Meeting the needs of young and old

The emerging challenge for advisors to the HNW

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> Forty is the old age of youth; fifty the youth of old age.
>
> Victor Hugo

This is the third whitepaper in a series commissioned by Mackenzie Investments that examines ongoing and emerging issues associated with the high net worth (HNW) community in Canada. The previous two papers examined the growing wealth and influence of women as clients of wealth managers, and the unique needs and expectation of entrepreneurs.

This paper looks at the attitudes and demands of the youngest cohort of HNW – millennials – and compares them to those of the oldest HNW cohort, often referred to as the silver generation, although, in truth, many can be classified as early Baby Boomers.

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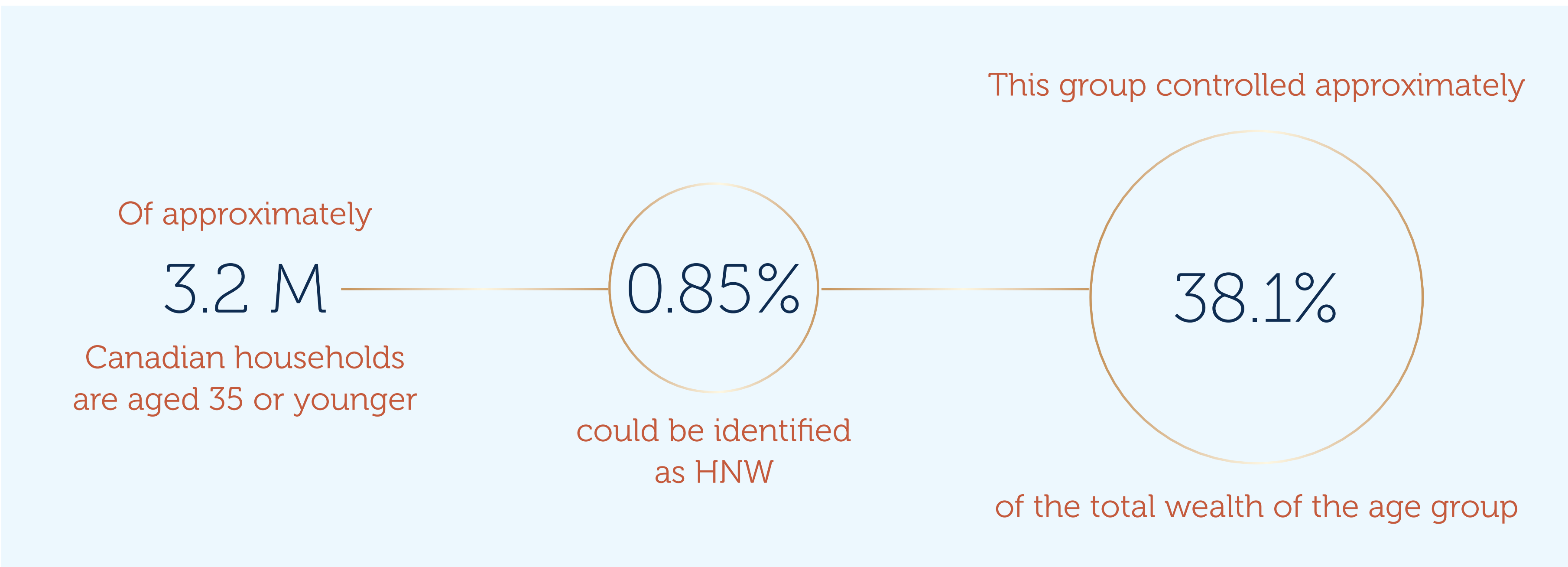
HNW millennials

Before reviewing the differences and similarities between the two groups, it is worth looking at some core data to provide context for the comments that follow. HNW households are those with $1 million or more in personal financial wealth, a measure that does not include either equity in real estate or a private company. For the purposes of this paper, millennials are those households under the age of 40 at the end of 2020 and silvers are those aged 75 or more at that time.

At the end of 2020, Investor Economics estimated that of the approximately 3.2 million Canadian households aged 35 or younger, 27,300, or 0.85%, could be identified as HNW. While small in number, this group controlled approximately $68.9 billion in personal financial wealth equal to 38.1% of the total wealth of the age group. Stretching that group to include the older millennials (those between 35 and 40) increases the household count to 54,000 and the wealth total to $101.8 billion.

Simple math indicates that each HNW Millennial household controls a healthy $1.8 million making them an attractive target for a wide range of financial advisors as well as private bankers who recognize millennials as a cohort of active borrowers.



Hi ho silver

At the other end of the spectrum, a group that may be unattractive to private bankers but of great interest to trust officers, are the HNW silvers. This cohort numbered approximately 203,000 at the end of 2020 and controlled an impressive $604.5 billion in investable assets, equivalent to 49.5% of total silver cohort wealth.

Viewed in the context of only the HNW segment, silvers represented approximately 22.2% of HNW households but only a modest 14.2% of wealth. This figure is the result of high spending on health and eldercare, transfers to family members, and (in many cases) the need to encroach on capital in registered accounts, so as to maintain a comfortable lifestyle in the later days of retirement. Average household financial wealth for the HNW silvers is $2.9 million, well below the $4.6 million for the HNW segment as a whole.

Figure 1 | Data on segments ($ billions)

	# Households	Segment Wealth
HNW millennials	54,000	$101.8 billion
HNW silvers	203,000	$604.5 billion

Source: Investor Economics WealthMine 2020.

For very different reasons, both age groups represent a business opportunity for wealth managers. It is important that the very diverse interests and demands of millennials and silvers be understood by the financial advisor community.

The needs of the HNW silver cohort (some call them Silent, a most inappropriate word) have been well researched and well documented. Essentially, their focus is on capital preservation, the generation of a reliable stream of income, supporting their family through financial gifts, and planning the for the ensuing record-breaking, inter-spousal and intergenerational transfer of assets—in the most tax-efficient and equitable manner possible

Figure 2 | Inter-spousal and inter-spousal wealth transfers 2020 - 2030 ($ billions)

	Gross Transfers	Estate Outflows	Net Transfers
Inter-spousal	$1,700.3	$60.8	$1,639.5
Inter-generational	$1,285.4	$78.1	$1,207.3

Source: 2021 Investor Economics Household Balance Sheet Report.

While many HNW millennials will be created through generous wealth transfers from their parents, there is, seemingly, no transfer of confidence in the management of family wealth. To underline this point, a study by U.S. Trust indicated that 88% of HNW silvers were confident in their wealth management ability compared to only 68% of HNW millennials.[1]

Silvers, still active

A report by Statistics Canada published in 2017 indicated that the number of people over age 70 working full-time increased from 5.4% in 1995 to 8.8% in 2015[2]. This data lines up with information compiled from taxes filed for 2017, which indicated that actively employed individuals over age 70 reported total employment income of approximately $9.8 billion[3].

Most of the HNW silver cohort are retired from full-time employment, although they are not immune from the population's general tendency to work well into their golden years. After all, Warren Buffet and Charlie Munger, the dynamic duo behind Berkshire Hathaway, are 90 and 96, respectively. Not only are such tycoons still active over 70, but information compiled from taxes filed in 2017 indicates that just over 159,000 Canadians over 70, likely all HNW, reported either business or professional income.

To some extent, this willingness to continue working may be driven by the fact that wealthy people can expect to comfortably outlive their less successful peers[4]. This tendency to work beyond age 71 (when RRSPs are replaced by RRIFs) can cause tax implications for many. It also seems of drive a tolerance of investment risk that conflicts with the old model suggesting that the percentage of bonds in an investor's portfolio be the same as their age.

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Planning and advice

Remaining financially active may also reflect the fact that senior members of the HNW cohort are more satisfied with their financial plans and financial wellbeing than the youngest members. In a survey undertaken by Spectrem, a US research firm, 94% of the oldest group reported being satisfied with their financial plan compared to only 73% of the youngest group[5].

While they may be less satisfied with their financial situation, it will be comforting to financial advisors to know that HNW millennials (and HNW Generation X), partly as a result of the disruptions caused by the global pandemic, are almost twice as keen to update or develop a comprehensive financial plan than their parents[6].

Not only has the pandemic had an influence but also the greater involvement by women in the financial decisions taken by HNW Millennial households (the topic of the first whitepaper in this series).

But, as Shakespeare's Hamlet said, "there's the rub"[7], not to mention the challenge for advisors. To the older HNW the top priorities of planning were, quite simply, to lead a life without financial concern (57%) and to provide children with a comfortable life (54%). These admirable goals are, however, well down the list of financial priorities for HNW millennials who rate achieving entrepreneurial success (65%) and fostering change in the community/world (51%) as their leading long-term goals[8]. It is hard to imagine the same financial planning software coping with these very different objectives!

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Choosing an advisor

Millennials have been described by the Pew Research Center as "Digital natives in a land of digital immigrants"[9]. The public perception is one of lazy, well-educated young adults clutching their cellphones and trading nonfungible tokens over technology-driven platforms with names such as Stash and Acorns. While that may be true for millennials in general, HNW millennials look quite different (although 80% do clutch cellphones[10]).

Despite being the most educated generation in history, HNW millennials seek professional financial advice with two-thirds identifying as neither a delegator nor a soloist but, rather as an individual who will play a major role in household financial decisions using input from an advisor[11].

The same research study also suggests that HNW millennials have a clear preference for an advisor that is around their age; in other words, under 40 years. In addition to age compatibility, members of this cohort demand multiple access points, high levels of personal service, a quality reputation, and a flow of investment ideas

If that isn't enough pressure, HNW millennials see a good financial advisor as being an important contributor to growing wealth and rank this wealth driver ahead of receiving an inheritance[12]. However, unlike HNW silvers, young millionaires demonstrate both a lack of satisfaction with wealth managers – 46% of HNW millennials in the US and 56% in the United Kingdom report being dissatisfied – and a willingness to switch, with a majority of those who are dissatisfied considering moving their business to one or more fintech platforms[13]. Interestingly, as evidenced in more than one study referenced in this whitepaper, pricing is not a top issue when choosing or losing an advisor.

Figure 3 | Types of HNW millennials

Source: TD Ameritrade

Investments

If financial priorities and advisor selection criteria differ between the oldest and the youngest members of the HNW community, it follows that there will also be differences in investing preferences and strategies.

There are three areas where the generational divide is most obvious. Driven by higher levels of education, a desire to diversify risk and access to information (and, maybe, travel frequency pre-pandemic), a study by the Economist Intelligence Unit indicated that Canadian millennials – not just HNW millennials – have a far higher interest in global investment opportunities than the oldest investors[14].

Figure 4 | Interest in global investing: HNW favouring global investments over domestic investments

	Prefer	Neutral
Baby Boomers	6%	25%
Generation X	23%	34%
Millennials	29%	30%

Source: Economist Intelligence Unit

Along with a limited attraction to traditional domestic investments, HNW millennials demonstrate a higher level of both ownership and interest in tangible and alternative investments, such as real estate and, for Canadians, timberland and oil and gas properties, than is held by HNW silvers[15], This attitude of distrust for public markets likely springs from living through a financial crisis and a series of equity market corrections in the past two decades, a concern about low levels of returns from fixed income securities, and a far longer investment horizon.

Figure 5 | HNW ownership and interest in tangible assets

	Own	Interested	Total
Silver	32%	26%	**58%**
Baby Boomers	44%	23%	**67%**
Generation X	46%	26%	**72%**
Millennials	37%	53%	**90%**

Source: U.S. Trust.

One type of alternative investment that has appeal to some, but not all, HNW millennials is cryptocurrencies[16]. US research undertaken by CNBC[17] indicates 47% of Millennial millionaires have at least one quarter of their investable assets in such investments. A far cry from other millionaire age cohorts who describe the actions of the youngest group as an "overhyped fad"; 83% of US millionaires surveyed by CNBC have no holding in digital currencies or tokens such as Bitcoin, Ethereum and the aptly named Dogecoin. Before advisors rush to register for a course in crypto, it is worth noting that other research into the investing habits of millennials indicates that 60% view cryptocurrencies as neither safe nor reliable[18].

The third investment area that is a priority for HNW millennials is sustainable and responsible investments. In this investment category, the lead demonstrated by the youngest members of HNW households has persuaded older members of the family to follow and change their investment focus. In a report published by Barclays Private Bank,[19] 68% of older HNW investors indicated that their children have been exerting influence over them in terms of ESG issues and investments. Influence is one thing, but action is another, as evidenced by the US Trust research referenced earlier that surveyed multiple HNW generations in terms whether or not they had reviewed their investment portfolios.

Figure 6 | Reviewing portfolios for impact by HNW segments

	2014	2017
Silver	19%	15%
Baby Boomer	27%	29%
Generation X	39%	49%
Millennials	47%	76%

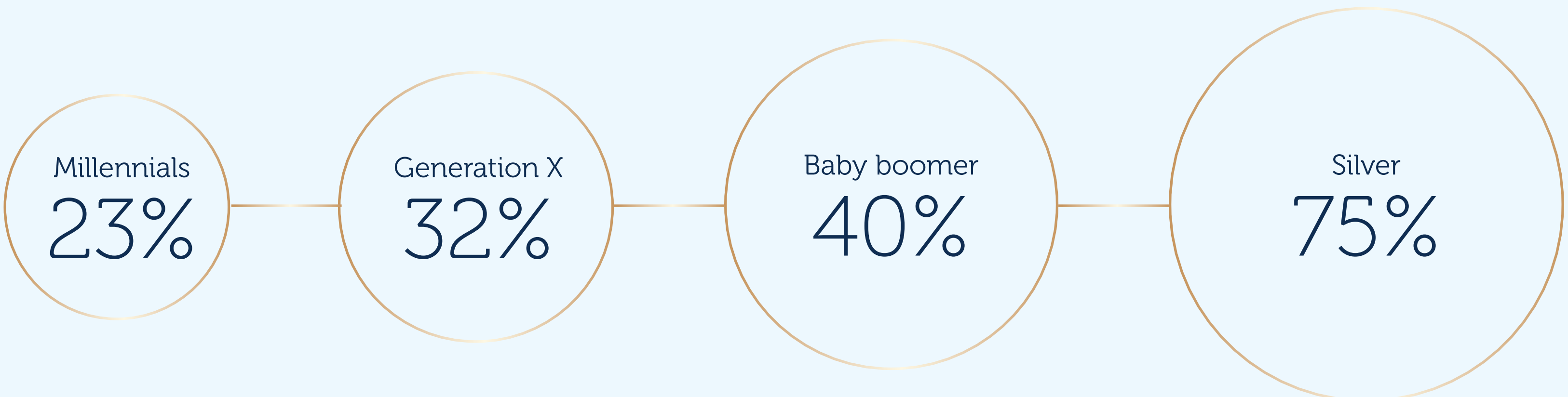
Source: U.S. Trust

Although there may be family harmony within HNW households on the need to investment responsibly, the Barclays study also pointed to different views between generations on some core financial values, including the level of tolerable risk, that may have a bearing on investment decisions.

To some extent, this variable tolerance for risk and market volatility is illustrated by the response of the different generations to the market correction that took place in the early days of the global pandemic.

A global online survey of investors conducted in April 2020 by a leading asset manager[20] found that 75% of the silver generation, investors who had been through numerous market cycles in their lives, maintained the same level of risk while only 23% millennials stayed the course rather than making portfolio adjustments.

Figure 7 | Share of investors by segment who maintained their level of risk during market correction in 2020



Source: Schroders Investor Survey

Another study[21] pointed to money as a top-of-mind issue for HNW millennials with 51% of a sample group spending more than four hours in the pre-survey week talking about money compared to only 29% of those over 50. Both these research studies point to HNW millennials being more personally and actively engaged in the management of their wealth than older generations.

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Final observations

Although much has been written about how the Canadian wealth management industry must change to reflect the needs and expectations of HNW millennials, there is plenty of evidence that suggests that now is not the time for the industry to abandon its most senior clients. At the start of this whitepaper, the wealth controlled by HNW silvers was identified as being at least eight times that controlled by HNW millennials. Not only that, an analysis of the latest Forbes list of the 400 wealthiest Americans indicates that 37% are over the age of 75 while a mere 9% are under 40[22].

While not taking their eyes off the oldest members of the HNW community, it is important for advisors to recognize that Canada is entering a period when almost $1.5 trillion will be moved from one generation to another and that old wealth will become newfound wealth for many millennials. Partly as the result of healthy inheritances and partly as a result of their own employment and investment efforts, by 2030 the number of millennials that qualify to be included in the HNW segment will have risen by 189,000 to approximately 243,000. Wealth controlled by this group will have also grown impressively by 2030 to represent 19% of total HNW wealth or $1.4 trillion.

Wealth is, essentially, a family business and advisors will be challenged to work with both oldest and youngest generations if they are to retain and build valuable business relationships.

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Notes

[1] U.S Trust Insights on Wealth and Worth. U.S. Trust.2017

[2] Census in Brief. Working Seniors in Canada. Statistics Canada. 2017

[3] Income Statistics 2019 (2017 tax year). Canada Revenue Agency. 2020.

[4] Journal of the American Medical Association. 2017

[5] As reported by Family Wealth Report. 2014.

[6] UBS Investor Watch. UBS. June 2021

[7] Act 3. Scene 1. Hamlet. William Shakespeare. 1603.

[8] The Why of Wealth Survey. Boston Private. 2018.

[9] Pew Internet & American Life project. 2006.

[10] Millennials and Wealth Management. Deloitte.2015.

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[13] Strategise to win in the new private banking world. Simon Kucher & Partners.2021.

[14] The Shifting Landscape of Global Wealth. Economist Intelligence Unit. 2019.

[15] U.S. Trust. Insights on Wealth and Worth. U.S. Trust. 2017.

[16] The Economist magazine reported on August 7, 2021 that CoinMarketCap, a website, listed a total of11,145 cryptocurrencies with an estimated capitalization of $1.6 trillion, an amount “roughly equivalent to the nominal GDP of Canada.

[17] CNBC Millionaire Survey. CNBC 2021

[18] Butterfield Mortgages Limited survey. 2019.

[19] Barclays Private Bank’s Smarter Succession. The Challenges and Opportunities of Intergenerational Wealth Transfer. Barclays Bank.2020.

[20] Global Investor Study. Schroders.2020

[21] JP Morgan Private Bank research as referenced in millennials Push to Put Family Wealth into Impact Investments. Financial Times. October 19, 2019.

[22] The Definitive Ranking of the Wealthiest Americans in 2020. Forbes. September 2020.

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