Family Wealth Unlocked Report 2022

How advice can reduce the Inheritance Tax challenges of tomorrow… while supporting the generations of today.

This is just for UK advisers – it's not for use with clients

The growing need for intergenerational planning advice

2021: IHT payments to HMRC rise to	Longer life expectancy means the next generation will now inherit later on average – at age	Future generations can now expect to inherit
£5.4bn[1]	61[4]	£293bn[2]

As property and investment values mature, and billions in cash and securities sit in estates, the need for advice on inheritance has never been greater. Inheritance Tax (IHT) payments to HM Revenue & Customs (HMRC) are on the rise again, growing 4% year on year in the tax year 2020-21 alone.[1]

Furthermore, with future generations expected to inherit more than £293bn, wealth passed to younger generations is projected to double over the next 20 years – and could reach as much as £5.5trillion by 2047[3] – with individuals born after the 1980s receiving £200,000-£400,000.[4]

The need for intergenerational advice has been further fed by the chancellor freezing IHT allowances until at least 2026,[5] resulting in growing numbers of people becoming liable – often unknowingly.

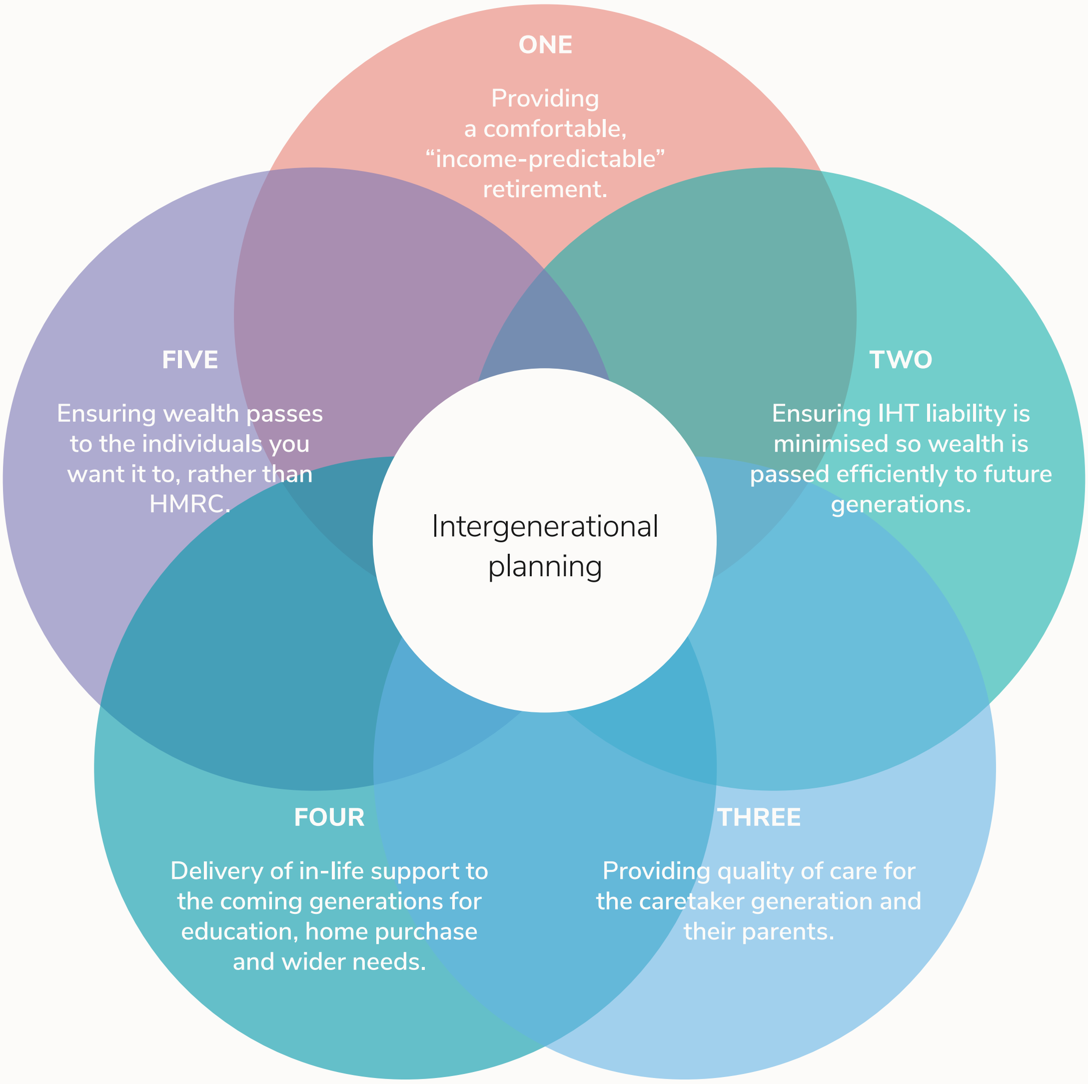
Nevertheless, long-term needs must be balanced with those closer to today. All generations are facing 30-year-high levels of inflation and a hike in National Insurance (NI) affecting people's spending power and their decision-making on the affordability of private education, university and more.

1. National Statistics, Inheritance Tax statistics: commentary. Updated 29 July 2021
2. Viewpoint Series: Intergenerational Wealth, The Openwork Partnership, 2021, page 4
3. Intergenerational wealth transfer in the UK, The Kings Court Trust Blog, November 2020.
4. Intergenerational rapport fair? Resolution Foundation, February 2022
5. Inheritance Tax nil rate band and residence nil rate band thresholds from 6 April 2021. Published 3 March 2021

While intergenerational planning is traditionally focused on reducing future liabilities, it can simultaneously address more imminent challenges for families, through integrated strategies that optimise and incorporate allowances, trusts, gifting and more.

As the research in this report shows, intergenerational planning can be at its most effective when involving more generations than the one currently "caretaking" the wealth (those currently owning and holding it for future generations). It needs to work at five levels, as shown in the following graph.

THE FIVE KEY DIMENSIONS OF INTERGENERATIONAL PLANNING



The 2022 Family Wealth Unlocked report

While intergenerational planning plays an increasingly critical role in the provision of financial advice to clients, there is surprisingly little data on how advised families are employing it.

As M&G Wealth, the new distribution and adviser servicing and support company of M&G Plc, incorporating Pru, M&G Investments, our platform and more, we believe in the power of advice to help people manage and grow their savings so they can live the life they want, while making the world a little better along the way. This report will show how advisers can take advantage of the opportunities for intergenerational planning (IGP), to grow and protect their client base and build a more resilient and future proof advice business.

Given the importance of intergenerational wealth transfer to advisers and their clients, in 2020 we interviewed 1,000 individuals who had received financial advice in the last five years, leading to the first edition of the Family Wealth Unlocked Report.

This year we've improved the report further, interviewing twice as many individuals as we did last year, broadening its areas of understanding – and considering findings both through the lens of COVID and the imminent squeeze on income.

To gain a comprehensive understanding of the behaviours and attitudes of individual generations – as well as co-operative family adoption of IGP – we interviewed robust samples of five key generations:

- **Gen Z** - 18-23 years old
- **Millennials** - 24-38 years old
- **Gen X** - 39-53 years old
- **Baby Boomers** - 54-74 years old
- **75+**

To support new conversations with new and existing clients on intergenerational financial planning, we've also incorporated the key learnings from the research into a specialist knowledge hub for advisers where you'll find videos from M&G Wealth's technical team, insight on intergenerational financial planning and tools to use with clients.

Key areas of insight for advisers in the report:

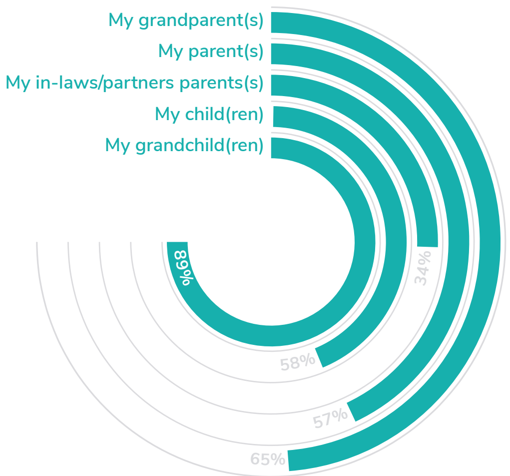
One in three clients are now sharing an adviser with a family member

We first set out to understand to what extent intergenerational planning is being owned by the primary ‘caretaker generation’ client – and to what extent multiple generations of the same family are sharing an adviser – and simultaneously the ability to join up needs, inheritance planning, gifting strategies and more.

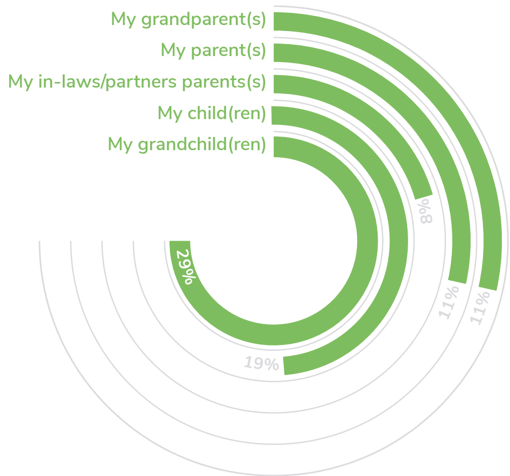
Our research shows that sharing an adviser is now common. One in three (33%) of those interviewed said they had used the same financial adviser as another generation of their family – or in-laws. Of those who had an adviser, 57% shared them with their parent or parents, while 65% shared an adviser with their grandparent(s). A good number of each of the older generations confirmed they’re paying for the younger generation’s advice.

In the last five years, have you used the same financial adviser as any of the following relatives?

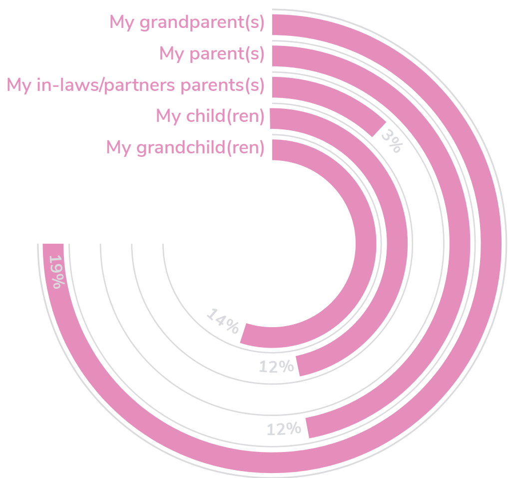
NET: Yes



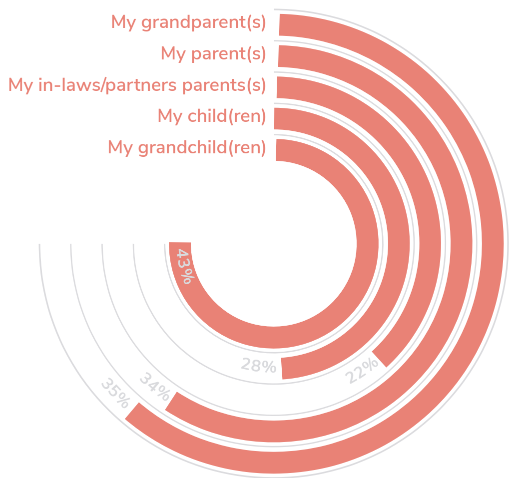
Yes I use the same adviser, and I pay for them



Yes I use the same adviser, but my relative pays for them

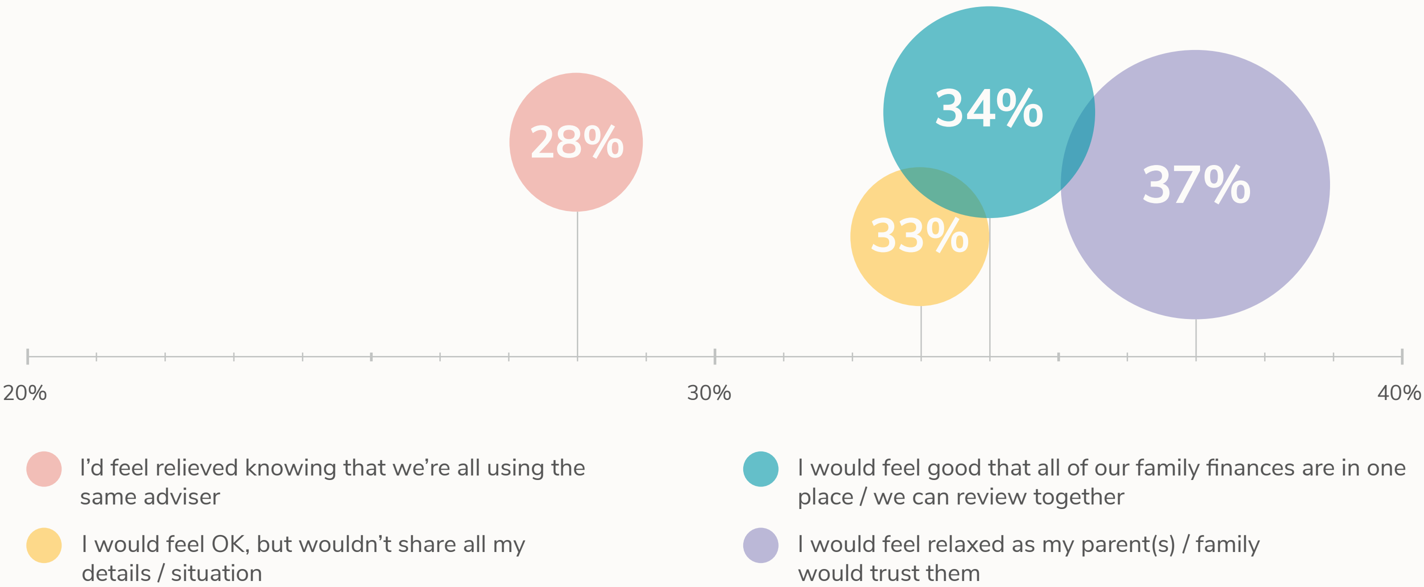


Yes I use the same adviser, but we pay them separately for advice

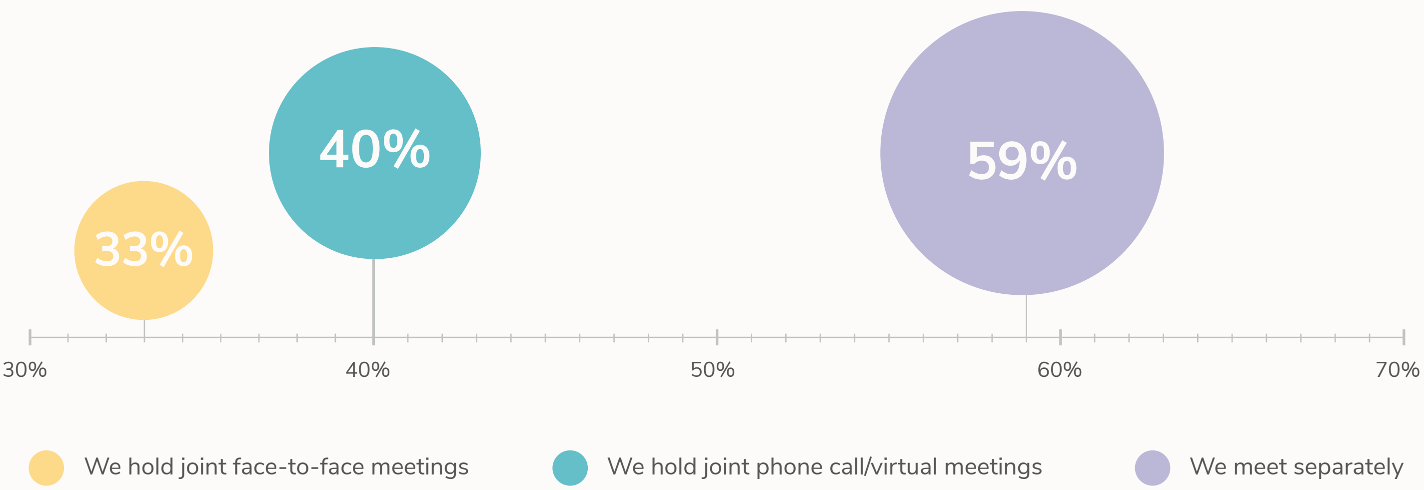


Importantly, all generations were comfortable with sharing an adviser with a family member. 37% said they "would feel relaxed as their family already trusted them" and 34% "liked that all the family's finances would be in one place, so everyone could review them together". 28% went further still, saying they would feel "relieved they're sharing the same adviser". 33% were a little more cautious, agreeing they were "OK" with the idea but wouldn't share all their financial details.

How would you feel about having the same financial adviser that provided advice to you and all your close relatives (eg children, parents, in-laws / partner's parent(s), grandparents, grandchildren, partner / spouse)?



You mentioned you have previously, or currently, share the same financial adviser with your parent(s) and/or grandparent(s). How did/do you hold meetings with your shared adviser?

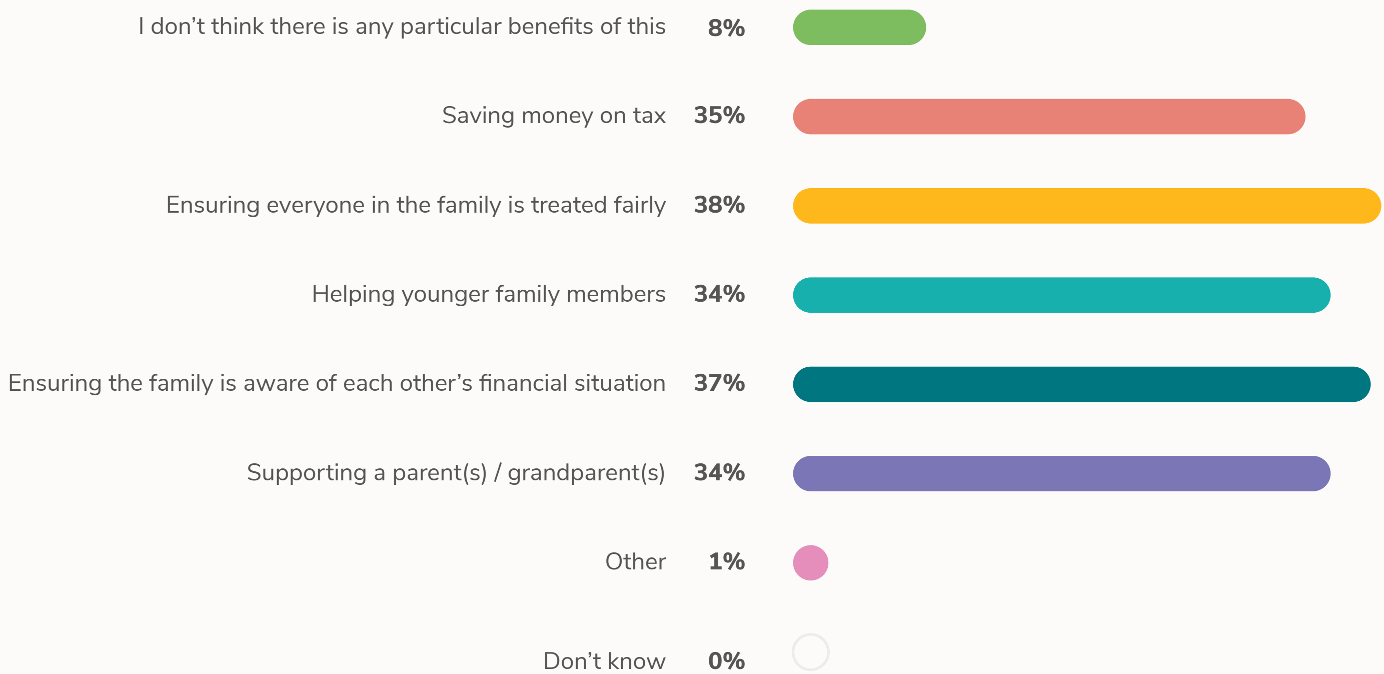


Families are benefiting from sharing an adviser

The research also reveals that whether they meet their ‘shared adviser’ at the same times as other generations, they benefit positively in a number of ways:

- **38%** say it ensures everyone in the family is treated fairly
- **37%** say sharing makes sure the family is aware of each other’s financial situation
- **35%** say they save money on tax
- **34%** are able to support parents and/or grandparents, as a result
- A further **34%** say it allows them to help younger family members

You previously said you have shared the same financial adviser with your family (ie with a parent(s) and/or a grandparent(s)). Which, if any, of the following are the benefits of this?



"Both a Government commissioned Office of Tax Simplification (OTS) report and the (non-commissioned) All Party Parliamentary Group for Inheritance and Intergenerational Fairness (APPG IIF) report considered significant structural reforms to IHT. However, the Government has not taken forward the OTS recommendations, reducing the likelihood of any significant reform in the near future. This should give some confidence in terms of relying on traditional IHT planning strategies. One area to keep an eye on will be Business Property Relief (BPR) given the focus there was in the OTS, APPG IIF and Organisation for Economic Co-operation and Development (OECD) reports in terms of suggestions for reform.

In terms of intergenerational reliance on inheritances, figures in the Institute for Fiscal Studies (IFS) report stated that the average age of people when their last surviving parent dies was expected to rise from 58 for those born in the 1960s to 62 for those born in the 1970s. The average age is expected to rise to 64 for those born in the 1980s. For about a third of the people born in the 1980s this will not happen until they are in at least their 70s. This data highlights some of the issues facing Gen Z and millennials, many of whom will struggle to save enough money for significant purchases, such as deposits for house purchases."

– Bankhall

How openly are families talking about wills and inheritance in 2022?

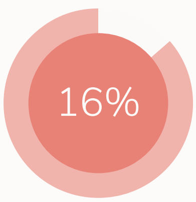
Often an unspoken taboo in years gone by, open conversations between generations about parents' wills, plans and inheritances will invariably improve financial planning outcomes for all generations. Given levels of sharing an adviser, it's important to understand how commonly these are taking place – and in what shape.

One in five (20%) of advised clients confirm they are "talking openly about inheritance, so we could plan for it as a family". 21% have discussed their will with their parents, albeit "a brief conversation". 16% are (or were) executors of their parents' wills and 12% have discussed it with a sibling.

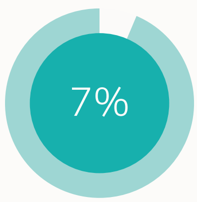
More needs to be done to encourage open conversations. 13% said their parents had never raised the subject of a will – and 8% said that, while their parents had never spoken to them about their will pre-COVID, the pandemic had now prompted them to discuss it. A further 10% express regret that "they wished their parents spoke more to them about their will" and a worrying one in eight (12%) confirms their parents do not have a will.

ONE IN FIVE NOW TALKS OPENLY WITH PARENTS ABOUT INHERITANCES SO THEY CAN **PLAN AS A FAMILY**

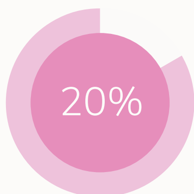
When thinking about your parent(s) will, what, if anything, applies/applied to you?



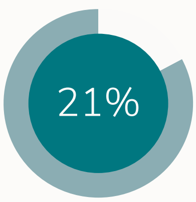
I am / was executor of their estate.



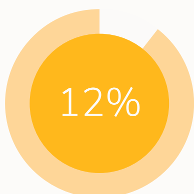
We have planned jointly using an adviser.



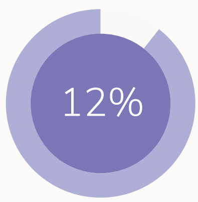
We talk / talked openly about inheritance so that we can/could plan for it as a family.



They have / did discuss / discuss their will with me, but it was only a brief conversation.



They talk / spoke to my sibling(s) about their will.



They do / didn't have a will.

What are different generations' biggest financial concerns today?

While the factfind, objective setting and attitude to risk assessments are critical tools for the adviser, they are, by definition, generic. And they're not designed to understand prevailing issues affecting clients – and how these vary by generations.

THE BIGGEST LONG-TERM FINANCIAL CONCERN FOR ADVISED CLIENTS IS THE IMPACT OF **RISING INFLATION**

We felt this was essential to probe, especially given priorities are likely to have changed since COVID first broke out. So what are advised clients' biggest financial concerns over the next 12 months?

Averaged across all generations, primary among these concerns was the impact of rising inflation (25%), projected to exceed 8% this year alone.[6] Second to this was concerns about "investments losing money" (15%), stock market volatility and inflation clearly front of mind. Allied to this were long-term concerns about "having a reduced income" (14%) and "the inability to save any money" (14%) as inflation pressurises household incomes.

The need for expert specialist guidance was also expressed, with 13% being concerned about making the right retirement decisions, and 9% about inheritance tax planning. Concerns about paying for social care troubled an additional 9%. Interestingly, fewer are worried about redundancy at this time, with just 8% concerned about this being an issue over the next five years.

As the graphic shows, this varies significantly when you look at this generation by generation. For the 54–74-year-old Baby Boomers surveyed, their biggest concern is the impact of rising inflation (26%), followed by their investments losing money (20%). This mirrors the predominant concerns for the 75+ cohort (29% and 27% respectively).

FOR CLIENTS **OVER 54**, THEIR INVESTMENTS LOSING MONEY IS THEIR BIGGEST LONG-TERM FINANCIAL CONCERN

6. Will inflation in the UK keep rising? Bank of England, March 2022

For the 24–38-year-old Millennials surveyed, the biggest concern is not being able to save money (19%), followed by the impact of rising inflation (18%) and having a reduced income (14%). Paying for social care, while a major concern for Boomers and those aged 75+ (14% and 24%), is simply too far away to concern the three generations under 54.

Clients' primary motivations for seeking advice in 2022

While understanding those concerns weighing most heavily on each generation will help advisers better tailor their recommendations, it's as important to understand how these translate into practical priorities for seeking advice.

Preparing for retirement is, overall, the most cited reason for seeking advice across all generations (average 34%). 54–74-year-old Baby Boomers are the generation who need this most keenly, with 43% saying it's the topic that will most prompt them to seek further advice. It's also the highest-ranking motivation for 39–53-year-old Gen X clients at 39%. This drops down to 25% for the 24–38-year-old Millennials, and 17% for 18–23-year-olds, whose heads are instead more preoccupied with paying for today.

The second and third most common motivations (an unexpected windfall and receiving an inheritance) may best be grouped together, as they attracted similarly high average scores (32% and 34% respectively), and both represent the prospect of clients' uncertainty in relation to financial options that will deliver most effect for their individual situation. Despite their life and financial experience, it is the 75+ group who need this the most – and the 18–23-year-old Gen Z group the least.

Worryingly, making a will is the primary motivation for advice for just 22% of our sample, perhaps because they view writing as a legal matter. The figure understates the true scale of the UK's intestacy threat – and the risk of wealth not passing as desired to the next generation, 2022 data reveals that 56% of UK adults don't have a will, including 36% of over 55s.[7]

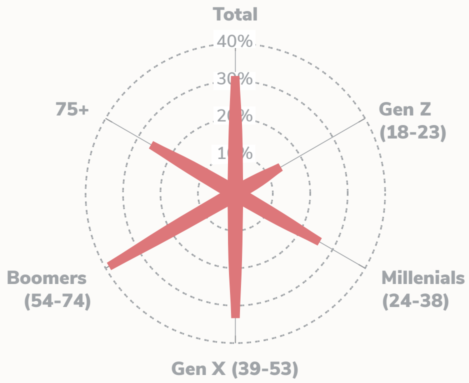
7. "29.6 million UK adults have no Will", Canada Life, March 2022

In contrast, the greatest reason for seeking advice for respondents in Gen Z is focused on the more immediate future, but their needs are polarised. 29% said getting into financial difficulty would be their primary advice need; yet a separate 29% said they most needed it to help them get on the property ladder.

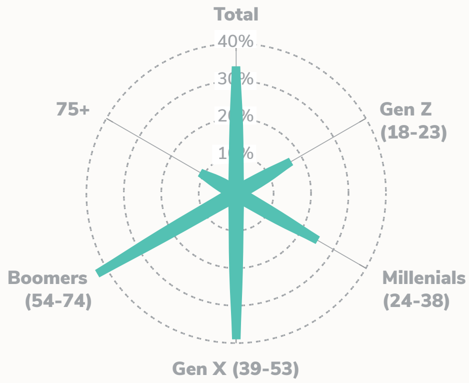
The needs of Millennials deserve special mention, as they are broadest among all generations. Alongside an unexpected windfall and receiving an inheritance (at 26% and 27%), 27% of this audience need advice to help them with a will, 25% in helping them plan for retirement, and 24% to help them get on the property ladder. Like Gen Z, we also see a segment who would seek professional advice to help them get out of financial difficulty.

Which, if any, of the following are most likely to prompt you to seek advice from a professional financial adviser?

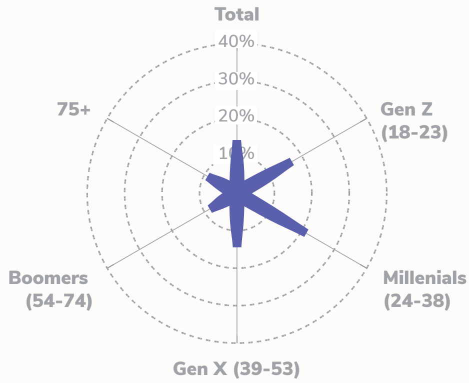
Unexpected windfall



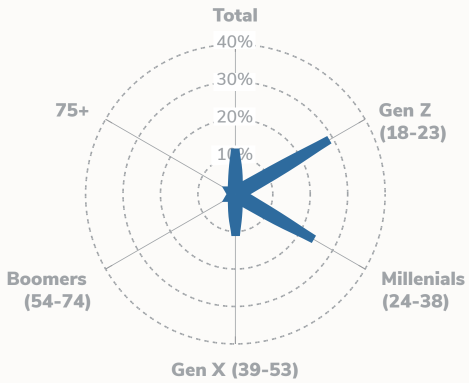
Preparing for retirement



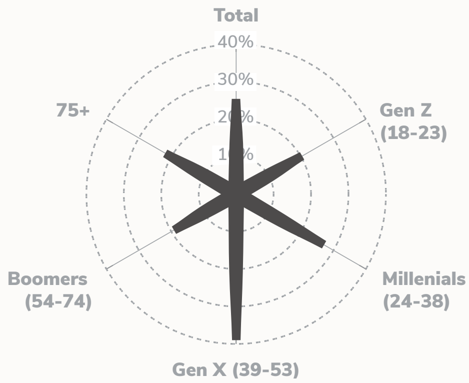
Beginning my investment journey



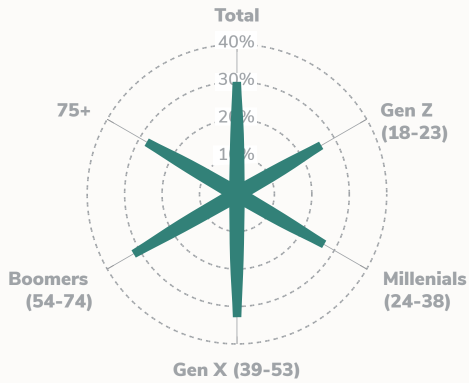
Getting on the property ladder



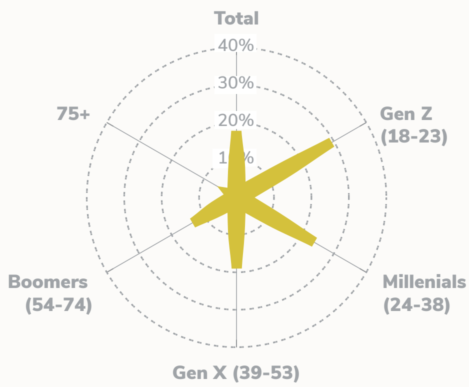
Making a will



Receiving an inheritance



Getting into financial difficulty



The rise in appetite for sustainable investing – and clients' expectations of advisers within this

The pandemic, combined with media attention on individuals taking personal responsibility for the UK achieving Net Zero, has made people reconsider what's important to them. And commit to changing how they invest their money in line with this.

46%

OF THOSE ADVISED, SAY THEIR DESIRE FOR SUSTAINABLE INVESTING HAS INCREASED

While appetite for sustainable investments was growing quickly before the pandemic, our research confirms that, on average, 46% of all advised adults confirm it has further increased their desire. This is the case across every age group. Almost a third (32%) of the 75+ age group, 38% of the 54–74-year-old Boomer group, 52% of the 39–53-year-old Gen X cohort, 52% of Millennials and 57% of Gen X all confirm a significant increase to invest sustainably.

30% of clients go further still and confirm that since the pandemic they now only want to invest in ethical companies and funds. A further 41% want to take action now, saying they'll invest more ethically in the coming 12 months.

The research further confirms that clients see financial advisers as their gateway and guide to ESG investing to explain the different fund types, options and types of outcome

- **35%** expect their adviser to be an expert in ESG
- **23%** expect their adviser to actively bring up the subject of ESG investing; just 9% said they did not want their adviser to bring up ESG investing
- **29%** expect their adviser to have a balanced view on ESG investing in relation to traditional investing
- **20%** say that they would need to see an adviser to begin their journey. The need for advisers to further build expertise in this area is clear, on a number of scores: to meet fast-changing needs, maintain existing high levels of credibility among clients, and incorporate responsible and sustainable investments into client recommendations. Clients clearly have expectations of their advisers to integrate sustainable investing seamlessly across the advice process, from factfind to review. And take on the role of 'driver'.

35% OF THOSE SURVEYED EXPECT THEIR ADVISER TO BE AN EXPERT IN ESG

Two years into COVID, are clients more comfortable accessing advice virtually?

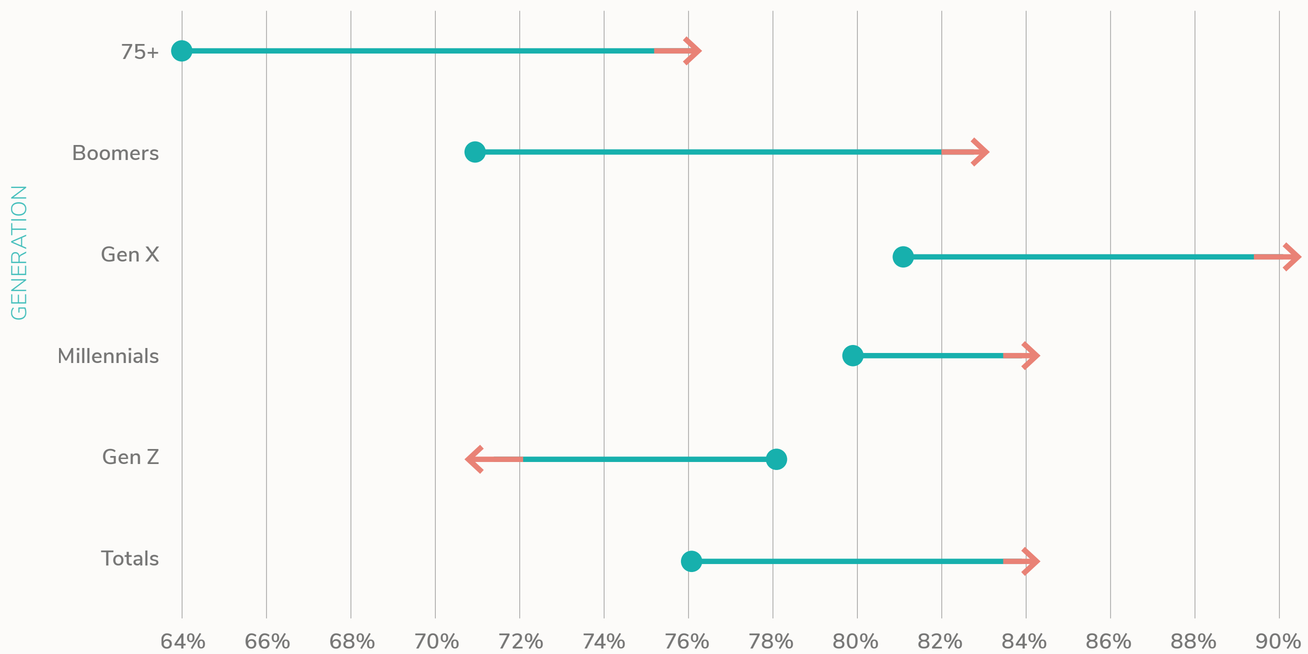
The pandemic necessitated that, whether clients liked it or not (or were comfortable with technology), advice moved online. Two years on face-to-face is again possible, so how comfortable are clients now with advice being delivered via video calls, online portals and tools?

83%

OF THE 54–74-YEAR-OLDS SURVEYED ARE NOW COMFORTABLE WITH ACCESSING ADVICE REMOTELY

Our research reveals dramatic, positive levels of change. While 76% of advised clients across all generations were comfortable before COVID, this has now shot up to 84%. Client numbers ‘not comfortable with online’ have also retreated from 19% to 13%.

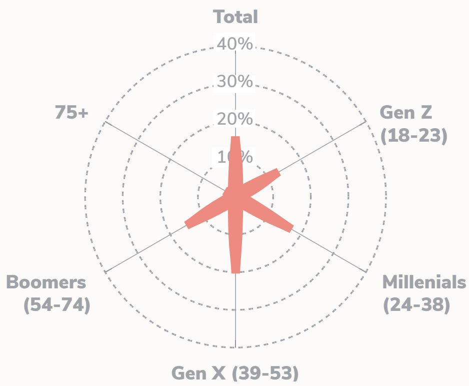
Since the COVID-19 pandemic altered adviser/client meetings, how comfortable do/did you feel about accessing financial advice remotely?



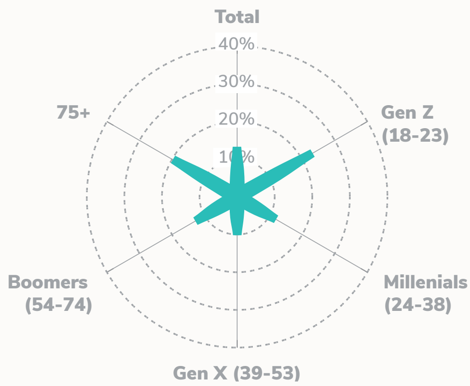
Most significant, however, is the scale of change for 'older' generations, both in the 54–74-year-old Baby Boomers (where comfort has grown from 71% to 83%) and the over-75s, where it has grown from 64% to 76%. And while levels of comfort were higher to start with, for 24–38-year-old Millennials comfort grew further from 80% to 84%. The highest level of comfort was expressed by Generation X (39–53-year-olds) at 90% (from 81%).

When we probed how clients would most prefer to communicate with advisers, face-to-face was still the most popular, cited by 30% of all generations. One in five (20%) said that a combination of digital and face-to-face would be their preferred contact solution. 16% would prefer video conferencing as a primary contact method, and 13% by telephone.

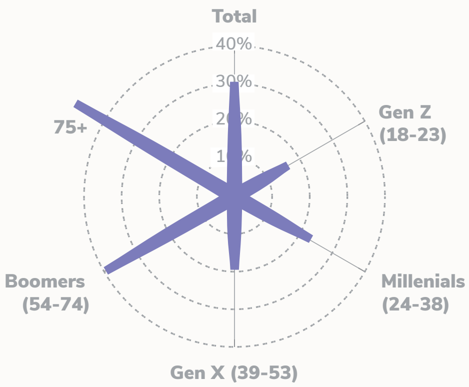
Video conference calls (eg WebEx, Zoom, Skype, Teams)



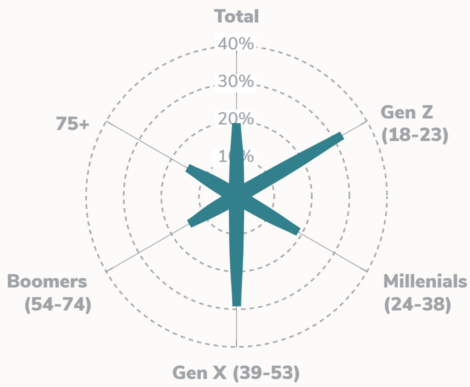
Phone conversations



Face-to-face meetings



A combination of digital and face-to-face



Families are employing gifting to reduce their IHT liability and support children

With the focus for many of the younger generations being to pay for the increasing cost of today (be that education fees or inflation-fuelled day-to-day living), our research demonstrates how many generations are using gifting to reduce their IHT liability and support their children's and grandchildren's more urgent needs.

14%

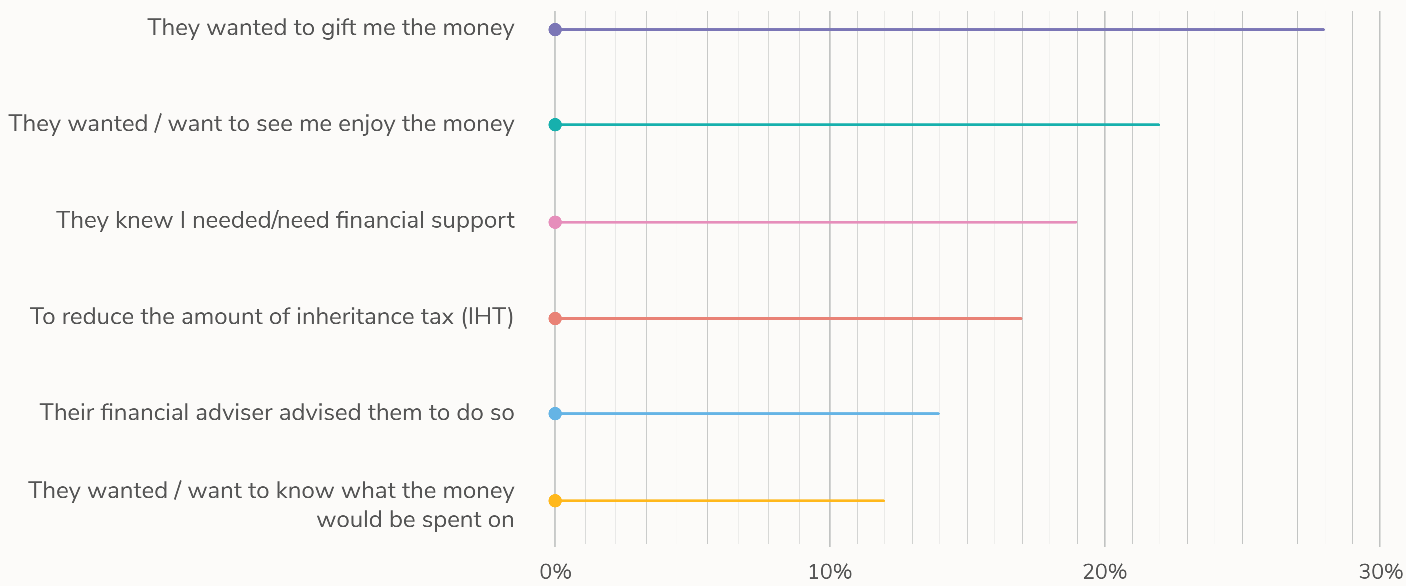
RESPONDENTS CONFIRMED MONEY WAS GIFTED BECAUSE OF ADVICE FROM A FINANCIAL ADVISER

And our research reveals the prevailing motivations for gifting today. Of those that had or were expecting to receive gifts from their parents or grandparents:

- **22%** because the older generation simply wanted them to enjoy the money
- **19%** because parents/grandparents recognised they needed financial support
- **17%** to reduce the amount of IHT they paid
- **14%** because their adviser had advised them to do so
- **28%** because their parents simply wanted to make them a gift

12% of the sample also said that their parents/grandparents wanted to pass down the wealth now, so they knew what the money was being spent on.

You indicated that you expect to receive or already have received wealth from your parent(s) / grandparent(s). If you will receive or have received any part of this inheritance early, why is / was that the case?



What areas did the caretaker generations prioritise gifting on?

We've seen earlier how getting on the property ladder is a financial priority for many of the younger generations. Desirable, yes, yet increasingly unachievable, given average property prices rose by approximately 10.9% over the year to February 2022.[8] The average home in the UK is now worth £276,755.[9] Our research shows that 11% of parents responded by gifting towards a house deposit (5% grandparents). 7% of parents went further, gifting them their entire property (3% from grandparents).

Our research confirms the trend of parents and grandparents gifting in line with the needs of today and the short term. 12% of recipients said they had been gifted money to help with bills by their parents (6% from grandparents) and 8% towards mortgage or rent payment (5% from grandparents). A further 7% had been gifted money by their parents to pay off debt (4% from grandparents).

With the global microchip shortage leading to a hike in the cost of vehicles old and new, 10% had been gifted money towards a car (6% grandparents). 10% had been gifted money for university and school fees (4% grandparents), and a further 4% to start a new business (3% grandparents).

Yet research also confirmed that 28% of those advised had never received a gift from their parents and 52% from their grandparents. In the next section we probe the reasons for this.

19%

OF THOSE SURVEYED WERE GIFTED TO BECAUSE THEIR FAMILY RECOGNISED THEY NEEDED FINANCIAL SUPPORT, 17% TO REDUCE THE AMOUNT OF IHT THEY PAID

8. UK House Price Index: Office for National Statistics, February 2022
9. UK House Price Index, Land Registry Data. February 2022

Case Study

Let's consider a short case study of a client with an IHT issue whose first grandchild has arrived. They have excess income of £2,880 per annum which they'd like to invest for their grandchild and were considering a Junior ISA (JISA) which would be set up by the grandchild's parents first.

As the gift will be annual they can use the normal expenditure out of income exemption which means the £2,880 is out of their estate immediately (no seven year clock required). If continued until the grandchild's 18th birthday and a 5% net of charges return they will have created a £85,072 fund and saved £20,736 in IHT on the £51,840 gifts into the JISA.

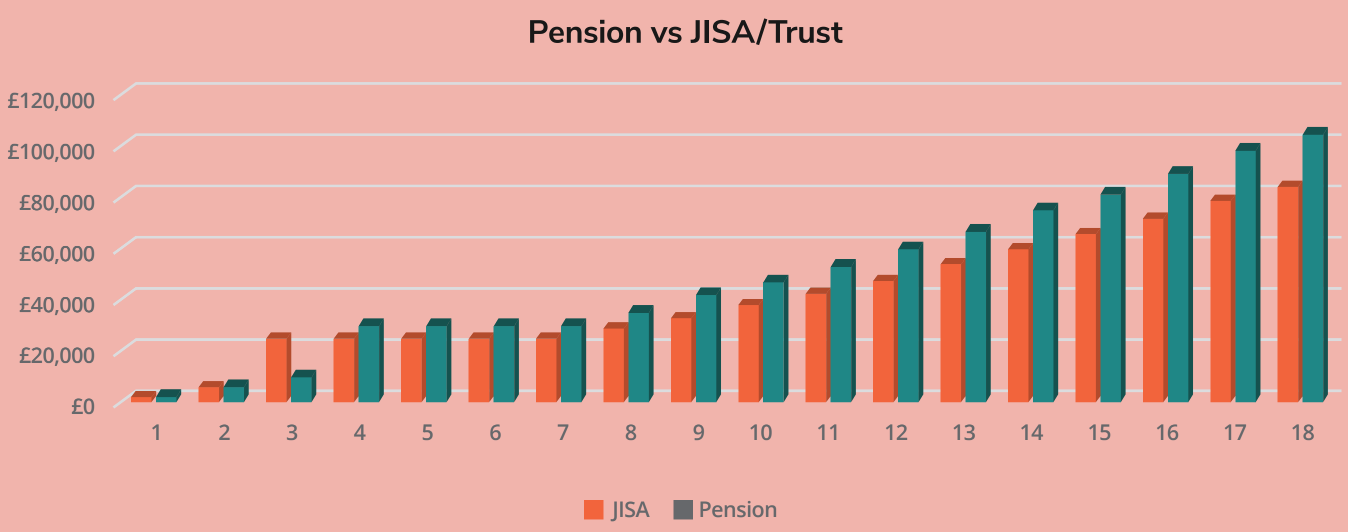
Not bad for an effective cost of £31,104 but will the client be comfortable with the grandchild getting access to the money to do as they wish at age 18? It's an important question, particularly if contributions are likely to amount to a significant sum of money over time. With a JISA the child can manage the funds from 16 and has full control from age 18.

Gifting the money into a discretionary trust would provide control over when the grandchild gets the money but investment options would be limited initially. Income producing investments would be available but this would create ongoing tax and administration for the trustees. Non-income producing investments such as an offshore bond could be suitable but they generally require a minimum single contribution significantly higher than £2,880.

If the client isn't concerned about the grandchild getting access when they are young then there's also the option of using a pension. Thanks to tax relief (if using a relief at source pension scheme) that £2,880 that could go into the JISA becomes £3,600. Using the same investment return assumptions as the JISA the pension fund will be £106,340 at age 18. £21,268 more than a JISA or Trust, or a 241% return compared to the loss to the estate.

Of course the grandchild can't access the pension at 18 but if we assume the investment return continued until they reach age 65 (and no further contribution) there would be £1,053,405 in the pension. So for the same net cost would the client prefer to build a fund of £85,072 which the grandchild would have full access to at 18 or the potential of making them a pension fund millionaire by the time they're 65?

There's no one size all fits solution and determining when the client would like the grandchild to have access and control will be a key factor. Although perhaps a combination of JISA and Pension could be achieved, particularly if there' more than one grandparent with the ability to make gifts using their available IHT exemptions.



What are the main concerns families have about gifting today?

When gifting is a proven and efficient tool for both reducing IHT liability – and simultaneously supporting the needs of the generations that follow – what are the barriers advisers need to be aware of when planning intergenerational strategies? 20% of our audience said they had no concerns about gifting early, but what of the remaining 80%?

21%

OF THOSE SURVEYED ARE CONCERNED THE MONEY WOULD BE SQUANDERED IF THEY GIFTED IT NOW

The primary, most cited reason (by 26% of the sample), was that they might need it themselves in the future for retirement income, care, or wider purposes. In the same vein, 14% had concerns about its being needed in the future to cover an unexpected tax bill.

One in five (21%) was also concerned that gifts might be ‘squandered’ ahead of time. A further 15% echoed this slightly differently, and were worried by their not being able to control what the gift was spent on. 9% believed that future generations should ‘make their own way in the world’ without financial support that wasn’t of their own creation.

Earmarking and direction of gifted monies is a concern for advised clients. 15% of the sample wanted any inheritance to be protected, to pass to their children in the event of their dying before their spouse (or divorce).

For 11% of the audience, the issue was a clear call for advice, as they ‘didn’t know the best way to do it’.

Conclusion

One of the many significant findings in this research, is that intergenerational planning has undoubtedly moved on from focusing solely on the reduction of IHT liabilities. This makes sense, as while 'reduction' remains at its heart, intergenerational planning has a major role to play in delivering on in-life needs for both the caretaker generations and those due to inherit.

After all, the need to balance the tomorrow with the today has rarely been greater. Inheritances will, on average, now be received only when the next generation is over 60, inflation is at a multi-decade high, and the pressing needs of younger generations risk being compromised.

Positively, the report also shows how families are sharing advisers across generations; how conversations about inheritance are taking place openly; and how gifting strategies are being deployed to support – and bring happiness to – children and grandchildren. Arguably when it's needed most.

COVID, as the data reveals, is certainly part of this. The research shows how each generation's priorities are fast evolving in sustainable investing, expectations of advisers – and their comfort with accessing advice online.

Evidence of the increased normalisation of multiple generations of the same family sharing an adviser is significant on many counts: for the caretaker generation, for tomorrow's generations, and for the business of advice in building sustainable and profitable businesses.

We're able to provide you with a wide range of intergenerational planning solutions, including:

- A specialist intergenerational planning hub, providing insight, online tools and calculators, and video content from our technical team
- The expertise of the M&G Wealth technical team to support you on cases
- A wide range of specialist estate planning and intergenerational planning solutions, including trusts, bonds, OEICs and a pension

For more information on intergenerational planning visit our hub.

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