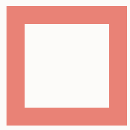


M&G wealth

Family Wealth Unlocked report 2023

The changing shape of intergenerational financial planning in the UK

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

IHT threshold has been frozen since 2009[1]

An estimated **£5.5tn** will be passed between the generations over next 30 years[2]

HMRC IHT receipts rose to **£7.09bn** in 2022/23[3]

Introduction

When M&G Wealth first commissioned the Family Wealth Unlocked report three years ago, no one could have foreseen the enduring impact of events such as Covid-19, the cost-of-living crisis and the taxation burden.

This year's report – now in its successful third year – is particularly significant as its findings reveal notable changes in intergenerational conversations, behaviours and actions. More generations are now sharing advisers to plan and manage wealth transfer. And more are incorporating expected inheritances into their financial plans.

It seems to be holistic advice that's required. While much industry thought focuses on property and investments alone, the average IHT liability of just over £200,000 reveals estates with high levels of cash, shares and life policies.[4]

1. Inheritance Tax thresholds and interest rates, HM Revenue & Customs, August 2023
2. Intergenerational wealth transfer in the UK, The Kings Court Trust Blog, November 2020
3. HMRC tax receipts and National Insurance contributions for the UK (annual bulletin), September 2023
4. Inheritance Tax statistics: Commentary, HM Revenue & Customs, July 2023

FINDINGS IN THIS YEAR'S REPORT INCLUDE:

The extent to which families sharing an adviser has increased in a difficult year

How families are reporting they intend to leave increased inheritances – despite the cost-of-living crisis

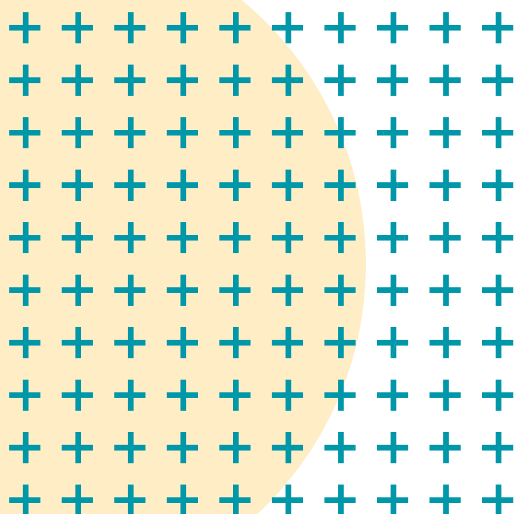
Concerns about children 'squandering their inheritance' and how this remains a barrier to early gifting

Which adviser skills are most highly prized by clients in 2023

Our report examines the changing financial behaviours of the wealth-holding generations and future 'recipients'. It includes age bands from 18–24 through to 55+. In all, 2,000 individuals nationwide who've received financial advice.

This year's M&G Wealth's Family Wealth Unlocked reveals an often-conflicting set of needs, as families balance today's inflationary pressures with the desire to protect and transfer future wealth. It also highlights the changing role of a home: no longer just a place to live, but now an asset that can be employed to reduce both today's financial pressures and the risk of tomorrow's care costs.

Given Family Wealth Unlocked is focused on those who have received financial advice in the past five years, it also reveals the changing role of the adviser; and where opportunities lie for experts in intergenerational financial planning.



The cost-of-living crisis has prompted 11% more people to see a financial adviser than in 2022

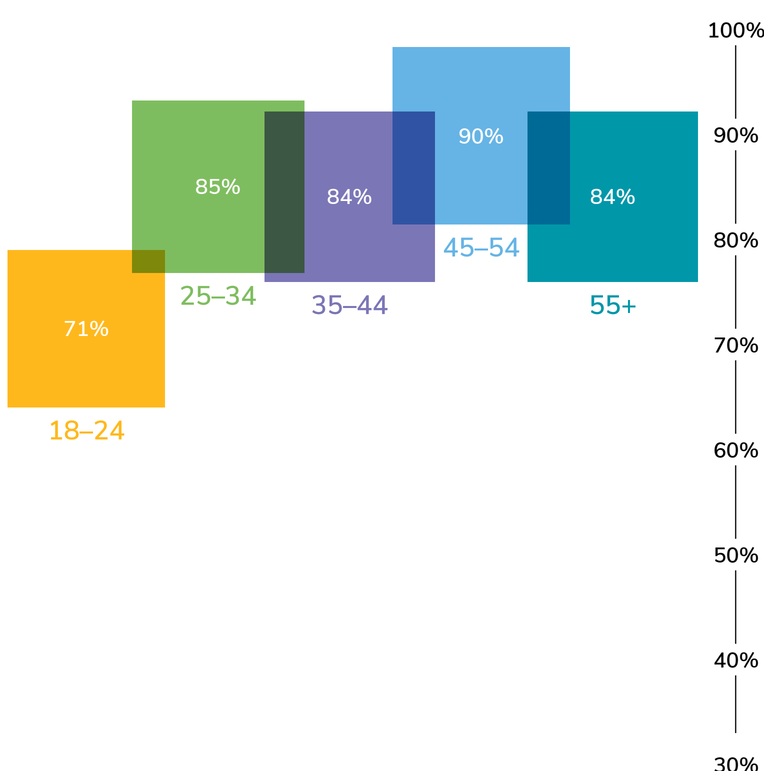
The challenges of the cost-of-living crisis have prompted as many as four in ten (40%) to seek financial advice, a significant increase on the 29% in last year's report.

Inflation lies at the heart of the challenge. 84% of our advised sample said they were concerned about rising inflation, its impact affecting all age groups similarly: 71% (18–24-year-olds), 84% (35–44 and 55+), 85% (25–34) and 90% (45–54-year-olds).

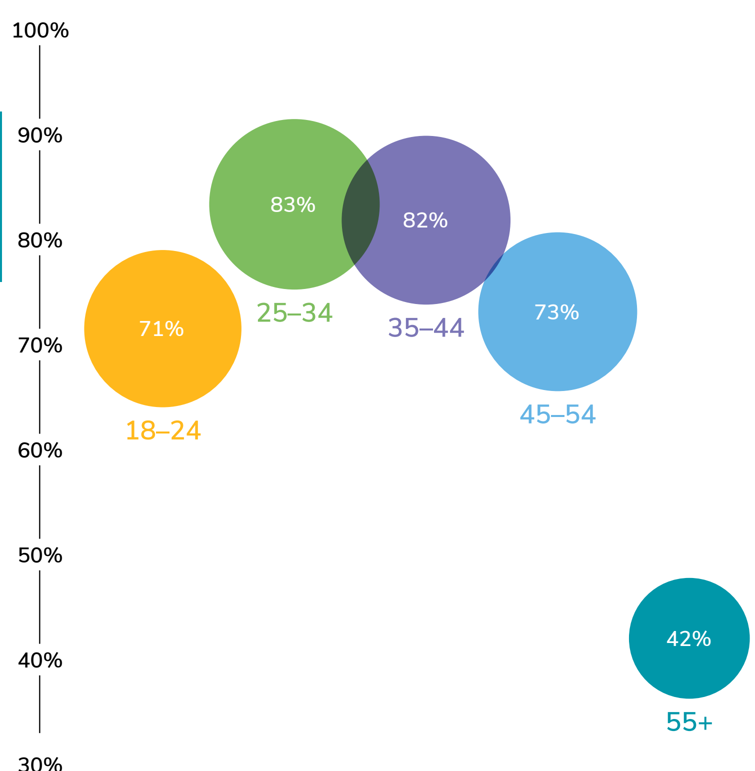
After decades of low inflation, clients may not fully understand it as a threat to investment performance over time. Personal experience of its effect on everyday purchases has clearly brought the topic into focus, along with the need to review investment strategies and financial plans with advisers.

Rising interest rates also concerned all age groups. The issue is of greatest significance to 25–34-year-olds (83% of that age group), who are likely to be feeling pain from their – or their landlord's – mortgages rising. Interest rates also concerned 73% of the 45–54-year-olds, but declined to 42% for the over-55s, who may be benefiting from a lifetime of savings or paid-off mortgages.

I am concerned about rising inflation



I am concerned about rising interest rates



Despite the cost-of-living crisis, contribution levels into savings and investments are not all in decline

While one in three (35%) says their financial situation has got worse during the cost-of-living crisis, this isn't everyone's reality. Our research reveals a polarised picture.

To understand shifting savings priorities in the cost-of-living crisis, we analysed people's intentions to increase or decrease contributions into private pensions, workplace pensions, savings, investments and children's savings.

Savings was the area where the greatest decreases took place. Overall, one in four (27%) said they had reduced their savings contributions, with a further 9% saying they had stopped temporarily – or didn't see themselves being able to start again.

20%, however, said they had increased their contributions – the highest single increase across the five products in our research. At a time when inflation is higher than most savings rates, some people may be using their savings to build up rainy day funds (or save for home deposits).

The youngest age groups are increasing savings most, perhaps enabled by them living or returning home, and may therefore have less rent to pay. 39% of the 25–34-year-olds (and 36% of the 18–24-year-olds) had increased savings contributions, three times as many as those aged 55+ (13%).

Private pensions also experienced significant change, with 43% of people changing contributions levels, 16% decreasing them

47% OF PEOPLE CHANGED THEIR PENSION CONTRIBUTION LEVELS AS A RESULT OF THE COST-OF LIVING CRISIS

and an additional 7% stopping temporarily or saying it was unlikely they'd be able to start again. In contrast, 16% said they had somewhat increased their contributions.

Perhaps surprisingly, especially given employers matching employees' contribution levels, increases and decreases into workplace pensions were almost identical to those of private pensions, with just 14% decreasing and 16% increasing somewhat.

Contributions into financial accounts for children (trust funds, savings, bonds and investments) also showed resilience, with families actively prioritising saving for the next generation. 30% actively increased contributions year on year, 24% making no change and just 14% decreasing contributions.

Despite the crisis, **30%** increased their contributions into children's financial accounts and investments

Despite the cost-of-living crisis, one in four (25%) over-45s says the inheritance they leave will now be larger

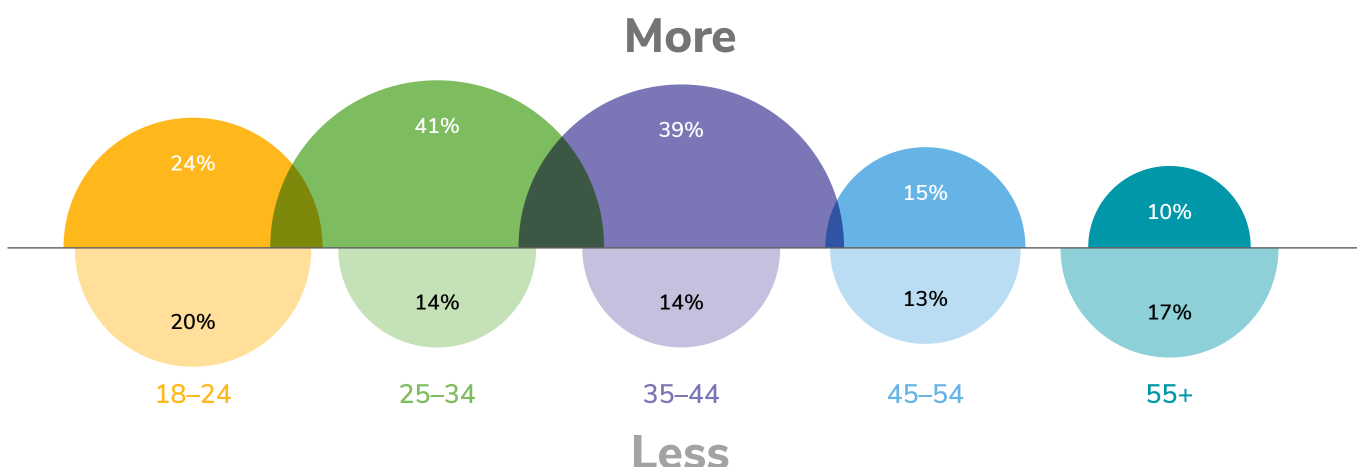
This year's data shows how inheritances are proving resilient, despite the cost-of-living crisis ravaging many people's finances. One in ten of those over 55 (10%) said that recent high inflation and rising interest rates mean the inheritance they pass down will now be larger, compared with 17% of this age group who say it will be less.

This is echoed by 15% of 45–54-year-olds, who also feel the inheritance they leave will now be larger, a greater number than the 13% who felt it would now be less.

With home values broadly stagnant and no bull stock market, these figures reflect the pattern of polarised savings and investment contributions in the earlier section. And with £1.5tn sitting in UK savings accounts[5] they could also indicate that some people see rising interest rates as having swollen returns over the past year; however they are failing to take the impact of inflation into account.

> "What strikes me is the speed with which intergenerational conversations have become embedded in the advice process, leading to a diversity of opportunities for both advisers and clients alike. Increasingly, we're seeing advisers building jigsaws of interconnecting pieces for the family. The skill lies in advisers adopting a holistic approach to ensure those financial jigsaws have no missing parts."
>
> – Vince Smith-Hughes, Director of Specialist Business Support

The inheritance I was going to leave will be...



5. Cash Savings Market Review 2023, Financial Conduct Authority, July 2023

Two in five have already factored an inheritance into their financial plan

The Office for Budget Responsibility projects IHT will raise £7.2bn this financial year, rising to £8.4bn by 2027/28, as a greater number of estates become liable for IHT.[6]

This prompts the growing need for families and their advisers to talk openly and collaborate about inheritances, enabling financial plans that work at both an individual and a multi-generational level.

An increase of 6% on last year, two in five (40%) said they had been told they would inherit and had already factored this into their financial plan. A further 37% said they had been told they will inherit, but were still to include this in their plan, a 3% decline on last year.

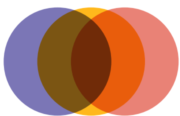
Many, however, remain in the dark. 12% hope to inherit (but don't know if they will) and 9% assume they won't (down from last year's 15%). A further 5% are optimists, saying they hope they'll inherit and have factored a potential inheritance into their financial plan.

6. Inheritance Tax, Office for Budget Responsibility, March 2023

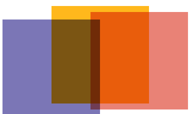
Gifting increases year on year, helping reduce cost-of-living burdens and funding property purchases

Gifting volumes have increased noticeably since last year, with the number of people who've received a financial gift rising from 77% to 84%. No small rise, and undoubtedly driven by the need to support younger generations under pressure from the cost-of-living crisis. Indeed, research shows the most significant areas of gifting increases reflect some of this year's most pressing societal and economic challenges.

Help with the cost of living. Gifting 'to help with bills' rose from 18% last year to 21% for 2023; gifting to pay off debts' from 11% to 15%; and 'money to help with rent and mortgage' rose from 13% to 16%.



Enabling property ownership. Gifts for 'a house deposit' grew from 18% to 22%, and from 9% to 14% to support 'an outright property purchase'. And even more significantly, gifting of an entire property increased significantly from 10% to 16%. We explore changes in how people are viewing and using their homes more fully in the next section.



Education and personal development. Gifting to support the cost of university rose as students wrestled with fees and the increasing cost of utility bills and student accommodation. Gifting to help with school/university fees rose from 19% to 23% year on year, while gifting to support internships and professional qualifications increased from 7% to 13%.

84% SAID THEY'D RECEIVED A FINANCIAL GIFT IN 2023, COMPARED WITH 77% IN 2022.

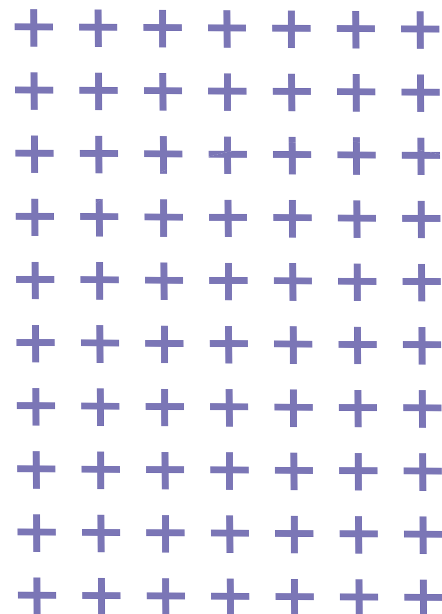
Interestingly, the number of people who'd received financial gifts from grandparents grew considerably since last year's report. 64% said they had, compared with 48% last year. Trends in property gifting stand out. The number of grandparents who gifted their property in its entirety doubled from 3% to 6% this year. In the same vein, the number who said they had been gifted money by grandparents for an outright property purchase also grew from 3% to 6%.

64%

SAID THEY'D RECEIVED GIFTS FROM THEIR GRANDPARENTS, UP FROM 48% IN 2022

While on the surface gifting sounds straightforward, it carries risks if conducted without expert financial advice, where purpose and sequencing can be optimised as part of a wider financial plan.

> "Consider a client setting up an absolute gift trust for a minor child. When that child turns 18, or just 16 in Scotland, they become fully entitled to the trust fund. For large trust funds that might not be the intended or indeed desired result!"
>
> – Les Cameron, Head of Technical



Concerns about ‘squandering’ an inheritance remain a barrier to early gifting

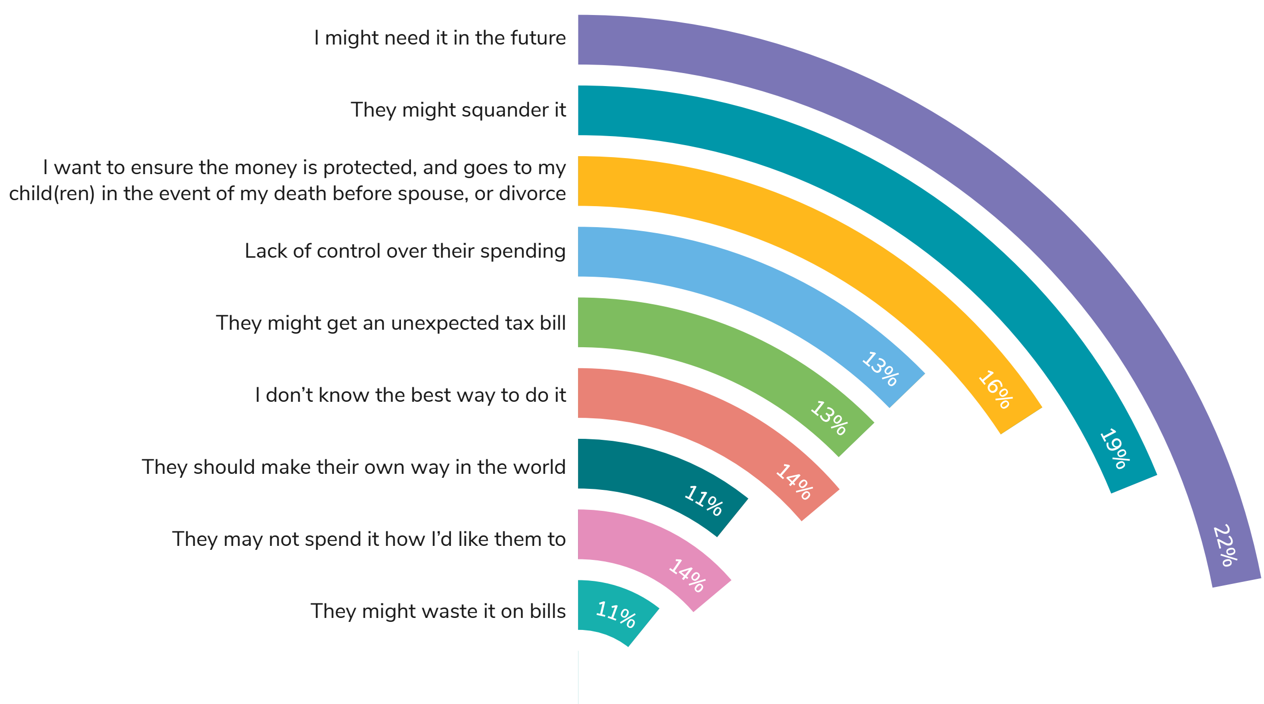
While the percentage of people concerned their children will ‘squander’ any inheritance gifted early has slipped from 21% to 19% since last year, it remains an important perceptual barrier to overcome. In a similar vein, a further 14% were concerned their children wouldn’t spend a gift ‘as they wanted’ (eg, for their future), and 13% expressed concerns about a lack of control over their spending, which remains consistent with last year (15%).

“It’s interesting that just one in five potential donors is concerned that their children will squander any inheritance gifted early. For those clients, and indeed for those looking for a bit more flexibility and control, a discretionary trust may be the solution. The trustees will decide who benefits, when, and by how much. And if the client is no longer a trustee, then a letter of wishes from the client to the trustees can help guide the trustees in their decision-making. With a discretionary trust, even those as yet unborn can be potential beneficiaries.”

– Vince Smith-Hughes, Director of Specialist Business Support

With many living into their 80s and beyond, and the potential cost of care significant, research reveals one in five (22%) is concerned they might regret gifting, believing they may need it themselves in the future. Beyond cashflow modelling to educate both foreseen and exceptional needs over time, there is clearly a knowledge gap on gifting, with 14% of people saying they simply don't know the best way to gift.

If you were to gift part of your inheritance early to a family member, what concerns might you have?



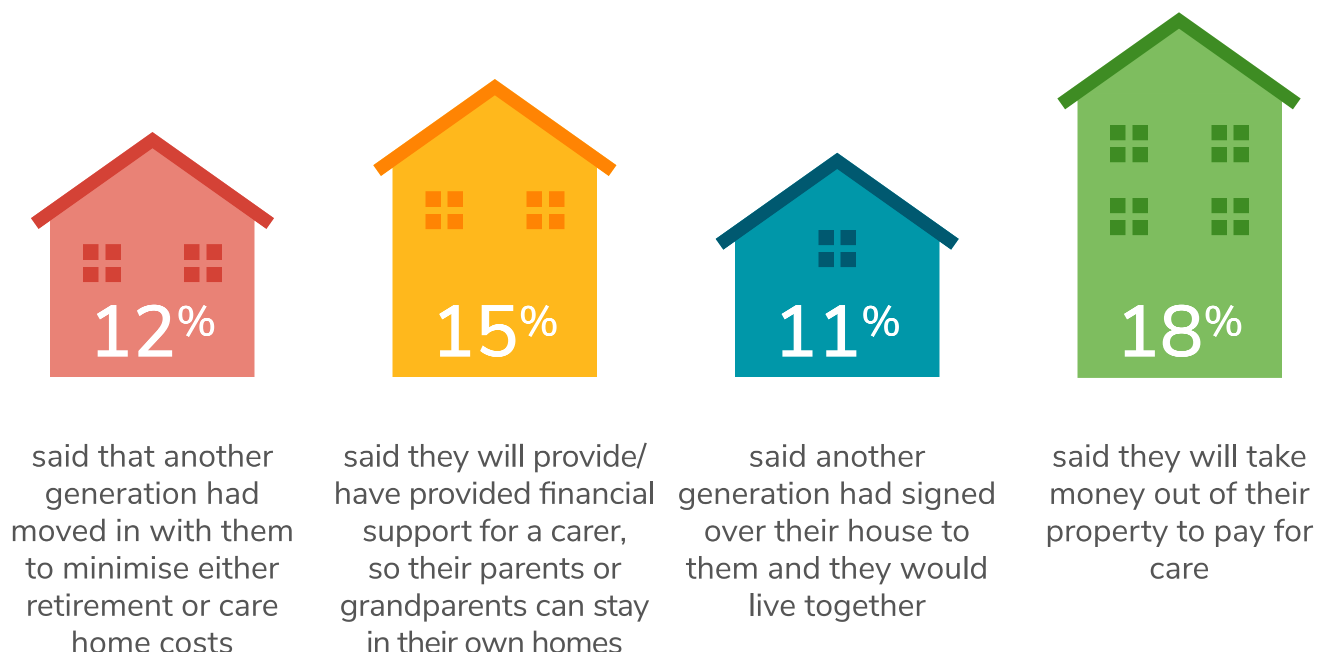
Property is evolving from being a home into an intergenerational asset

Just as the 1990s fuelled the UK's desire to own property, the events of the 2020s are reframing how people view and 'use' their largest capital asset. Average residential care home costs of £27,000 to £39,000 per annum,[7] combined with rent and mortgage increases across generations of a family, are driving new models of home sharing, gifting and capital release.

One such model is families deciding to consolidate existing homes. One in eight (12%) said that another generation had moved in with them to minimise retirement or care home costs, up from one in ten (10%) in 2022.

Also proving popular, is one generation enabling another to remain in their homes and avoid external care home costs. 15% said they either planned to or had provided financial support for a carer, so their parents or grandparents can stay in their own homes.

Building on the gifting trends in the section above, 11% of respondents (up from 8% last year) said they either intend to or have signed their house over to another generation, so they can all live together and share costs. A further 11% now intend to buy a 'joint' property.



Equity release is, perhaps, a longer established option. Almost one in five (18%) said they intended to take money out of their property to pay for care, although with interest rates having risen significantly in recent months, professional financial advice should be taken to examine this avenue more holistically in relation to other options.

7. Care home costs & care home fees in the UK, UK Care Guide, September 2023

One in three families say they'd feel 'relieved' using the same adviser as other family members

Critical to the success of intergenerational financial planning is different generations' comfort in sharing the same financial adviser. Our research of those who have already taken advice, reveals that, for the most part, people are.

The most common view expressed (41%) is that they would feel relaxed sharing an adviser, as their family already trusted working with them. One in three (32%) went further, saying they would 'feel relieved' knowing that members of the family with intersecting finances were using the same adviser. 39% said they'd feel good that all their family's finances were in 'one place' and that they could review them together. 34% said they were happy to share an adviser but wouldn't share all their details/financial situation.

For personal and privacy reasons, not everyone was at ease. 28% said that they would feel uncomfortable about an adviser reviewing all their family's finances.

Further reservations were founded on other members of the family knowing the detail of their financial situation. 19% went so far as to say they would feel embarrassed by others knowing the state of their finances. And one in five was concerned the adviser would reveal their financial details to another family member, a perception client confidentiality would clearly not permit.

The number of UK families sharing an adviser has grown by 5%

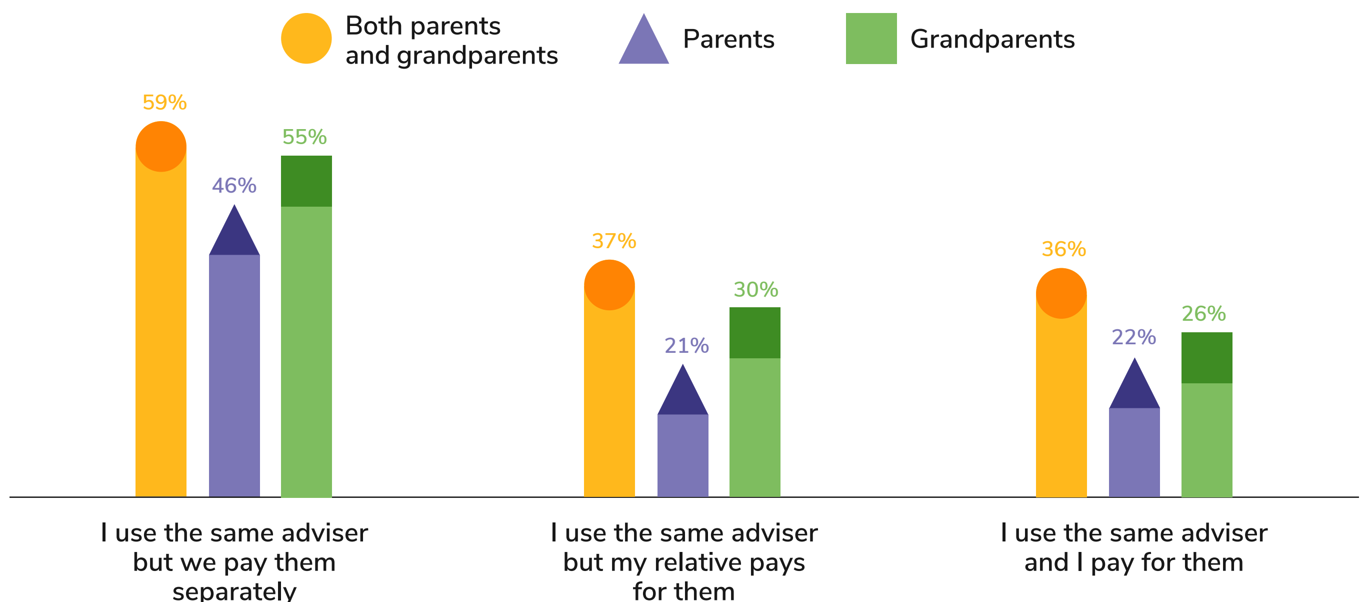
Data from this year's research shows growth in the use of families sharing the same adviser, be that with parents, grandparents, children or wider family members. 45% of families said they did, up from 40% in 2022.

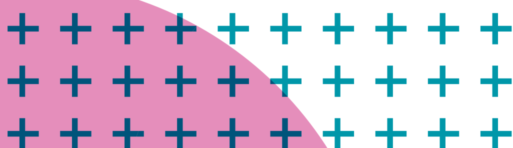
While advice has a value at an individual level, the section above shows the incremental value – both financially and emotionally – of having a shared adviser.

Interestingly, usage is not limited to 'subsequent' generations. 46% said they used the same adviser as their parents, 55% with their grandparents, and 38% with both parents and grandparents.

The methods of remunerating an adviser varies depending on the family make-up, while advisers could be benefiting from new revenue streams. 45% of respondents said that each party paid (the adviser) separately for advice (an increase of 5% on last year), 19% where their relative pays for them and 20% where they pay for it themselves.

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





When sharing an adviser, more see their value in being 'best for the family' than 'saving on tax'.

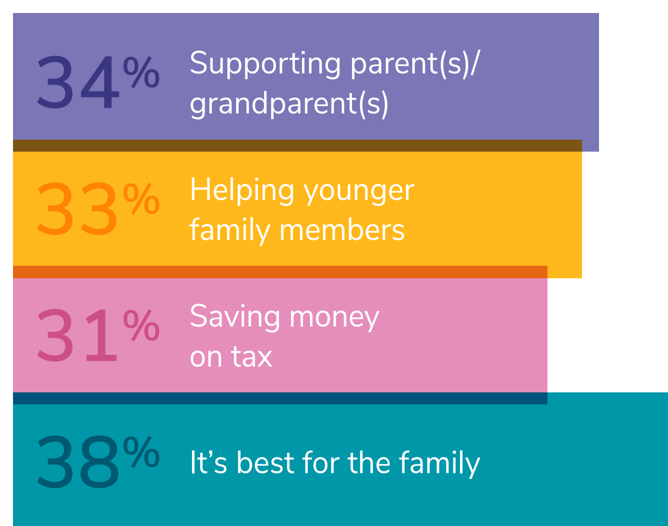
With almost all of our research sample having benefited from having worked with a financial adviser, we next asked them to rank how they saw the main benefits of sharing.

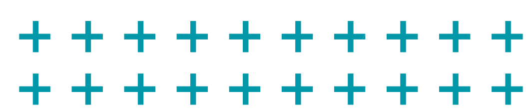
For one in three (31%) it was saving money on tax.

Yet, for a greater number the benefit was in how advice enabled value to be focused towards specific members of the family and how it benefited the family as a unit. 38% see the value in it being 'best for the family'. 33% felt it was helping younger members of the family, and 34% that it was valuable in supporting the needs of their parents or grandparents.

Others agree that sharing an adviser brings a level playing field to their family's finances. 36% believe it helps ensure members of the family are aware of each other's financial situation. And a further 36% believe that having an adviser working with multiple members of the family ensures everyone in the family is treated fairly.

Which, if any, of the following are the benefits of sharing the same financial adviser with your family?





Which of an adviser's skills are most highly valued in 2023?

While we've examined the value advisers bring specifically within the family environment, what skills (beyond the core advice itself) rank most highly for clients who have benefited from advice themselves?

Impartiality. Advisers' impartiality is most prized (37%) as a behaviour: both in terms of product and platform recommendations, and also towards members of the family; this being expressed equally strongly by men (37%) and women (36%).

FOR **29%** UNDERSTANDING THE FAMILY SITUATION IS AS IMPORTANT TO CLIENTS AS ADVISER PRICING

Understanding different generations' situation. Echoing this, the second most valued adviser trait was 'understands my family situation' (29%). This is clearly a vindication of those advisers who have actively developed intergenerational financial planning as a core part of their business offering. So valued is it as a skill that it ranks as highly as 'competitive pricing' (also on 29%).

Facilitating difficult conversations. The value of the adviser giving objective, expert guidance is further reinforced in that almost one in five (17%) of those advised said they valued advisers to 'help facilitate difficult conversations about finance across the generations'.

Service. Service levels are the next highest ranking adviser skill. 'On hand for quick support' is important to more than one in four (28%), with 'regular contact' immediately below at 26%. 15% of advised clients also look for support outside normal working hours.

Familiarity with cultural and religious needs. Significant also in our research, is that 15% of all previously advised clients value advisers' familiarity with clients' religious, cultural and sexual orientation, be that in Shariah finance or in the needs of higher risk and more vulnerable clients.

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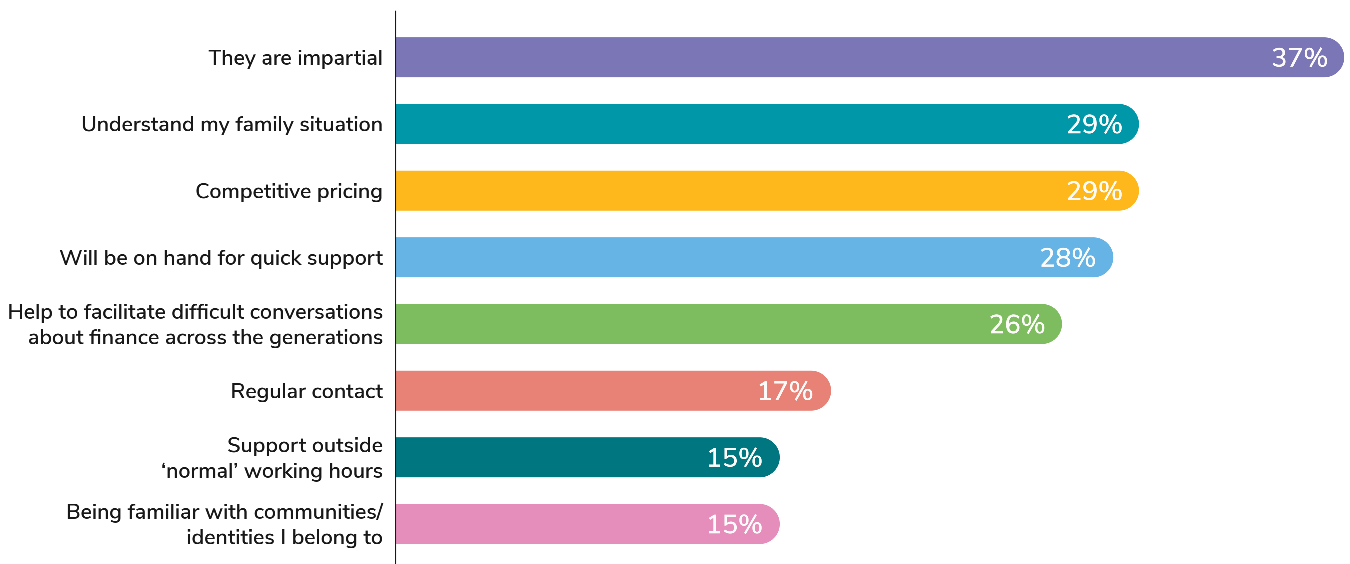
LOOK TO ADVISERS TO BE FAMILIAR WITH THEIR CULTURAL AND RELIGIOUS NEEDS

Aside from financial advice, which, if any, of the following do you look for from a financial adviser?



The number of families openly discussing their finances has decreased from 80% to 64%.

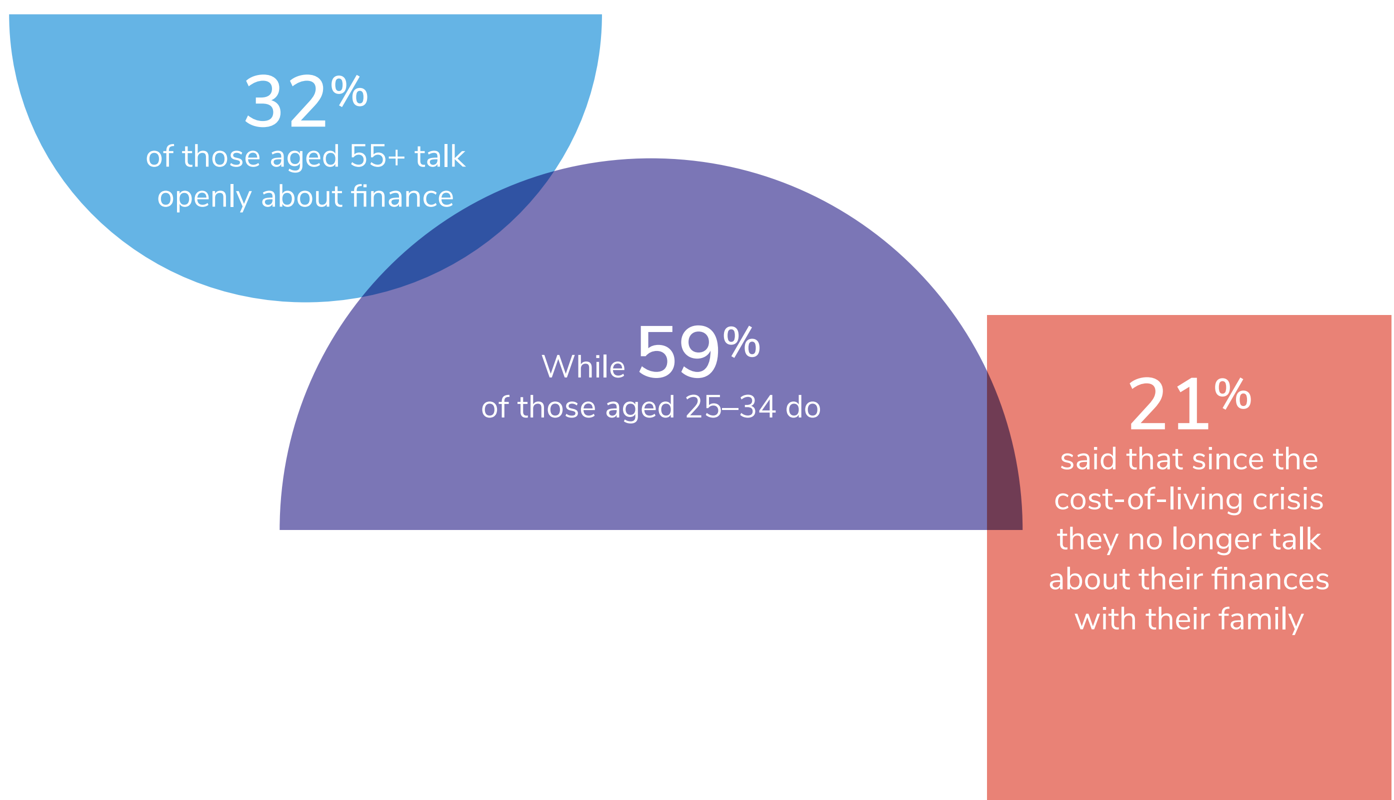
Among the advised audience we researched, almost two in three (64%) confirmed they talk openly across the generations about money. While this number seems positive, it is significantly down on the 80% in last year's report.

And while 64% is an average across all age groups, it's the younger advised clients who are most in need of support and encouragement. While 83% of the 55+ group say they talk openly to each other about finance, this plummets to 59% for 25–34-year-olds and to 64% for those aged 35–44.

Our research reveals that for some families the cost-of-living crisis has impacted on conversations. One in five (21%) said that since the crisis began, they had stopped talking about their finances, perhaps because discussing money reminds them of the financial pressures on them.

Less than a third of this year's number (30%) say they don't discuss anything financial. 19% say they're too embarrassed to discuss their finances with each other, and the same number that they used to, but it proved 'problematic'. One in five (20%) admits that they hide their finances.

And while advisers are highly skilled financially, initiating and mediating intergenerational conversations is clearly a specialist skill needed today to open up individual, family-wide and, in turn, long-term commercial business value. It's a need providers are recognising and starting to support.



‘Blended’ families and IGP. Sharing advice with a non-bloodline family

‘Blended’ families (those with a combination of parents, new partners and children, some of whom are adopted) represent an estimated one in three[8] of all UK families. Bloodline priorities, children from more than one parent, potentially conflicting wills and more, make wealth planning and management an increasingly important – and complex – area for families and advisers. But do blended families embrace advice across the entire family to the same extent as non-blended?

Research shows blended families are just as warm – if not warmer – to sharing an adviser with members of their extended family. 47% of blended families use the same adviser as other family members, contrasting with 42% for non-blended families.

43% of blended families said that sharing an adviser meant they would feel good that all of their family finances were being reviewed together, similar to that of non-blended families (40%).

Blended families were, however, more concerned about advisers sharing their financial details with other members of the family, with 27% expressing this compared to 19% of non-blended families.

Blended families are more likely to share an adviser than non-blended families

8. Blended Families and importance of making a will, Maxwell Hodge Solicitors, July 2020

Conclusion

Just as the pandemic focused people's minds on their mortality and encouraged them to seek out financial solutions that would protect their family's health, this year's M&G Wealth's Family Wealth Unlocked data reveals how the cost-of-living crisis has made people reconsider their wealth – and how it can change the lives of future generations.

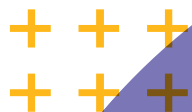
Importantly, this year's data shows the importance and value people place on their advisers helping them achieve this. Even when money is tighter, 7% more people sought advice this year than last. This is echoed further in the 5% increase in people sharing their adviser with another generation of their family.

From a business development point of view, our research also shows how highly clients value their ability to advise across the entire family unit; as highly as the cost of client fees.

Gifting has also grown this year, with increased numbers of financial gifts employed to help younger generations keep their heads above water during the cost-of-living crisis. The research also reveals barriers to more widespread gifting remain in place. Many remain concerned their children will 'squander' an early inheritance, while others admit they don't know how to start. The need for advisers to educate on the basics of gifting, and on 'directive' solutions that pre-define purpose and access, clearly has a place.

Finally, the report data suggests that families are viewing their properties in a new light. Property's 'traditional' family role is changing, often to be an opportunity to release capital for the greater needs of their family, to support mortgage payments and minimise care home costs. While this undoubtedly presents some obvious benefits for families, it's not always something that is run by an adviser, who is well placed to integrate non-traditional property thinking into intergenerational financial plans.

For all these reasons and more, the value of an adviser when future-proofing generational wealth is constantly changing shape, but continues to be central to conversations and actions across generations.



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