The future of wealth in the United States

Mapping trends in generational wealth

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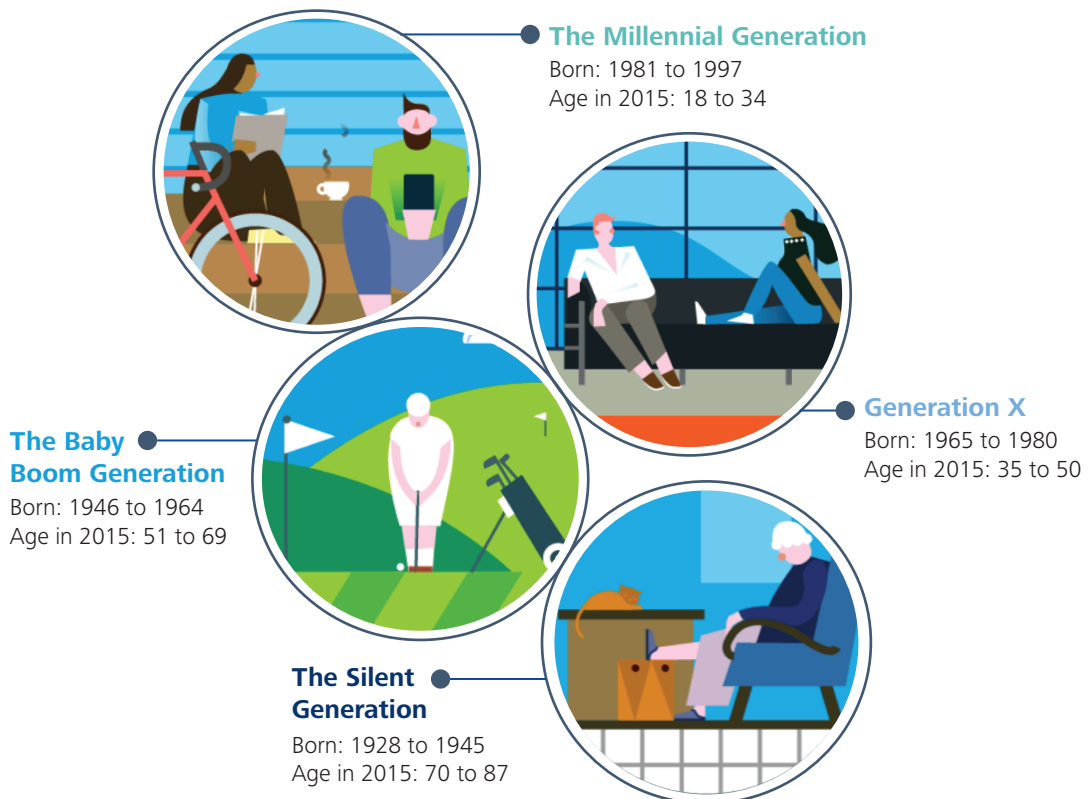
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What's ahead for wealth management in the United States?

WEALTH management in the United States is a huge business today. And it is about to get a lot bigger. The Deloitte Center for Financial Services expects US household assets to increase from $87 trillion today to over $140 trillion by 2030, of which nearly $64 trillion will be in investable financial assets.

This means that in 2030, between $150 billion and $240 billion in wealth management fees could be up for grabs.[1]

But for financial firms to fully exploit these potential opportunities, they will need a refined understanding of how this wealth will be distributed among different age cohorts.

The generations defined

The Millennial Generation
Born: 1981 to 1997
Age in 2015: 18 to 34

Generation X
Born: 1965 to 1980
Age in 2015: 35 to 50

The Baby Boom Generation
Born: 1946 to 1964
Age in 2015: 51 to 69

The Silent Generation
Born: 1928 to 1945
Age in 2015: 70 to 87

* The youngest Millennials are in their teens. No chronological end point has been set for this group. For the purpose of the current study, Millennials are defined as those aged 18 to 34 in 2015.

Source: Richard Fry, "Millennials surpass Gen Xers as the largest generation in US labor force," Pew Research Center, May 11, 2015.

Generational segmentation is not a marketing gimmick—there is vast evidence to show that the financial, behavioral, and life-stage tendencies of different generations are meaningful and unique.

Baby Boomers, a frequent punching bag among social critics for their excesses,[2] will not head into the sunset quietly (see "The generations defined" by the Pew Research Center). In 2029, the year when the last Boomer will have turned 65, the US Census Bureau projects that there will still be *over 61 million* Boomers—about 17.2 percent of the projected US population.[3] They will continue to wield immense influence over every aspect of American society for at least another two decades. As their needs and circumstances evolve, Boomers may yet again challenge conventional wisdom and redefine their role in the American economy. Financial firms would do well to take notice.

Meanwhile, Gen Xers, America's neglected middle children, squeezed between two much larger generations,[4] are entering the most financially rewarding stages of their lives; they will become the next big fee pool for financial services firms.

And Millennials, already seen as a segment with quirky tendencies and limitless potential, will affirm their status as the new drivers of consumption going forward. Their financial commitments (for example, education, homes, and cars) will fuel growth in the banking sector. Once they graduate to higher incomes, their share of assets will also pick up, although their lower per-capita wealth will demand differentiated service levels. However, their most pronounced impact on financial services may be driven by their value-conscious behavior and how they buy products and services, which may force a revamp of long-entrenched operating models.

And finally, the Silent Generation will significantly shape the future wealth of younger generations through substantial bequests.

In this report, Deloitte's proprietary forecasts of generational wealth show the distribution of wealth in the United States over the next 15 years among today's four adult generations: the Silent Generation, the Baby Boom Generation, Generation X, and the Millennial Generation. Drawing on data from the Federal Reserve's 2013 Survey of Consumer Finances, we developed this research to offer guidance to financial services firms as they plan to serve America's changing financial needs. We conducted this research in association with Oxford Economics, a provider of global forecasting

For financial firms to fully exploit these potential opportunities, they will need a refined understanding of how this wealth will be distributed among different age cohorts.

and quantitative analysis services to businesses and governments.

Unless specifically noted otherwise, the data in this report reflect the results of our baseline forecast for US economic performance, which reflects 2.4 percent average annual GDP growth and an average annual inflation rate of 1.9 percent during 2015–30 (see appendix). Results for two other scenarios that reflect higher- and lower-than-expected GDP growth are available on this interactive tool. To learn more about these economic scenarios, the full suite of their macroeconomic indicators, and their underlying drivers, please refer to Deloitte University Press's *US Economic Forecast: Volume 3 Issue 3*.

Eight future trends about generational wealth in the United States

1. Net wealth in the United States will grow from about $72 trillion in 2015 to $120 trillion by 2030 (figure 1).[5]

2. Boomers will continue to be the wealthiest generation in the United States until at least 2030 (figure 2). Their share of net household wealth will peak at 50.2 percent by 2020 and decline to 44.5 percent by 2030, quickly tapering off thereafter as mortality rates escalate.

3. Generation X will experience the highest increase in share of national wealth through the forecast period, growing from under 14 percent of total net wealth in 2015 to nearly 31 percent by 2030.
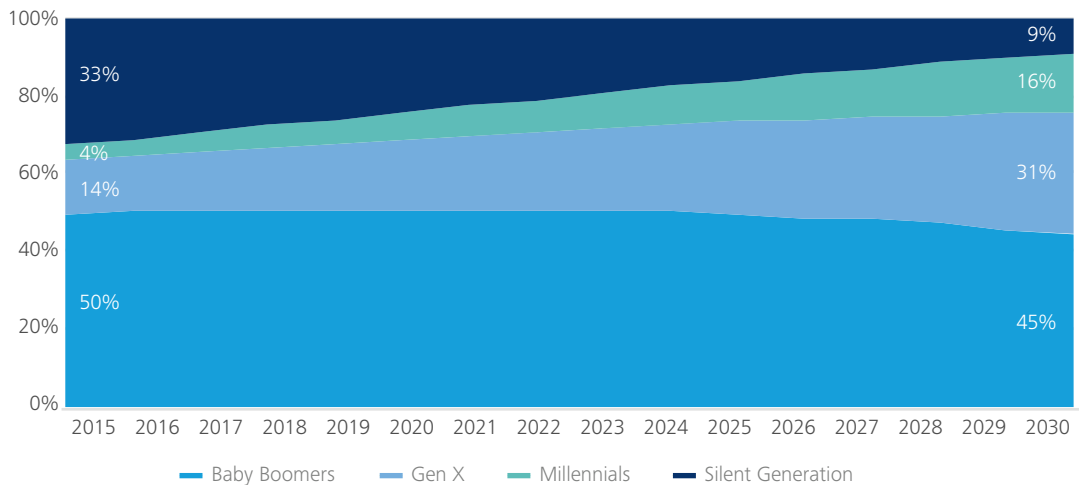
Figure 1. Growth in total wealth ($ billion)
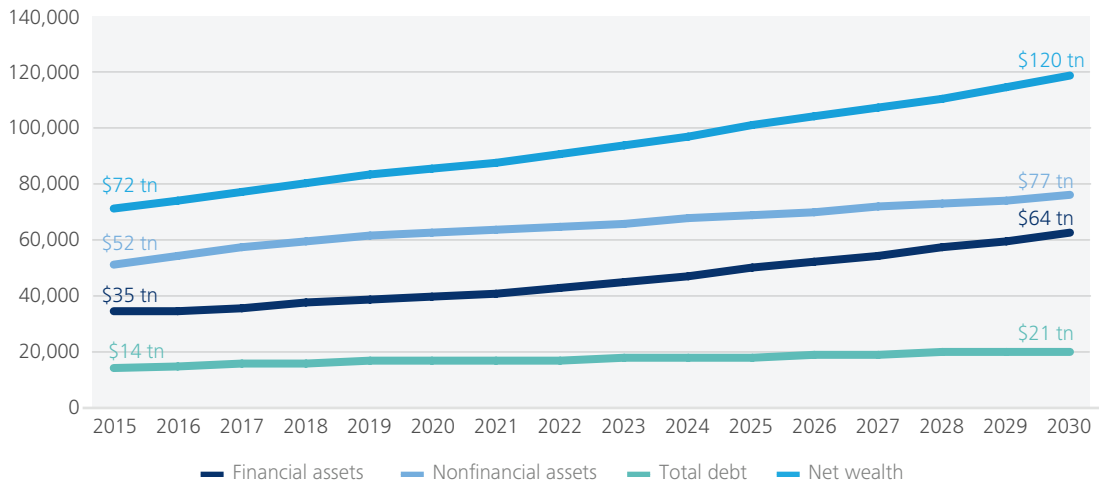
Source: Deloitte Center for Financial Services.

Graphic: Deloitte University Press | DUPress.com

Figure 2. Generational share of net household wealth (percent)

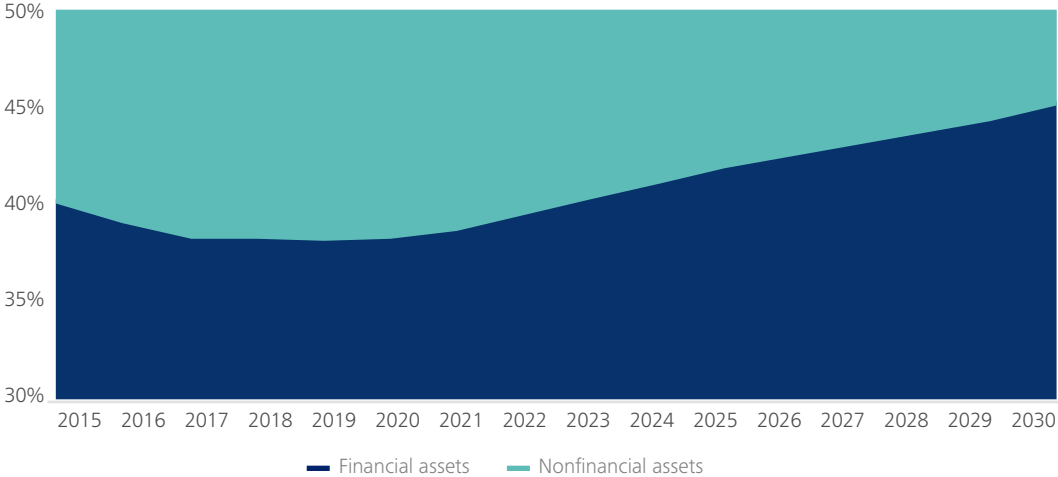Source: Deloitte Center for Financial Services.
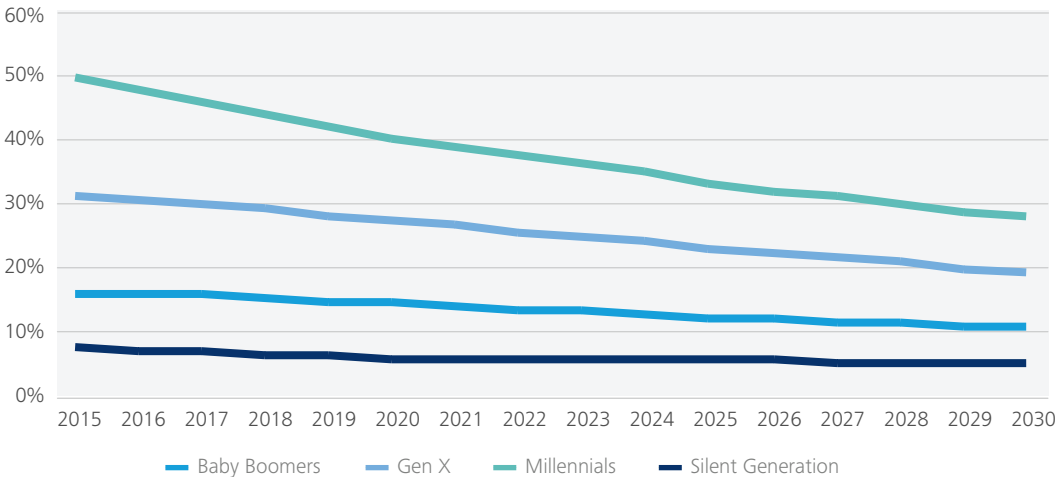
Graphic: Deloitte University Press | DUPress.com

4. The Millennial generation will experience the fastest growth rate of net wealth. However, the generation's share of national household wealth will remain below 20 percent.

5. Home values may appreciate at a slower pace than they did in the last two decades due to slowing population growth.[6] Consequently, the share of nonfinancial

assets in total household assets is projected to decrease from 60 percent to less than 55 percent (figure 3).

6. Household leverage among American households is estimated to gradually decline in the next two decades, if the historically inverse relationship between leverage levels and age persists (figure 4).

Figure 3. Share of financial and nonfinancial assets in total assets (percent)

Source: Deloitte Center for Financial Services.   Graphic: Deloitte University Press | DUPress.com

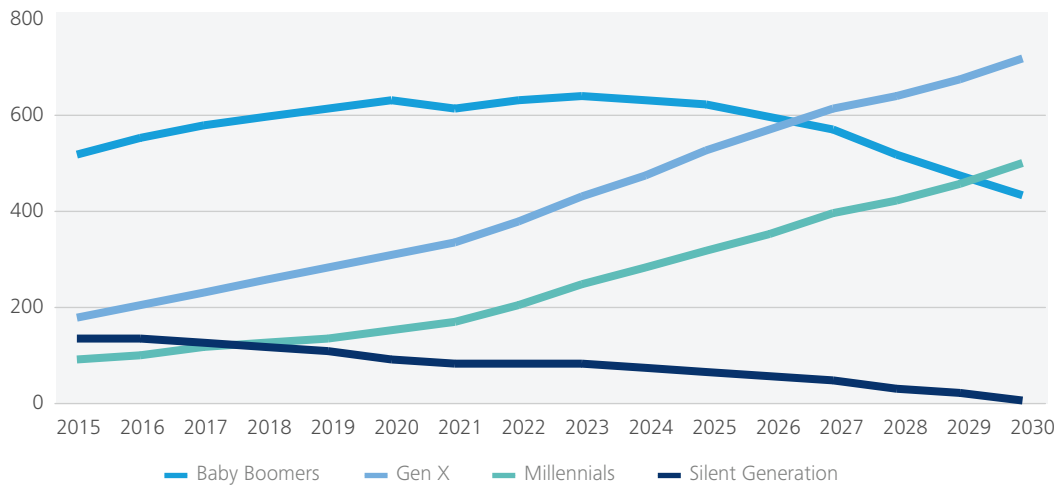**Figure 4. Household leverage (debt/assets), all generations (percent)**

Source: Deloitte Center for Financial Services.   Graphic: Deloitte University Press | DUPress.com

7. Over the next 15 years, nearly $24 trillion will be transferred in bequests (after taxes and charitable giving), reflecting spousal, inter-, and intra-generational wealth transfers (figure 5).

8. Net household wealth in 2030 could be as low as $108 trillion or as high as $124 trillion, depending on the long-term performance of the US economy (figure 6). Varying savings and consumer spending behaviors under these different scenarios will also meaningfully affect the relative performance of asset classes.
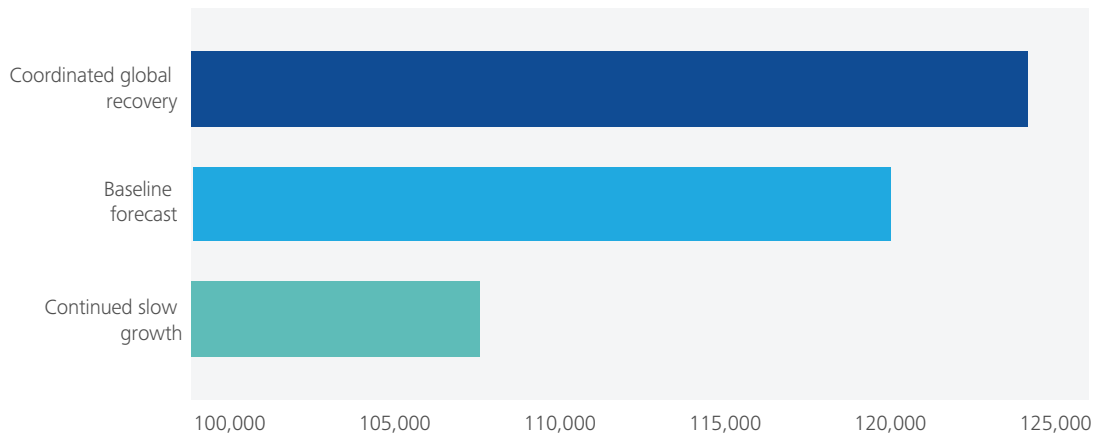
Figure 5. Bequests forecast to be received, all generations ($ billion)

Source: Deloitte Center for Financial Services.   Graphic: Deloitte University Press | DUPress.com

Figure 6. Net household wealth in 2030 under different growth scenarios ($ billion)

Source: Deloitte Center for Financial Services.   Graphic: Deloitte University Press | DUPress.com

MODELING METHODOLOGY AND LIMITATIONS

Deloitte's forecasts of generational wealth in the United States, developed in association with Oxford Economics, were built using publicly available data from the Federal Reserve's Survey of Consumer Finances (SCF), the US Census Bureau's Current Population Survey (CPS), and other sources.

The modeling methodology involved four steps:

1. A database on household wealth across age cohorts was created using data from the SCF and CPS.

2. The four generations were mapped to the relevant age cohorts. As each generation ages, it is gradually transitioned to an older age cohort.

3. Assets and debt were projected for each generation using forecasts of stock returns, bond yields, and home price increases, as well as age-dependent asset allocation and borrowing behavior.

4. Mortality rates, assumptions about estate taxes, charitable giving, and the distribution of bequests among age cohorts were used to forecast the total bequest each generation is likely to receive in a year.

Keeping in mind the fluid nature of the marketplace, the forecasts allow for changing assumptions around varying rates of economic growth, asset allocation, and intergenerational wealth transfers.

Since this model is based on household wealth data, it cannot account for the split of wealth among individuals within a household. We also couldn't factor in wealth creation by future immigrants and the post-Millennial generation due to data constraints. However, despite these limitations, we still believe this forecast adequately captures the key generational wealth trends in the United States.

Please see the appendix for more detail on the modeling methodology and its limitations.

Generational wealth
The path to 2030

Boomers to remain wealthiest generation in America

TODAY, the Silent Generation, whose youngest members are 70 years old, still commands nearly $24 trillion in wealth (figure 7), a probable result of good savings habits. But there is another empirical explanation for their considerable assets. A large number of Silent Generation members—29 million as of 2014—are still alive.[7] Social Security Administration data indicate that an individual's probability of dying in a given year crosses 4 percent only once he or she reaches 78 years of age, rising swiftly thereafter.[8]

Similarly, Baby Boomers, especially younger Boomers, will remain prime financial services consumers at least until 2030, because even then, their ages will span from 66 to 84 years,

and nearly 60 million will still be alive. With their sheer numbers and current high base of wealth, they are likely to remain at the top of the generational wealth rankings.

Gen Xers will, however, climb up the wealth scale quickly as they enter their prime earning years. Increasing incomes and savings will help them amass a net worth of $37 trillion in 2030. And they will be poised to overtake Baby Boomers as America's wealthiest generation soon thereafter.

Millennials will rapidly increase their wealth as a group with growing numbers joining the workforce, forming households, and accumulating savings. However, given their current low base of wealth, Millennials' average wealth will remain far below Boomers' and Gen Xers'.

Figure 7. Net wealth, all generations ($ billion)
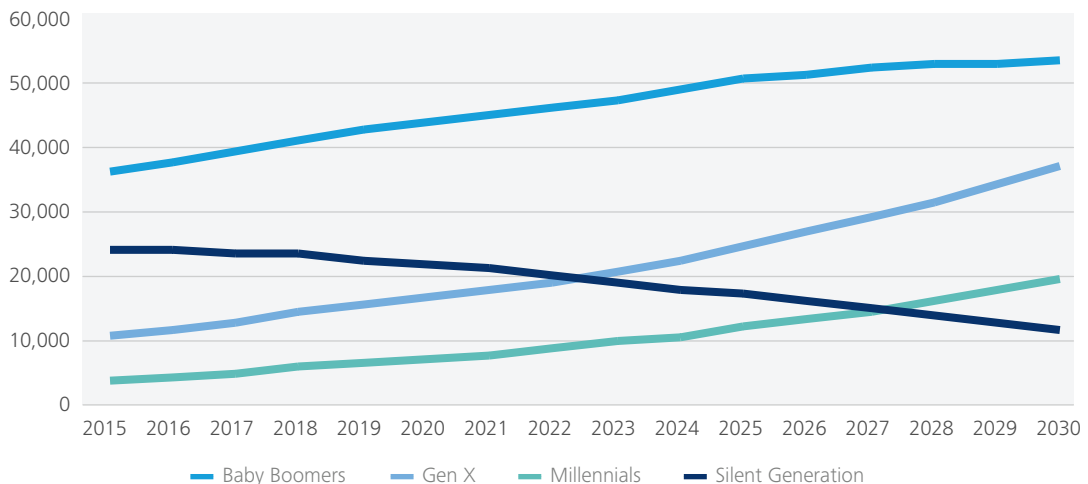
Source: Deloitte Center for Financial Services.

Graphic: Deloitte University Press | DUPress.com

Gen Xers to witness greatest increase in financial assets

Household financial assets in the United States are forecast to grow from $35 trillion in 2015 to nearly $64 trillion by 2030, a compound annual growth rate of 4.1 percent (figure 8). The growth in financial assets for each generation will be driven by three important factors:

1. Personal savings, which will drive the acquisition of new financial assets

2. Portfolio returns, which will affect the value of the existing pool of financial assets

3. Drawdowns, which reflect the spending-down of assets in retirement (In the forecast model, we have assumed that these will equal 4 percent of financial assets each year.)

Baby Boomers' financial assets will peak at nearly $26 trillion in 2029, rising from over $17 trillion in 2015. It is important to note that, while the oldest Boomer crossed the 65-year-old threshold in 2011, the youngest Boomer will only reach that age in 2029. Younger

Boomers—high-earning members of the workforce today—will continue to accumulate significant financial assets until retirement.

However, starting in 2030, Boomers' financial assets will gradually taper off as higher death rates and asset decumulation take their toll. Similarly, for the Silent Generation, a progressively higher death rate and continued decumulation in retirement will eclipse the returns earned by financial assets, which will decline from over $11 trillion today to about $4.6 trillion in 2030.

For Gen Xers and Millennials, the story is diametrically opposite. Gen Xers are joining younger Boomers as the highest-earning members of the workforce. Their financial assets will grow to $22 trillion by 2030, a compound annual growth rate of over 11 percent, largely reflecting their need to build nest eggs for retirement.

Millennials' wealth is expected to benefit from potential increases in their labor force participation rate,[10] as well as from increasing salaries as older Millennials are promoted to higher-paying jobs. As a result, Millennials' financial assets are projected to grow from $1.4 trillion in 2015 to $11.3 trillion in 2030, a compound annual growth rate of nearly 15 percent.

Figure 8. Financial assets, all generations ($ billion)
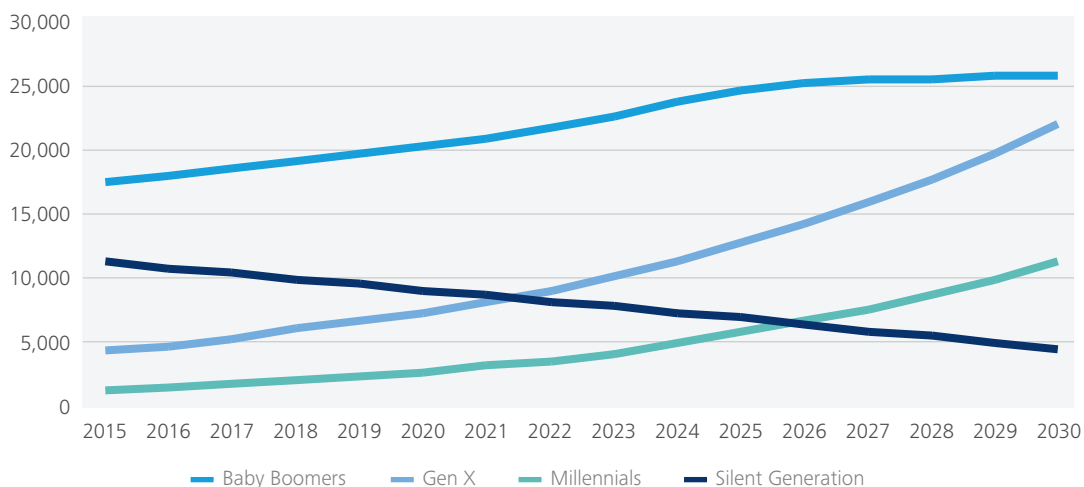
Source: Deloitte Center for Financial Services.

Graphic: Deloitte University Press | DUPress.com

Homeownership will continue to dominate nonfinancial assets

Homeownership has been a central pillar of the American dream. No wonder residential property alone constitutes nearly 58 percent of nonfinancial assets on household balance sheets in the United States. Business equity and automobiles account for most of the rest.

New investments in residential property and the appreciation of home prices are therefore central to our model's forecast of nonfinancial assets, which are projected to grow from about $52 trillion in 2015 to nearly $77 trillion by 2030 (a CAGR of 2.7 percent) (figure 9). This growth rate is lower than that of financial assets because home price increases are expected be lower than returns on financial assets.

Slowing population growth will be a major factor affecting housing prices in the future.[12] There is currently a significant surplus of housing in the United States. A short housing boom fueled by a stronger economy and a pickup in household formation are expected to exhaust some of this supply. However, once pent-up demand is satisfied, home prices may remain subdued, although select sectors, such as housing for the elderly, may thrive. (Please refer to Deloitte University Press's *US Economic Forecast: Volume 3 Issue 3* for more on this topic.[13])

One of the more striking differences among the generations is their level of investment in residential property. Gen Xers are currently the most active home buyers, comprising 32 percent of purchases by value, but they are closely followed by Boomers (31 percent) and Millennials (28 percent). Members of the Silent Generation, understandably, trail far behind at 9 percent.[14] Predictably, as the generations age, the share of home purchases by older cohorts will progressively drop.

Household leverage to fall as country ages

US household debt is projected to grow at a slower pace than assets, from $14.4 trillion in 2015 to over $20.5 trillion in 2030, a CAGR of 2.4 percent (figure 10), reducing the debt-to-asset ratio of American households from 17 percent in 2015 to 14.6 percent in 2030.

According to the Survey of Consumer Finances, 85 percent of household debt is tied to residential property, a pattern consistent across age groups and one that confirms the cultural importance of homeownership in the United States. Our forecast model uses this strong historical relationship to forecast debt:

Figure 9. Nonfinancial assets, all generations ($ billion)
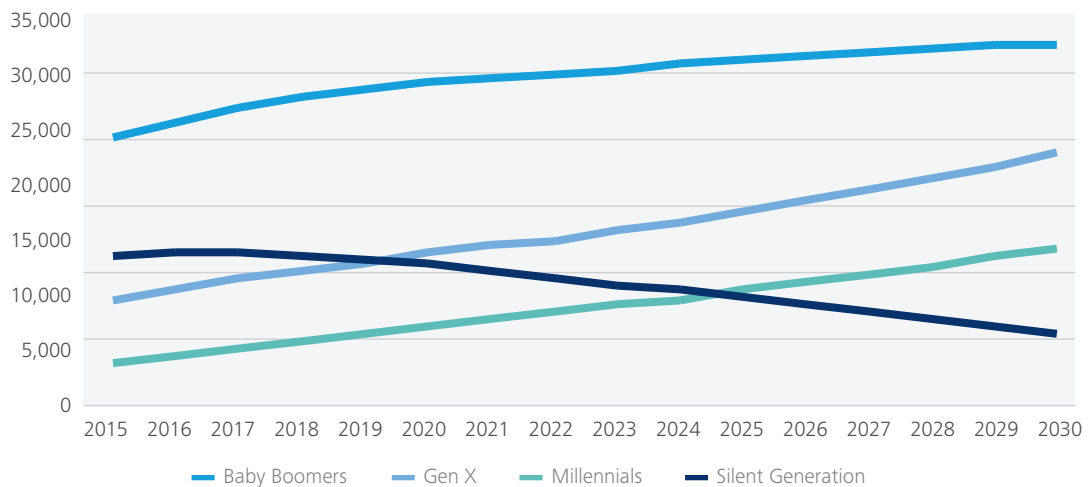
Source: Deloitte Center for Financial Services.

Graphic: Deloitte University Press | DUPress.com

First, it estimates mortgage debt,[15] and then it uses the share of mortgage debt in total debt to forecast other debt classes. Education loans are forecast separately using data from the SCF, the CFPB, and the Federal Reserve Bank of New York.

Baby Boomers' debt, currently estimated at $6.1 trillion, is projected to peak within the next few years and then gradually begin to slide, reaching $5.3 trillion by 2030. By then, nearly three-fourths of this debt will be held by younger Boomers, who will no doubt pay much of it back using their considerable assets. More specifically, many retirees may downsize their homes to pay off debt and boost retirement savings.

By comparison, Gen Xers and Millennials will see debt levels rise significantly more quickly (at a CAGR of 4.3 percent and 6.5 percent, respectively) in the next two decades. Nevertheless, their debt-to-asset ratios will drop (figure 4) as steadily increasing income and savings will enable them to acquire new assets, both financial and nonfinancial.

However, student debt will weigh on a significant number of Millennials and younger Gen X households for the foreseeable future. The former, in particular, will see student debt rising for the next several years. The significant

debt load will not only stretch their budgets (and, in many cases, those of their parents) but also negatively affect retirement savings.[16] The retirement challenges that high levels of student debt may pose could become apparent in the decades to come.

Why is household leverage projected to decline?

Two assumptions underpin our forecast of debt. First, data from the SCF consistently demonstrate that household leverage has historically declined with increasing age, which makes intuitive sense: Once individuals reach middle age and major purchases are out of the way, such as higher education or buying a home, their focus shifts to paying down debt and saving for retirement. The model assumes that this pattern will hold and that an aging country—by 2030, over 20 percent of US residents will be over age 65, compared to just 13 percent in 2010[17]—will see its propensity and ability to take on debt decline.

Second, the SCF data also highlight that mortgages on residential property are the single largest component of household debt, constituting about 85 percent of total household liabilities across age cohorts. These data imply that the bulk of mortgages being paid

Figure 10. Debt, all generations ($ billion)
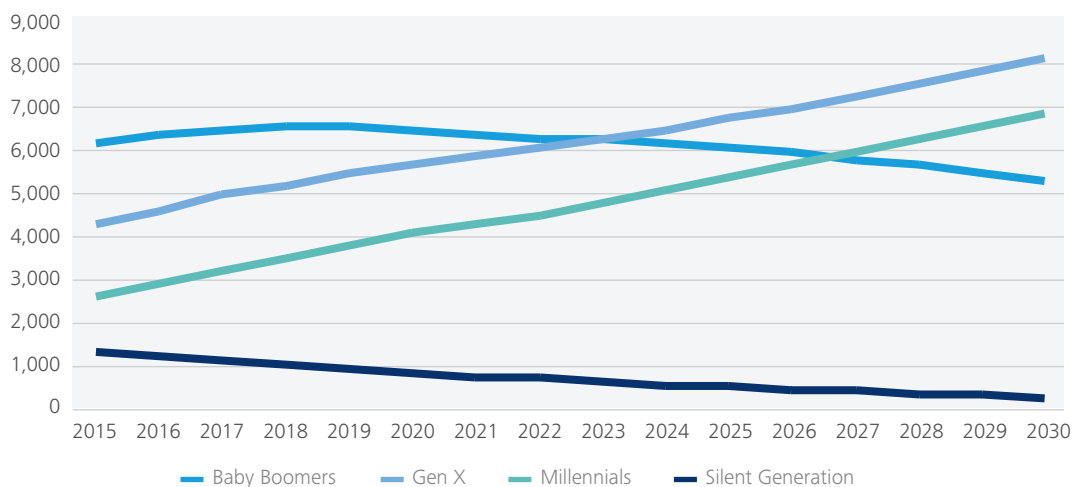
Source: Deloitte Center for Financial Services.

Graphic: Deloitte University Press | DUPress.com

down have traditionally not been replaced with other forms of debt, such as credit cards or auto loans. Our model assumes that this trend will also hold, again reflecting the clear need to build wealth for retirement by aging American households.

Of course, it is also possible that debt levels could be higher than currently forecast. If American households, especially those led by Gen Xers and younger Boomers, become more comfortable with holding debt as they age, the result could deliver a one-two punch to their net worth: Not only would their debt levels stay elevated, but their assets would also not grow at their full potential. There are some worrying signs that this may turn out to be the case.[18]

The other scenario under which debt levels could be higher is driven by the risks of longevity and of incurring higher-than-expected expenses (for example, medical costs) in retirement. In this scenario, financially stretched retirees may have to greatly increase their use of products such as reverse mortgages, which would not only raise debt levels for older generations, but also shrink the size of the assets that they could bequeath to their heirs.

Even if neither of these scenarios transpire, the needs of an aging populace are likely to strain federal entitlements and cause an explosion in the budget deficit in the next decade. Remedying the fallout may require cuts in expected entitlement payouts, higher contributions by younger generations, or both.[19] The former may force retirees to turn to debt to finance their cost of living, and the latter will implicitly shift the debt burden to the next generation, reducing their ability to pay down their existing debt by reducing discretionary incomes.

These challenges mean that for both wealth advisors and their clients, the importance of building strong balance sheets cannot be overstated.

Implications for financial services firms

GENERATIONAL wealth forecasts, in themselves, only tell half the story. The other half is revealed when these forecasts are combined with the lifestage-related needs and behavioral preferences of each cohort—together, they yield fresh insights for the retail financial services industry.

Baby Boomers should remain a priority but require new solutions

Deloitte's wealth forecasts clearly suggest that Boomers will continue to be a very attractive segment for the US financial services industry well into 2030 and beyond. As per a study by the U.S. News & World Report, "Controlling 70 percent of all disposable income in the United States, Boomers are a dominant financial force in the marketplace."[20] They will have over $53 trillion in wealth in 2030 (about 45 percent of total household wealth). Nearly one in five Boomers already have investable assets of over half a million dollars, and 37 percent have more than $50,000 in deposits.[21]

Certainly, any shift in focus away from Boomers in the near term would be premature. That said, the pace at which Boomers will gather wealth in the next two decades will be substantially slower than that of younger generations. As more Boomers shift their attention from accumulating assets to spending them down in retirement, financial services providers should be aware of the need to change their product portfolio and pricing models accordingly. One path to differentiation would be to recognize the longevity issue, and offer clients flexible options to use their assets to accommodate for it.

As Boomers' wealth needs evolve with age, integrating estate planning services with other wealth products will become critical. Many top-tier firms already do this for high-net-worth clients, but firms also have the potential to offer these services to less-affluent Boomers in a cost-efficient manner through technology-enabled solutions. Older Boomers will also need holistic help buying long-term care insurance or monetizing their nonfinancial assets.

Boomers are increasingly comfortable with technology, evidenced by their high engagement on social media.[22] Offering simple and engaging digital solutions can help firms be more effective and improve advisor efficiency because firms will have to keep investing in brick-and-mortar infrastructure to satisfy the preference of many Boomers for face-to-face interactions in making key financial decisions.

Generation X is the next big fee pool

The financial downturn hit Gen Xers' wealth hardest.[23] Much of it was locked in home equity, which nosedived during the crisis. Although asset prices have recovered since, high levels of student debt have continued to weigh on this cohort. On an aggregate level, Generation X's wealth will take considerable time to reach the levels achieved by the

Boomers, mainly due to the generation's small size; Gen Xers will outnumber Boomers only in 2028.[24]

Notwithstanding these pressures, there are several reasons to be sanguine about Generation X's wealth prospects. Gen Xers are entering the most financially productive years of their lives. Most will see incomes and savings rise, and their leverage will decline steadily. This generation will constitute the next biggest fee pool for most financial firms.

In fact, firms that haven't yet woken up to Generation X's potential may be too late to the party. As of 2015, about 37 percent of Gen Xers report having more than $100,000 in investable assets.[25] And, as discussed earlier, Gen Xers are the largest investors in residential property by value.[26]

But will this wealth accumulation be enough to build a solid financial future? Many Generation X-led households face several distinct challenges in doing so. They appear willing to live with higher debt as they get older,[27] which is more troubling than their current indebtedness because it hinders wealth accumulation, despite their incomes being higher than those of their parents.[28] To compound this phenomenon, most Generation X retirees might receive significantly smaller-than-expected payouts from overstretched US entitlement programs.[29] These difficulties suggest that wealth firms that can help households manage debt, plan for big expenses (such as their children's education), and prepare for a secure retirement may be able to create substantial incremental value for their Generation X clients.

Firms will need innovative approaches to profitably service Millennials

Millennials have altered the way that the nation shops, consumes information, and forms opinions. This ethnically diverse generational tsunami will include over 81 million Americans by 2036.[30] And even though their wealth is nowhere near that of older generations, their impact on the financial services industry will be no less significant.

Today, just 14 percent of Millennials say they have over $100,000 in investable assets.[31] Stories of their student debt burdens abound—pressure that is likely to endure for some time. As our data show, Millennials' rapidly increasing wealth is starting from a low base, which will preclude many of them from being courted by premier wealth managers anytime soon.

WHAT DOES OUR FORECAST OF DECLINING LEVERAGE MEAN FOR BANKS?

Our forecast of debt raises a clear possibility that household assets could grow faster than liabilities over the next two decades, if the traditional borrowing behavior of American households persists. This could exacerbate the banking industry's growth challenges.

For banks, the key takeaway may be to make wealth management and advisory services core to their product offerings. Many have already done so, with their wealth business compensating for fee pressure in several institutional and capital markets businesses. However, this forecast provides another structural reason to make this choice. Banks with strong balance sheets and an established retail funding base have the chance to scale up even nascent wealth franchises quickly. Existing branch networks can be leveraged to cater to the credit, savings, and investing needs of different generations.

Even if our forecast underestimates debt, a growing market for wealth services means that focusing on wealth management and advisory services will likely be lucrative. Over the long term, client synergies from a strong wealth franchise could offer better growth opportunities than a pure lending business.

However, there is a flip side. Millennials now boast the second-highest share of home purchases by value.[32] They also have decent savings habits; for instance, they allocate about 8 percent of their income to 401(k)s.[33] As more Millennials enter the workforce and move out of their parents' homes, their impact on the economy will only increase.

More fundamentally, however, Millennial-led households may force structural changes on the financial services industry. Consider that branch location convenience has been, for decades, the most cited reason that Americans choose a bank.[34] But new data indicates that Millennials are increasingly willing to change banks based on the strength of a bank's digital offerings.[35] This willingness doesn't just alter the mechanics of customer acquisition and product distribution. It also disrupts the way banks build and maintain a key driver of sustained competitiveness—a strong retail funding base. In particular, Millennials' willingness to take financial advice from robo-advisors[36] may also contribute to tremendous pricing pressure for the wealth services industry in the future. Embedding strong robo-advisor and other technology solutions into their core advice offerings may become an imperative for full-service providers.

Millennials' values also differ from those of other generations in many ways. They tend to be trusting of financial institutions, immensely value-conscious, and highly sensitive to pricing approaches. These tendencies could usher in new pricing models for financial institutions;

it could even give rise to product unbundling, which many financial services firms have been reluctant to pursue.

The Silent Generation: An opportunity hidden in plain sight?

The Silent Generation receives far less attention than it deserves. While it is true that this cohort's wealth will begin to taper off soon, ignoring them may be a mistake.

Consider these facts: An American man aged 70 today is likely to live for another 14 years, and a 70-year-old American woman will likely live for another 16 years.[37] An American man who is currently aged 80 years will probably live until 88 years of age.[38]

The Silent Generation controls nearly $24 trillion in wealth today; much of it will be bequeathed to younger generations over the next two decades. Building the right relationships with the heirs of Silent Generation clients could help wealth managers build more stickiness in their customer base. The heirs themselves, if currently not very profitable to serve, might become so once they come into their inheritance.

Bequests received by younger generations may also serve another very important purpose. They may help overstretched households pay down debt and get on a path to accumulating greater wealth.

A generational view of wealth services

IN response to the American generational wealth trends we have identified, we believe that four types of service offerings will emerge to become cornerstones of the US wealth management business (figure 11). These offerings will likely be specific to each target demographic client segment, and are distinguished by the value they create for clients and the way financial services firms should execute them to make them profitable (figure 12).

All the trimmings

Core client segments: Wealthy Baby Boomers and Gen Xers, plus some high-net-worth Millennials

Traditional top-tier services will continue to be a critical part of the wealth services landscape. High-net-worth clients across generations will likely require consolidated product

Figure 11. Evolving wealth services

All the trimmings
Consolidated offerings to help prime customers accumulate wealth and meet complex mid-life and retirement goals

Stewardship
Helping customers in retirement with specific issues such as sustainable spending, estate planning, and maximizing entitlement payouts

Cornerstones of US wealth management

Debt management
Creating value by reducing or restructuring debt, and by inducing a virtuous financial behavior cycle

Training wheels
Tech-enabled financial guides for youngsters building savings

Graphic: Deloitte University Press | DUPress.com

Figure 12. Key characteristics of evolving wealth service offerings

All the trimmings
Core focus: Wealthy Boomers and Gen Xers, with some HNI Millennials
• Advisors "front and center" of service, with tech-enabled solutions part of the overall strategy
• Pricing models built around consolidated product and service offerings
• Establishing value of advice provided versus low-cost alternatives will be challenging
• Advice, and not just information, will have to be available to clients in real time

Stewardship
Core focus: Silent Generation and older Boomers
• Advisors need to engage clients with potentially lower tech adoption
• Differentiating services by building niches around elderly care, estate planning, using entitlement payouts wisely, etc.
• Fee squeeze can slowly creep in as customers age and spend down assets
• Tech tools important to boost client/advisor ratios to lift efficiency

Training wheels
Core focus: Millennials entering the workforce, less affluent older Millennials and Gen Xers
• Low-cost services that provide wealth management tools and basic financial advice
• Almost fully tech-driven to keep operations efficient
• Vulnerability to more sophisticated tools—few players with scale to continually invest in offerings will dominate
• Low margins, fixed fees may work better for emerging customers who see value
• Retaining customers as they get wealthier and need broader services will be a challenge

Debt management
Core focus: Gen Xers and Millennials struggling with debt
• Focus on savings and spending behavior—focus on cutting debt, replacing high-cost debt
• Helping customers sustainably take debt to fund big purchases
• Pricing structure will be staggered and back-ended, with very low upfront fees
• Collaborations with banks and credit bureaus to acquire customers
• Building synergies with other services—once customers get wealthier

offerings to help them accumulate wealth and meet complex mid-life and retirement goals.

Advisors will remain center stage in an offering with "all the trimmings," although their role may evolve with advances in technology. Specifically, robo-advisor platforms may become important in delivering client solutions. Integrated tax, retirement, and estate planning services will also boost the value of these solutions to clients.

Pricing for these services will likely reflect the consolidated nature of the product offerings, even as fee pressure builds up and wealth firms are forced to demonstrate the value they create over low-cost, tech-enabled alternatives. Innovative delivery strategies will also become necessary as clients increasingly come to expect real-time advice. This means that both physical and digital channels will have to conform to industry-leading standards.

Stewardship

Core client segments: Older Boomers and younger Silent Generation members

A vast number of the affluent Boomer and Silent Generation retirees who are spending down their assets may not be able to afford, and indeed do not require, premier services. However, this does not mean that they will not need advisory services to help them wrestle with a variety of challenges in retirement, including calibrating their spending levels, downsizing their homes, maximizing entitlement payouts, and identifying the right health insurance options. Also, many prosperous households will need help with estate planning, traditionally a niche service offered to high-net-worth customers. Effectively integrating simple estate planning services with advisory offerings can create meaningful differentiation.

When dealing with this age cohort, which is generally the least comfortable with technology in making financial decisions, firms will find it critical to put advisors face-to-face with clients. Still, the right technology tools can boost

advisor efficiency and raise client-to-advisor ratios with this demographic. Enhancing efficiency may become especially important as asset decumulation among retirees causes gradual fee leakage. Flat fee structures may be an alternative.

Training wheels

Core client segments: Millennials entering the workforce, less-affluent, older Millennials, and young Generation X households

"Fees so low, you'll have to look twice!" In effect, that is the pitch that robo-advisors are making to young individuals who have just begun to build savings. Given the sheer number of Millennials entering the workforce every day, a deeper market for such services is likely to develop over the next two decades.

"Training wheels" services, typically built around robo-advisor platforms, are generally valuable, and not just to their clients. Robo-advisors perform an important market function by making wealth management tools and basic financial advice available to many

who otherwise would never have had access to them. Regardless of their exact impact on the wealth landscape, robo-advisors may raise market efficiency significantly in the long run.

Technology-enabled services typically have lower operating costs than advisor-centric services, which can make scaling profits easier once a basic asset threshold is established. However, if they live by the quality of their technology, they can also die by it—clients enticed by ever-better tools, might easily switch their assets to a competing provider. Many entrants may therefore offer such services in the short term, but over the long term, only a few dominant firms may possess the scale necessary to consistently improve their offerings to the extent needed to attract and retain a strong customer base.

Pricing structures are likely to vary considerably. Rates linked to assets managed might not make economic sense until a certain scale is achieved. Customers who see value in the offerings might be more willing to operate on fixed-fee arrangements.

The biggest challenge in offering "training wheels" services may lie in retaining customers when they need targeted advice. Full-service

KEY ELEMENTS FOR EFFECTIVE EXECUTION OF GENERATIONAL WEALTH SERVICES

The sheer breadth of wealth management offerings and the diversity of business models mean that cookie-cutter strategies will likely be ineffective. However, the following core prescriptions should be helpful:

- **Embed a generational perspective** into strategic thinking, product designs, and distribution strategies

- **Focus the firm's best execution capabilities** to serve select demographic segments in which the firm's products and services are most competitive

- **Exploit core institutional expertise** to make an entry into adjacent or related market segments with growth potential, and build any additional capabilities needed to be competitive in these target segments

- **Refine product portfolios, re-engineer pricing strategies, and enhance distribution networks** on a constant basis to differentiate offerings from competition and proactively shape customer expectations

firms may then easily be able to poach customers with considerable assets. Firms may want to explore differentiated service levels for such clients, while keeping in mind that the customer-facing investments that more advanced services entail may dent profits if adequate scale is not achieved.

Debt management

Core client segments: Generation X and Millennial households struggling to cope with debt

Despite falling debt levels overall, debt is and will remain a problem for many Americans, particularly for Gen Xers and Millennials who already have or will take on significant amounts of it. Services that add value by helping households repay or restructure debt and induce a cycle of prudent financial behavior are likely to be popular among these individuals. Wealth firms aside, lenders themselves have the potential to serve customers this way to differentiate their offerings from the competition.

Debt management services will likely be built around advice to change saving and spending behaviors, with a focus on cutting debt. For instance, many households can benefit simply by replacing high-cost debt, such as credit cards, with home equity lines of credit (HELOCs) and personal lines of credit. Individuals may also need guidance taking on debt to fund big purchases, such as homes, cars, and education. Firms offering debt management services may be able to access a broader customer base by collaborating with credit bureaus, banks, and nonbank lenders.

The execution strategy for debt management services could depend heavily on technology. With mobile devices and wearables pervading every aspect of customers' lives, digitally delivered advice based on behavioral finance techniques could guide every spending decision.

Even though these debt-focused services may not initially be profitable, they can help cultivate a customer base whose wealth levels could increase over time. Alternate revenue streams may also exist. As client assets build up, small- to mid-sized debt managers could explore arrangements with full-service firms, enabling the former to act as feeders for the latter. And debt managers could pursue tie-ups with banks and alternative lenders who may be willing to share commissions for customer referrals.

Seizing opportunities from generational wealth

WITH net household wealth in the United States projected to reach $120 trillion by 2030, the financial services industry's prospects certainly look bright. But this market is likely to become increasingly segmented by individual generational needs. In this research, we set out to estimate how generational wealth will evolve over the next 15 years, with the purpose of providing a clear roadmap for financial services firms. In many respects, our findings contradict prevailing wisdom, while in other instances, they reaffirm conventional thinking. In either case, they yield some unique insights.

Our study has highlighted clear implications for financial services along generational lines. As Boomers gradually shift from gathering assets to spending them down, wealth management providers should alter product portfolios and pricing models accordingly. These strategies include achieving differentiation by bundling traditionally niche services like estate planning services into their offerings. In serving Gen Xers, comprehensive advice that helps them save for retirement, and manage debt and budget for large expenses (such as education for their children) will likely win.

Millenials present firms with structural challenges. Embedding robo-advisor and tech-enabled solutions into offerings is a start. Product unbundling and pricing pressure are likely to follow, whether firms like it or not. And the Silent Generation will continue bequeathing to the other generations. Firms would do well to foster relationships with their heirs to create stickiness in their customer base.

Effective execution will boil down to a few fundamentals. Firms will have to carefully choose the segments they want to focus on. Trying to be everything to everyone is unlikely to yield good results, especially as each wealth segment is likely to have meaningfully different financial needs and preferences for interacting with financial services firms. Fine-tuning product, distribution, and pricing strategies to fully meet customer needs and differentiate one's offerings from the competition will, as always, be critical.

Our generational wealth forecasts show that the wealth landscape in the United States will be dramatically different in the next decade and half. Are financial services firms prepared to capitalize on these demographic shifts?

Appendix
Modeling methodology

DELOITTE'S forecast of generational wealth in the United States was developed in association with Oxford Economics. The forecast model was built using publicly available data from the Federal Reserve's Survey of Consumer Finances (SCF), the US Census Bureau's Current Population Survey (CPS), and other public sources.

The key elements of the modeling methodology are:

1. **Creating the base data**: A historical database of household wealth across various age cohorts was created using data from the SCF and the CPS. For 2013, the latest year of survey data and the base year of the forecast, household financial liabilities and student loans were benchmarked to Federal Reserve data on household financial liabilities[39] and Consumer Financial Protection Bureau estimates on student debt, respectively.[40]

2. **Generational mapping**: The household age cohorts from the SCF were matched to each generation using 2010 as the anchor year. For example, Boomers were aged 45–64 in 2010, so the household age cohorts of 45–54 and 55–64 were classified as Boomers. Since the SCF household age cohorts do not exactly match the ages of all the generations, some additional mapping adjustments were made to Gen X and Millennial data. As each generation ages, it progressively moved to an older age cohort. For instance, in 2015, younger Boomers'

asset allocation preferences are positioned between those of 45–54-year-olds and 55–64-year-olds.

3. **Forecast of assets and debt**: Using macroeconomic and asset allocation assumptions, assets and debt were forecast for each generation. Asset projections rely on the increase in value of the asset and the total new investment in the asset class in a particular year. Barring structural forces such as slowing population growth, the macroeconomic assumptions which drive these forecasts assume that most variables will return to their long-term equilibrium values. Financial assets for retirees were assumed to be drawn down at a rate of 4 percent a year.

Debt was forecast using a leverage ratio to estimate mortgage debt; we then took this estimate of mortgage debt and plugged it into the known share of household debt represented by mortgages to estimate the extent of other household debt. Education loans were forecast assuming a rising cost of education, an interest rate on unpaid balances, stable delinquency rates, and a steadily rising share of households taking education loans.

4. **Bequests**: Data on death rates from the Social Security Administration were used to estimate the total amount of assets bequeathed by Boomers and the Silent Generation in any given year. The forecast

deducted an effective estate tax rate of 20 percent, and assumed that an additional 10 percent would be donated to charities. The bequeathed assets were then split between the different generations using data on inheritance share by age derived from academic studies on the subject. Residential property and business equity were assumed to be directly transferred to receivers, whereas financial assets were allocated based on the receiving generations' asset allocation. Non-housing bequests were then levered up by each generation's 2013 debt-to-asset ratio to account for households' use of inheritances to make additional asset purchases using debt.

Limitations

1. **Household data**: This forecast is based on data on households rather than individuals. It cannot account for the split of wealth between generations within a household.

2. **Immigration**: The model does not account for the impact of ongoing immigration on household formation and wealth creation. Immigrants are expected to swell the ranks of the Millennial population to 81 million by 2036 from 75 million in 2015,[41] an increase of roughly 8 percent. This could mean that Millennials' overall wealth could be higher than forecast by a similar magnitude. However, the conclusions we draw

based on Millennials' relatively low per-capita wealth levels still remain valid.

3. **Post-Millennial generation**: The model does not account for the wealth of the generation born after Millennials due to a lack of available data. This means that by 2030, the forecast model will not include households headed by individuals under age 33. That said, we expect over 95 percent of total national household wealth will still be captured within the forecast—assuming that the post-Millennial generation follows Millennials' wealth trajectory.

These limitations notwithstanding, we believe that our model adequately accounts for the key generational wealth trends which will play out in the country over the next two decades.

Key baseline macroeconomic assumptions

Macroeconomic assumptions	2015–2030 average
Real GDP growth	2.4%
Growth in personal savings	4.7%
Inflation	1.9%
Growth in investment in private dwellings	3.2%
3-month LIBOR	3.6%
12-month LIBOR	4.0%
Average of US government bond yields (1 month to 10 year)	4.1%
Share price increases	4.7%
House price increases	2.4%

Source: Deloitte Center for Financial Services.

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