

Red Flags for Advisors – Communication Gaps with Affluent Clients

By Dan Richards

May 10, 2011

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.

When hard facts come to light that contradict your preconceptions, it's time to sit back and reassess your thinking. That's exactly what advisors should do following a new research study of Americans with at least \$3 million in investments.

Just released, the study points to alarming deficiencies in estate planning and gaping communication gaps between many wealthy Americans and their spouses, children and advisors.

For instance:

- *Even though 84 percent of parents think their children would benefit from discussions with a financial professional, six in 10 have never introduced their children to the professionals managing their financial affairs.*
- *Wealthy Americans are increasingly interested in seeing the impact of their giving now, rather than leaving a legacy when they pass away. Despite this, four in 10 have never sought advice about legacy planning or philanthropic strategies.*

Further, few affluent Americans have well-developed plans to preserve and pass on their assets to either their children or charity. When it comes to financial goals, less than half of wealthy parents put leaving an inheritance to children as a priority; this was fifth on the things they want to do with their money, just ahead of “having fun.”

This is despite the fact that many affluent Americans consider the success of their children to be one of the most important measures of their own success. This points to a dramatic divide between the priority that previous wealthy generations gave to transferring wealth to children compared to the importance placed on this by many affluent boomers.

Even if your clients don't have investments of \$3 million, there are still important lessons from this research, conducted earlier this year among almost 500 affluent Americans and commissioned by the U.S. Trust division of Bank of America.





Selected research findings and excerpts from the press release follow:

Boomer plans for retirement

Many of today's affluent baby boomers are self-made, first-generation wealthy who are just beginning to enter retirement but show no signs of slowing down.

- *The top activity in retirement is expected to be volunteer activity, listed by 55% of boomers.*
- *Almost half said they will continue working in retirement, many planning to start a second career or new business. Notably 21% said they will never retire.*

Key takeaway:

Many boomers looking to consult, teach or volunteer on boards of local charities are in for an unpleasant surprise – when they say they want to work or volunteer, few are thinking of being a greeter at Wal-Mart or volunteering at a food bank.

The number of boomers seeking high-income jobs and prestigious volunteer roles is already outweighing the number of opportunities – many universities and colleges have seen a glut of inquiries from retired executives about teaching, well beyond the demand for these positions. One important role for advisors is to provide a reality check for boomers who are incorporating significant income from part-time work, consulting or teaching into their retirement thinking.

Financial priorities in retirement

Having worked hard for financial security and freedom, affluent Americans now want to be able to travel and focus on relationships.

The top priorities for using their money among affluent Americans:

1. *Financial security*
2. *Financial freedom*
3. *Travel*
4. *Improving relationships with family and friends*

“Leaving an inheritance” was in fifth place; tied for sixth were “having fun” and “making a positive impact on society.”

Key takeaway:

The importance of travel creates an opportunity for advisors looking to deepen client relationships. Consider exploring a relationship with a travel agent who specializes in travel



for active seniors – of note, the kind of travel most retired boomers have in mind is very different than the bus tours of Europe their parents took. Some advisors have seen a great response to quarterly presentations on interesting and unusual travel destinations – and in some cases have established referral relationships with travel agents specializing in high end travel. (Note that high-end trips for seniors is one of the fastest growing niches in the travel industry.)

As part of this, be sure to inform yourself about out of country-specific health insurance options for seniors – health insurance while abroad is a big concern for many retirees interested in travelling.

Insufficient estate plans

Many affluent Americans have only basic financial and estate plans:

- *While 88 percent of the wealthy have an estate plan in place, nearly four in 10 say their estate plans are not comprehensive.*
- *Almost half indicate that there are gaps in their understanding of some aspect of their estate plan.*
- *Most estate plans contain basic elements such as a will and beneficiary designations for insurance and retirement savings, but more sophisticated tools such as revocable trusts, irrevocable trusts, life insurance trusts and charity trusts are only utilized in 10% to 50% of cases.*
- *Fifty-six percent have not documented personal property and assets, and half (51 percent) have not documented instructions about the distribution of personal possessions among heirs, often a source of family conflict and heartache in the settlement of estates.*
- *Only 30% have a power of attorney.*
- *Four in 10 do not have a financial plan that factors in the impact of long-term care and/or end-of-life healthcare costs on family wealth.*
- *Astonishingly, only 3 percent of wealthy business owners have a business succession plan in place.*

Key takeaway:

This survey points to huge deficiencies in estate plans of many wealthy investors – just the 97% of business owners without a succession plan should set alarm bells off.

This research report could be a catalyst in talking to clients about their estate plans. When setting up the next meeting with affluent clients, consider saying, “A recent survey of affluent investors indicated that many had significant gaps in their estate plans around things like documentation of assets, powers of attorney and the use of different kinds of trusts. I wonder whether this is something we should review at our next meeting.”



Communication gaps with spouses

Almost all affluent Americans have discussed some aspect of their financial situation with their spouses – 90% have talked about taxes and almost 80% have discussed investment decisions, risk tolerance and conversations with their financial advisor.

More difficult conversations are less likely to take place:

- *30% haven't discussed income needs in retirement.*
- *One third haven't talked about each other's debts and obligations*
- *Four in 10 haven't shared the details of their estate plan*
- *Almost half haven't discussed plans for long term care*

These are overall averages – in every case, men are less likely to have talked about these issues with their wives than vice versa.

Key takeaway:

Ensuring that both members of a couple fully understand where they stand financially isn't just the right thing to do, failing to do so could expose advisors to litigation after the "dominant client" passes away. Recognizing that this can be a sensitive topic, you can offer to help break the silence. In cases where you normally deal with only one member of a couple, suggest facilitating a joint conversation with their spouse about unanswered questions on where the couple stands on their finances. Worst case, you can always blame your compliance department for insisting that you have this conversation.

Concerns about children and wealth

Even among parents planning to leave an inheritance, many are concerned about whether their children will be prepared to handle it. Among wealthy parents surveyed:

- *Only about one in three strongly agree that their children will be able to handle the inheritance they plan to leave them*
- *Two thirds say their heirs don't fully understand their wishes on how to divide personal property*
- *Nearly half do not believe their children will reach a level of financial maturity to handle the family money they will inherit until they are at least 35 years old.*
- *Half of parents have not fully disclosed their wealth to their children, and 15 percent have disclosed nothing about the family wealth. Key reasons for avoiding a discussion about their wealth were fear that their children would become lazy (24 percent); would make poor decisions (20 percent); would squander money (20 percent); or would be taken advantage of by other people (13 percent).*



Key takeaway:

Sometimes helping clients get what they want from their money can be tricky. There are instances where clients have made a conscious decision not to share some aspects of their financial situation with children – in those cases advisors can make suggestions but need to draw the line at becoming intrusive.

Where clients are resistant to having these conversations with their children, consider starting with easier conversations on things like dividing personal property (although sometimes this in and of itself can be tricky) before getting into more sensitive areas like overall family wealth. If your client has a trusted lawyer or accountant, another option is to include them in a conversation about how to close the communication gap with children.

Gaps in conversations with advisors

Communication gaps don't just exist with spouses and children – they also exist with their financial advisors.

- *Even though 84 percent of parents think their children would benefit from discussions with a financial professional, six in 10 have never introduced their children to the professionals managing their financial affairs.*
- *One in four has never discussed intergenerational wealth transfer with their advisor, and one in three respondents has never discussed the expectations of next-generation heirs.*
- *Half have never discussed ways of teaching children to handle wealth responsibly.*
- *Four in 10 haven't discussed legacy goals or their philanthropic strategy.*
- *Wealthy Americans are more interested in seeing the impact of their giving now, rather than leaving a legacy when they pass away. Despite this, four in 10 have never sought professional advice about legacy planning or philanthropic strategies.*

Key takeaway:

These findings point to some very big red flags for advisors. I've talked to advisors who've seen articles or research reports such as this one, said to themselves "*that's interesting*" and then returned to business as usual. To get value from the time you've spent reading this, write down the one thing you're going to do differently as a result of the insights from this article – and then share this with your team and make acting on this a priority in the next 30 days.

Click [here](#) to see the full report.



[Dan Richards](#) conducts programs to help advisors gain and retain clients and is an award winning faculty member in the MBA program at the University of Toronto. To see more of his written and video commentaries, go to www.clientinsights.ca. Use A555A for the rep and dealer code to register for website access.

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>