still, they are confident and idealistic. It can be difficult for them to accept answers that differ from their preconceived ideas.

But they may not have big expectations yet. Most millennials are not looking too far into the future. This can make it difficult to get their attention. It can also make it easier to open doors for discussion.

They are less encumbered by formality, less inclined to see the discussion of money as taboo. After all, this is the generation of Instagram, Facebook and Snapchat. Sharing—and oversharing—is in their DNA.

Here are some conversation starters with the Gen Y crowd:
- What are your financial goals?
- Do you see your parents or grandparents playing a role in achieving those goals?
- Have you had specific conversations with them?

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No matter who your audience is, clarity is essential.

"Of course they know" is assumption, not fact. You can't build a financial plan on "My parents always said we'll be taken care of." Difficult conversations today can mitigate pain later.

And make no mistake: There is a clear communication gap out there. MetLife Mature Market Institute found that 33 percent and 31 percent of millennials and Gen Xers, respectively, think that leaving an inheritance is a family responsibility. Only 23 percent of boomers feel the same.

A fairly fundamental family value is not equally shared, which likely means it isn't being discussed. It is also likely that someone—or everyone—is making assumptions. And we all know what happens when you assume.

—By Cam Marston, president of Generational Insights and author of "Motivating the 'What's In It for Me?' Workforce" and "Generational Insights."
