remi
by Allspring

The Great Wealth Transfer Is Coming: Are You Prepared?

Over the next three decades, wealth management will experience possibly the single most disruptive movement in U.S. history, as approximately $84.4 trillion is expected to be passed down from elder generations to beneficiaries and charities.[1] To illustrate the magnitude of this phenomenon, $84.4 trillion is about 88% of the entire world's productive output in 2021, when global gross domestic product was $96.5 trillion.[2]

However, this multigenerational wealth transfer, otherwise known as the Great Wealth Transfer, will not be seamless for anyone involved.

Preparing for the Great Wealth Transfer

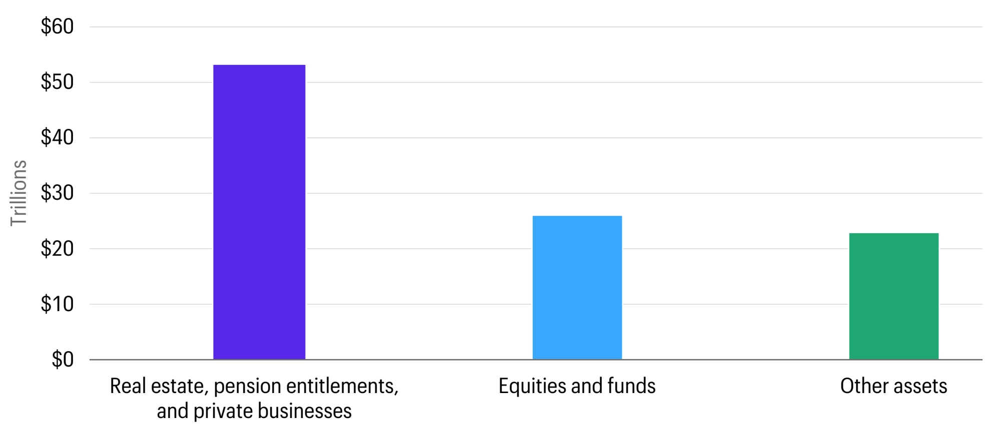
Existing and soon-to-be high-net-worth households—as well as their advisors—should consider the potential ripple effects that could shape the industry for years to come.

Complex wealth is likely to be restructured

It's common for equities to account for a significant percentage of a household's wealth. But wealth is rarely entirely liquid—a principle that will ring true during the Great Wealth Transfer. Real estate, pension entitlements, and private businesses comprised almost 53% of the total assets of individuals age 55 and above at the end of 2022.[3] In other words, more than half of the transferable assets are illiquid.

Complex financial planning and wealth restructuring will become paramount for beneficiaries and their advisors.

U.S. WEALTH DISTRIBUTION (AGE 55+)



Source: Federal Reserve data as of October 2022.

1. Cerulli Anticipates $84 Trillion in Wealth Transfers Through 2045, January 20, 2022. Cerulli
2. Gross Domestic Product 1960–2022 (current US$) World Bank
3. Distributional Financial Accounts The Federal Reserve

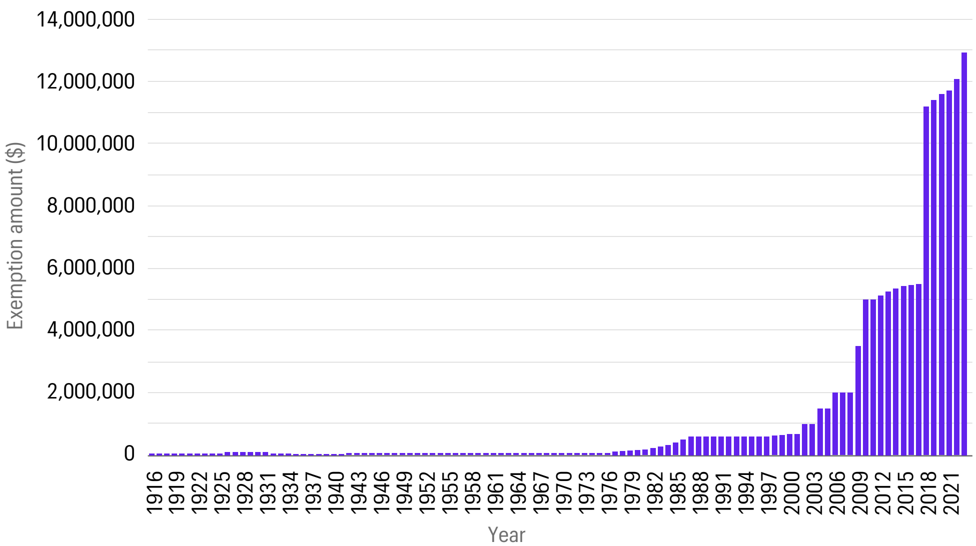
Exemptions should be used properly

Estate taxes are quite favorable at the moment: The 2023 gift and estate tax exemption is $12.92 million of assets, which is notably higher than historical levels.[4] In effect, individuals can bequeath assets up to this level without incurring taxes.

However, that won't remain true for long. Barring new legislation, exemptions will drop substantially after the 2025 tax year to approximately $7 million, depending on inflation adjustments.[5] Any amount above this threshold would be subject to federal estate taxes. While it has remained unchanged since 2013, the federal estate tax rate is still steep (40%). For example, bequeathed assets of $10 million in 2026 would incur a substantial federal tax of approximately $1.2 million.

In the near term, high-net-worth clients and their advisors should prepare for the impending exemption reduction.

HISTORICAL ESTATE TAX EXEMPTION ACCOUNTS



Source: Internal Revenue Service as of 2007.

> Estate taxes are quite favorable at the moment: The 2023 gift and estate tax exemption is **$12.92 million** of assets...

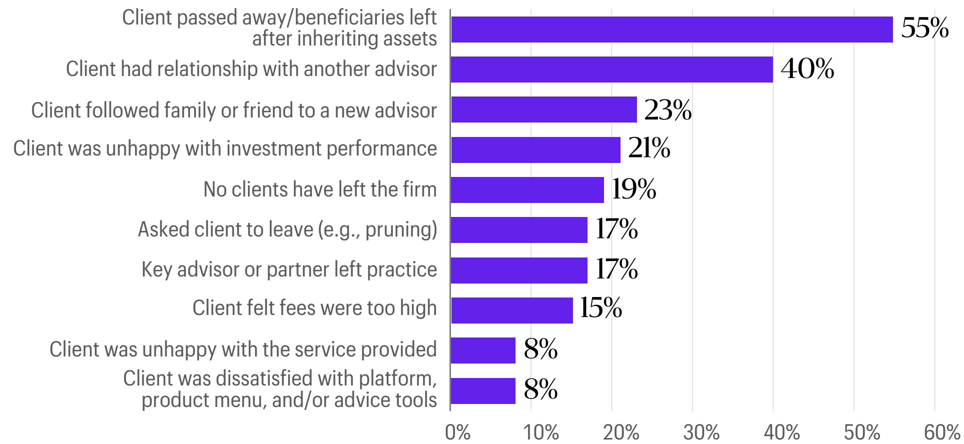
4. Estate Tax, IRS
5. Prepare for Future Estate Tax Law Changes, Fidelity Wealth Management Fidelity

Advisor changes pose both a threat and an opportunity

The Great Wealth Transfer is, categorically, a period of change. As beneficiaries inherit the wealth of their parents and relatives, many will reassess not only their personal finances but also from whom they seek professional advice.

While just 25% of advisory firms view the Great Wealth Transfer as their biggest challenge, the most-cited catalyst of client attrition by advisors is beneficiaries leaving the practice after the primary client passed away, according to Cerulli data.[6] Undoubtedly, some firms will be affected by generational wealth transfers as heirs explore other options. On the other hand, the shuffle also presents a substantial opportunity for advisors to acquire new clients and scale their business.

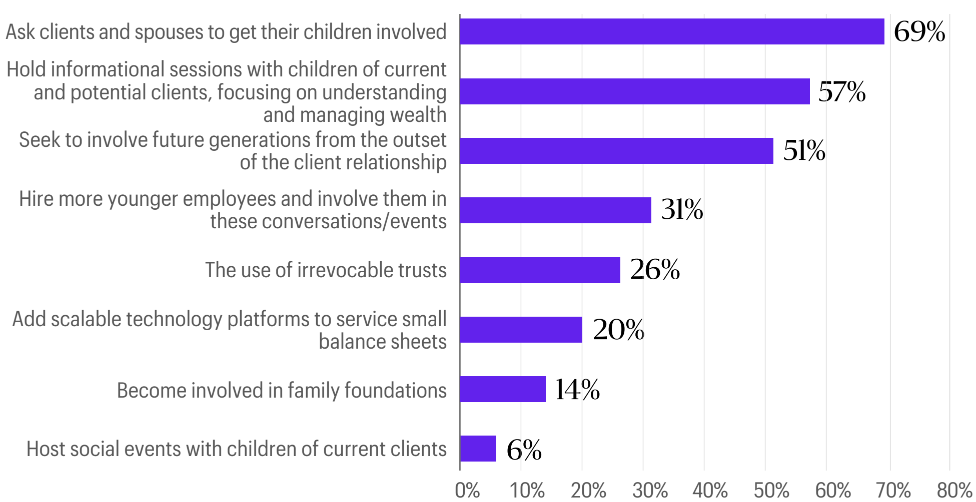
HIGH-NET-WORTH PRACTICES: PRIMARY REASONS INVESTORS LEAVE THE PRACTICE, 2022



Source: Cerulli Associates. *Analyst note: Respondents were allowed to select more than one choice.*

To strengthen relationships with heirs, 69% of advisors are encouraging clients and their spouses to involve their children in financial planning. Others are targeting the next generation more directly; 57% of advisors hold informational sessions with the children of current and potential clients to help with wealth management education.[7]

HIGH-NET-WORTH PRACTICES: STRATEGIES TO STRENGTHEN RELATIONSHIPS WITH CLIENTS' CHILDREN, 2022



Source: Cerulli Associates. *Analyst note: Respondents were asked, "What has proved to be the most effective means to develop business relationships with you clients' children?"*

6., 7. Cerulli, U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2022

Tax management will be crucial

Wealth transfers and tax management are inextricably linked. As such, holistic planning that incorporates advanced tax strategies and ongoing management will be essential, especially for high-net-worth households.

From the most fundamental perspective, beneficiaries likely have different risk profiles, goals, and investment timelines, which could require a strategy overhaul and, consequently, trigger taxable events. Even the clients whose newly inherited wealth falls within tax exemptions likely face critical investment decisions with taxable impacts.

How SMAs can streamline financial planning and wealth transfers

Considering the immensity of the Great Wealth Transfer, clients and their advisors should explore separately managed accounts (SMAs) for facilitating smooth transitions and managing assets in a tax-aware fashion.

SMAs offer unique features

Tax efficiency. Unlike mutual funds or exchange-traded funds, SMAs provide direct ownership of individual securities, which allows for tax-efficient strategies such as ongoing tax-loss harvesting. In any given year, a client's portfolio may have a mix of appreciated securities and securities that have experienced losses. In an SMA, there's more control over when and which gains and losses are realized, offering a strategic advantage for managing tax liabilities.

Customization. SMAs can cater to the specific needs of a client, including their goals, risk tolerance, investment time horizons, and tax objectives. They also provide flexibility in terms of investment choices and the ability to adjust portfolios as client needs and market conditions evolve.

Imagine a client in a high tax bracket with a substantial estate. Their SMA can be tailored to prioritize investments to lower their current tax burden while simultaneously staying invested, allowing for potential capital appreciation.

Transition management. SMAs can enable tax-efficient wealth transfer strategies for gifting and estate planning purposes, among others. For instance, securities with a low cost basis can be held in the account until the owner's death, at which point the heirs would receive a step-up in basis, potentially reducing their tax liability.

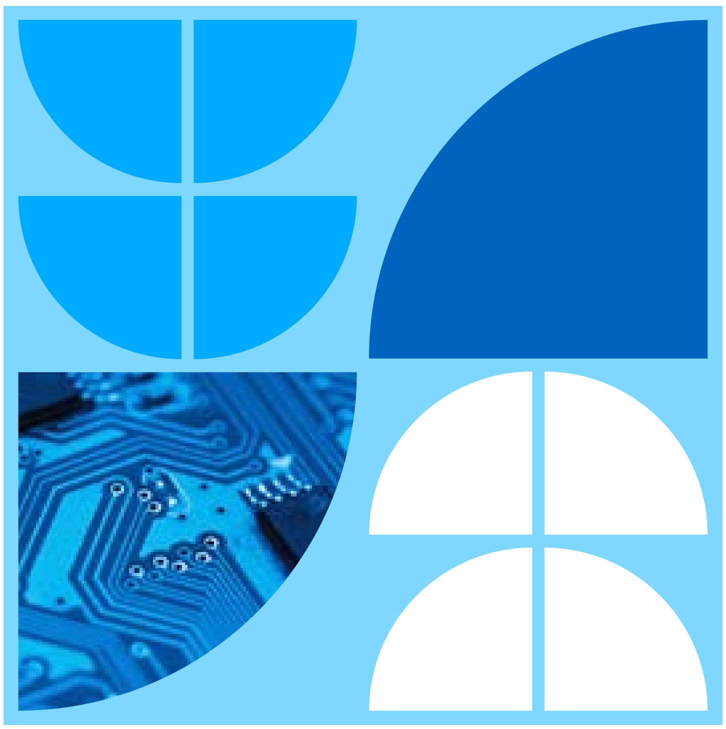
The tax management advantages of SMAs are too large to ignore, particularly ahead of the Great Wealth Transfer. According to a Cerulli survey, nearly 9 in 10 firms see ongoing tax optimization through SMAs as a significant opportunity, while about 7 in 10 firms said the same for tax-aware transitions.[8]

8. Cerulli, U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2022

Meet Remi: A scalable tax management solution

Are you prepared to proactively manage taxes during this period of change? You can be, with Remi—our intelligent SMA ecosystem that delivers customized portfolios with full-life-cycle tax management.

Remi combines Allspring's active and passive multi-asset investment expertise with a scalable and proprietary technology platform to help advisors help clients uncomplicate complex financial situations.



Unlocking smart outcomes

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