By **Patricia M. Angus**

Next Gen 2.0

Taking things to a higher level

You can't miss it (or them). "Next Gen" is everywhere. The private wealth management industry is awash in Next Gen summits, educational programs, research studies and books, as private wealth advisors of all stripes (lawyers, accountants, financial advisors and more) search for ways to connect with and retain the next big demographic cohort of clients. Industry professionals report that they're receiving pressure from older clients who want their children and younger family members to get more involved in their financial affairs. Younger clients are clamoring to be heard by their (or their parents') advisors and are seeking out new ways to interact with those from whom they receive professional advice. The long anticipated intergenerational wealth transfer is underway. Family businesses are changing hands every day and soon will be sold at unprecedented rates. Next Gen is growing up, and it's time that the term and its usage, as well as the programs and points of focus around it, mature as well.

There's an intensive effort on all sides to bridge the gap with the Next Gen. Unsurprisingly, it turns out that some efforts are quite effective, while others are falling short. Even the best will now need to grow into a more mature phase to have impact as the industry, its clients and the surrounding environment, evolve. In this context, let's briefly review the current Next Gen "status quo" and see how we can take Next Gen to the next level.

Major Trends

• **Intergenerational wealth transfer.** We're now in the midst of the intergenerational transfer of wealth identified by the seminal study conducted by the Boston College Center on Wealth and Philanthropy in 1999 and later confirmed in 2014.[1] The anticipated transfers from the demise of the World War II generation, overlapping with deaths of early Baby Boomers, are in full swing. Week after week, charitable organizations are reporting record-breaking contributions. Younger family members are recipients of this historic wealth transfer as well. Combined with the increase in estate tax exemptions and reduced estate tax rates, inherited wealth is now an experience for more than just the very wealthy.

• **Family business transitions.** Perhaps for the same demographic reasons, and as a part of the intergenerational wealth transfer, many family businesses in the United States, and even more so in other parts of the world, are reaching a critical point of transition. Founders are looking to pass on their business to the next generation of management, and ownership is being passed, directly or indirectly, among younger family members. Individual family members are working alongside each other across generations more than before. And, even when a family business is sold, it doesn't necessarily mean that the family wealth has disappeared, nor does every family consider it to be a failure. However, it does mean that the wealth will be transformed into other forms, including real estate, financial investments and new ventures. And, it's being held in vehicles such as family limited partnerships, trusts and other legal entities that will tie family members together long into the future.

• **Rising inequality.** It's now common knowledge that the financial welfare of the top 1 percent in the United States has outpaced the rest of the population for some time and increasingly so in the past decade. Without getting into the political implications of this trend, it isn't hard to see the impact it's having on family members who are inheriting this largesse. In a recent

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Oppenheimer/Campden Wealth study of ultra-high-net-worth (UHNW) Millennials, one-third had received a significant wealth transfer more than a decade ago; more than 80 percent of the surveyed group counted inheritance as their source of wealth.[2] More than any other group, UHNW Millennials are highly focused on philanthropy, impact investing and aligning their values with their actions. They take impact investing and socially responsible business as serious goals that they're seeking to put into practice. Unlike prior philanthropists who primarily donated their dollars to local arts institutions and educational organizations, especially their alma maters, this group seems interested in a wider variety of issues such as the environment, clean water and gender equality, among others. Looking ahead, one can imagine that tensions might arise among their well-being, their stated values and the economic environment in which they live.

Catch-All Term Can Be Misleading

Obviously, the term "Next Gen" is used to describe a wide variety of people or groups that may (or may not) have much in common with each other. Most frequently, "Next Gen" refers to Millennials, the generation currently coming of age as they reach their 20s and early 30s. To see how the different generations grow or decline in numbers over the years, see "Projected Population Breakdown," this page. In family businesses, it refers to the succeeding generation of business leaders, who can be any age but are often in their late 30s and 40s. For families with multi-generational wealth, often held in trust, it can mean younger members in the family (who sometimes are upwards of 60 or 70 years old). In fact, Next Gen can often mean pretty much anyone younger than the person using the term.

There's been some criticism of the term, and members of the Millennial cohort, especially, vociferously resist the label. While alternatives have been proposed, none has enough traction yet to universally take the place of Next Gen.[3] Despite its widespread use, the term itself might not survive much longer in a fast moving branding and social media environment. The term "Baby Boomer" has endured, and "Millennial" seems to have staying power. "Next Gen" might not. Since the term itself, or its use, is the subject of this article, it will be used despite the possibility that its days may be numbered.

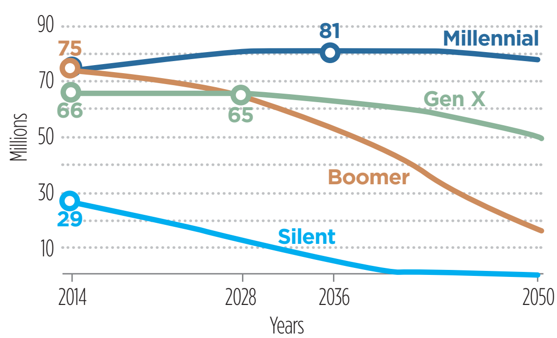
Getting More Clarity

On the whole, the increased awareness and proliferation of data have led to a more comprehensive understanding of demographic groups than in the past. In addition, many of the programs have been able to provide in-depth awareness and education for a wide number of Next Gen members. But, the apparent clarity of the data belies the complexity and uniqueness of each individual member. While progress is being made and relationships are being built, many advisors express frustration that they're not sure they're getting through to Next Gen members in each of the above mentioned groups. Next Gen members also report disappointment that the programs available don't meet their expectations or needs. Now's a good time to assess and look for areas of improvement.

To start, it's helpful to have a sense of the baseline knowledge that exists on Next Gen and how industry

Projected Population Breakdown

A generational overview



— Pew Research Center

initiatives approach them. This task requires dividing the groups hidden under the umbrella term and bringing them out into the open as separate sub-groups. Of course, generalizations can be deceptive, but there are some commonalities among these sub-groups that can be identified.

• **Millennials.** Thanks to extensive market research efforts, we have a good sense of the demographic magnitude of the Millennials, as well as their market preferences as consumers. We know how many there are, what they like to buy and how they wish to communicate. Pew Research Center has done extensive studies of Millennials, which it defines as the 66 million people born between 1980 and 1995.[4] Market research groups in every industry have sliced and diced data as well. Millennials' shared experiences have colored their approach to life. They've lived through and been profoundly impacted by the financial recession. They've experienced violence on U.S. soil and have been impacted by cataclysmic events, such as Sept. 11th and worldwide disruption. They expect to be less financially secure than their parents. They marry later, live in cities more and are more technologically connected to each other. They're "digital natives." In the private wealth context, Millennials have been studied and are known to be highly educated and well traveled, forward-looking, focused on relationships, entrepreneurial and more worldly than wise.[5]

• **Family business leaders.** Every business needs a leader or group of leaders. A family business only differs slightly from this reality in that there's often an assumption that management of the business will be handed down to one or more family members. In this sense, regardless of the age of current or future business leaders, there's always a Next Gen who may be waiting in the wings to take over ultimate responsibility for the business. In addition, every business has one or more owners. Ownership is often transferred to younger family members, outright or in trust, even before management transfers hands. These are Next Gen as well.

• **Family enterprise owners.** When a family business evolves beyond a single operating business, it often becomes what's increasingly referred to as a "family enterprise," including one or more businesses, investment pools or legal entities (such as trusts) and philanthropy. In all family enterprises, ownership is the linchpin across all entities and ventures. Family members who aren't involved in day-to-day operations frequently have a seat at the table (legally, at least) at the ownership level. These Next Gen members are innumerable and can be of any age.

Current Industry Offerings

The status of Next Gen efforts today is characterized by a great deal of activity that serves a variety of purposes, formats and means of delivery. Programs tend to focus on financial education and introductions to investing, with opportunities for networking and softer issues weaved throughout. Most programs seem to address the Next Gen as a single group, with some breakout sessions, for example for future business leaders or trust beneficiaries. An emerging trend is to include both generations (which is hard to define other than in the Baby Boomer/Millennial context). But, very few are specifically tailored to the needs of the various sub-groups noted above.

Getting to the Next Level

What can be done better? Where are advisors and clients falling short? What opportunities exist to get to the next level? Some thoughts:

• **Reassess existing programs.** In an informal survey of existing Next Gen programs, a few trends emerge: (1) the purpose of the programs isn't always in sync with the delivery; (2) most programs are still at a very basic level; and (3) most programs are geared toward Millennials and overlook the other sub-groups mentioned. Many programs that are advertised as "educational" are no more than glorified (while quite lovely) marketing events. As one Next Gen participant shared with me, there are many motivations on the client's side, including, as he noted, that some of the participants wanted to party in the city where the event was held.[6] This presents a risk that may surprise the firms behind these programs. Authenticity matters to most Millennials. They'll quickly become disillusioned if they're invited to learn about investments but are merely given a tour full of "messages from our sponsors." The costs of elaborate Next Gen programs aren't inconsequential. It could alienate potential clients. For a generation that seeks alignment[7] between what's said and what's done, programs that are misaligned risk doing more harm than good. It's okay to wine and dine, but being honest about it might have a better impact.

If education is the goal, there are a variety of options that are off the radar. Educational institutions are often best suited to provide learning tools and techniques in an academic setting, so long as alignment exists with the interests of the family members. And, in these settings there may be more offerings available to each of the Next Gen sub-groups. Delivery of in-house educational programs outside of academia should be aligned with the highest skills of the firm and the professionals providing the educational program. Some industry leaders have expressed concern offline that their firms' response to the client's question, "How do I raise responsible children in affluence?" might actually exacerbate the problem. What message does a financial institution send when they respond to this deeply rooted concern by providing tickets to a sporting event or special privileges and networking events for the children of clients? The risk of becoming unwitting co-conspirators against the interest of clients and their children is real.

• **Right service providers?** It's now well understood that family meetings can be a valuable tool to foster intra-family relationships, make decisions and present information that can be useful to all. But, who's facilitating the meeting? Not everyone has that skillset, and by taking on this role, the advisor (lawyer, accountant or financial advisor) not only puts the advisor's reputation at risk, but also can do harm to the family. Every family has dynamics and land mines. Inadvertently opening up and stepping into one of those land mines can create harm that lasts for decades, if not generations. One such family incident that a family member described to me resulted in members of the older generation hardly speaking for a decade after a well-meaning financial advisor put them all in a room and opened up highly volatile topics.

• **Revisit and question assumptions.** Some advisors may assume that the older generation's values are all that matter and their goals must be implemented

without involvement of younger family members. This assumption risks putting Next Gen members of any age into perpetually childlike positions. This situation often arises when an older family member assumes that keeping a business intact across generations isn't only what's best for the family, but also what the younger family members would want for themselves. Advisors must be careful when making assumptions about what should happen beyond their current clients' lifetimes.[8]

Practical Advice

• **Get real.** Rather than talking about ownership or stewardship, help the younger family members do their own estate planning. Until you've been asked the questions about what you want in your own will, it's easy to feel disengaged from estate planning. Any adult who's inherited assets has an opportunity, and responsibility, to explore what should happen in the event of an untimely death. It's in fact easier to face when you're younger, and the practice can make it easier to do later when the stakes get higher.

• **Get basic.** It's unlikely that all Next Gen members will become investment analysts or stock traders. They might not even have the capacity to process the financial details that go into an investment report. But, they do need to know how to figure out what they own, how they own it and what they should do with it.[9]

• **Go deeper.** Ask the important questions: What do they want to accomplish with their own lives? What's their responsibility to the world around them? What's their vision of an ideal world in the future? Next Gens of all ages deserve to have an opportunity to reflect on these types of questions that focus on purpose and meaning.

• **Enable responsibility.** Just as it would help to get the estate-planning process going, there are little things that either foster dependence or support independence in the daily life of the Next Gen. Too often, parents and advisors, including family offices, take away the simple work of signing tax returns, managing cash flow and making practical decisions, such as whether to borrow or self-finance the purchase of a new condo. Think carefully before taking away the basic responsibilities of someone's life.

• **Acknowledge context.** A session on investing is very interesting and good knowledge to obtain, but if the Next Gen is a shareholder of a business that generates nominal dividends, that kind of knowledge isn't especially useful. Or, if someone has little or no relationship with her parents or larger family, she won't necessarily be able to relate to conversations about the virtues of family harmony.

• **Foster questions.** The world is changing so fast, and the lives of clients are evolving at such a pace, that the shelf life of any facts or advice given is getting shorter by the minute. Be careful about providing content that will become stale. Rather, focus on developing a mindset to help the Next Gen better know and understand what questions to ask and to help them persist until they get the answers they need.

• **Recognize contradiction.** As the Campden/Oppenheimer study reveals, many of the stated values and goals of Millennials, especially, but also of other members of the Next Gen, might seem to conflict with their own best interests or at least with an advisor's expectations. This may be new territory for an advisor, especially one who's less financially secure than the client. Listening to the contradiction, without judging it, may help the client accomplish something especially meaningful in the world.

Endnotes

1. *See* John J. Havens and Paul G. Schervish, "A Golden Age of Philanthropy Still Beckons: National Wealth Transfer and Potential for Philanthropy Technical Report," Center on Wealth and Philanthropy, Boston College (May 2014).
2. *See* "Proving Worth: The Values of Affluent Millennials in North America," Oppenheimer Funds/Campden Wealth Research UHNW Millennials Research Report (2015).
3. *See, e.g.*, James E. Hughes, Jr., Susan Massenzio and Keith Whitaker, *The Voice of the Rising Generation: Family Wealth and Wisdom* (2014); Patricia M. Angus, "Which Gen?" *wealthmanagement.com/client-relations/which-gen*.
4. Pew Research Center, "Millennials in Adulthood: Detached from Institutions, Networked with Friends" (March 2014). *See also www.accenture.com/us-en/insight-outlook-who-are-millennial-shoppers-what-do-they-really-want-retail.aspx*.
5. *See* Family Office Exchange, "Engaging the Client of the Future," *www.familyoffice.com/knowledge-center/engaging-client-future*.
6. Private conversation between client family member and author.
7. *Supra* note 4.
8. *See* Patricia M. Angus, "Reality Trumps Myth: The Pritzker Family Enterprise Story," *Trusts & Estates* (March 2014), at p. 30.
9. Charlotte B. Beyer, *Wealth Management Unwrapped* (2014).