Boomers will bequeath $51 trillion over next two decades: Cerulli

By Editorial Staff *Thu, Sep 2, 2021*

Cerulli said advisors should be aware that the Biden administration's tax proposals would greatly hike the top-line capital gains tax rate on earnings exceeding $1 million, affecting almost one million households.

US households are expected to transfer close to $70 trillion to their heirs and charities by 2042. Baby Boomers are expected to pass on upward of 73% of this amount (a total of $51 trillion), according to the latest issue of Cerulli Edge—US Advisor Edition.

Tax efficiency will become increasingly important, given most of the wealth is held by older, high-net-worth (HNW) investors (those with greater than $5 million in investable assets) and will likely be subject to more expansive taxes in the coming decade, a Cerulli release said.

For advisors serving older HNW clients who prioritize tax minimization, emphasizing the importance of pre-emptive and adaptive planning is critical, particularly in the current political climate. Federal tax changes recently proposed by the current administration would greatly hike the top-line capital gains tax rate, applying to earnings exceeding $1 million.

Though this is only expected to apply to roughly 0.3% of the population, that still means close to one million of the wealthiest households would be significantly affected by this change.

"Advisors planning for clients who have significant capital gains exposure beyond the million-dollar threshold should consider stringently managing taxable income by realizing gains up to certain levels, if possible, and plan a strategic gifting and/or donation plan," said Chayce Horton, analyst, in the release.

With the rates being posed by policymakers, advisors are quickly realizing that resorting to deferrals of gains and income, which has been a major facet of tax planning for years, may no longer be an effective base-case plan for clients. Though nothing is promised yet, advisors serving HNW households will likely need to put a greater emphasis on sequencing taxable income events both as part of regular ongoing tax management, in addition to advanced pre-emptive estate planning.

Yet, estate planning is only half of the equation. With the increasing need for intergenerational planning and engagement, conversations must be had at all levels of the family. According to Cerulli, more than 70% of heirs are likely to fire or change financial advisors after inheriting their parents' wealth. This disconnect can become a significant wrench in any estate, let alone for an advisor's business continuity. Advisory practices that have not already done so will need to shift their mindset and strategically engage their clients' spouses and children on a more regular basis.

"The looming wealth transfer presents a significant opportunity for advisory firms that can adapt to a shifting landscape and evolving wealth demographic," said Horton. "It remains critical for wealth management firms to have thorough discussions with clients and ensure they have well-designed and adaptable intergenerational plans in place."