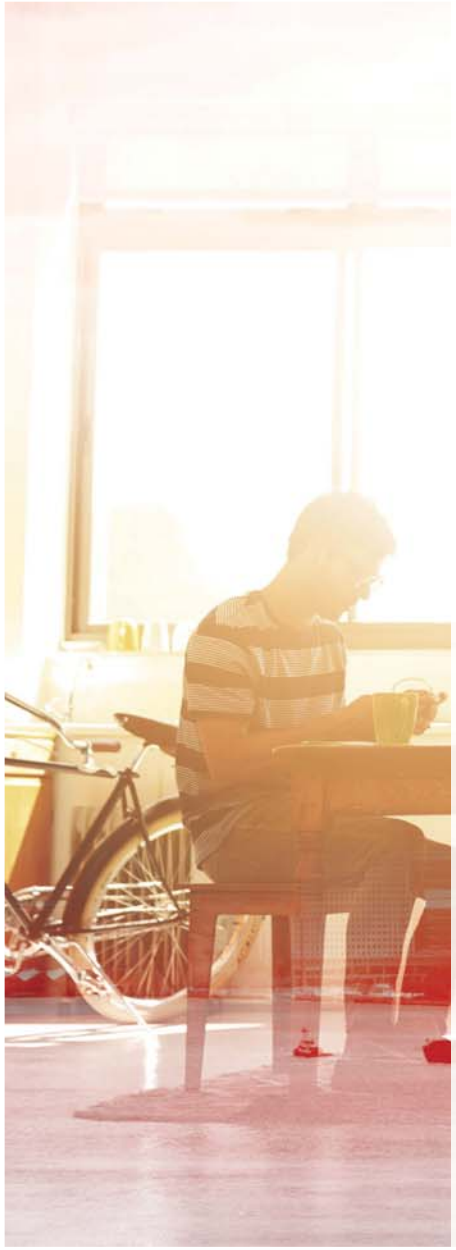
THE MILLENNIAL PAYOFF

NINE WAYS TO REACH OUT TO THE NEXT GENERATION OF INVESTORS



THE MILLENNIALS

That generation of 92 million strong born between 1980 and 2000 are growing up. The older ones have started having kids and buying houses. The younger ones are struggling over how to balance heavy student debt obligations and the need to plan for their future. Almost none of them expect to be able to rely on Social Security or defined benefit company pension plans to finance their retirement. They know they need to start planning now for a faraway future.

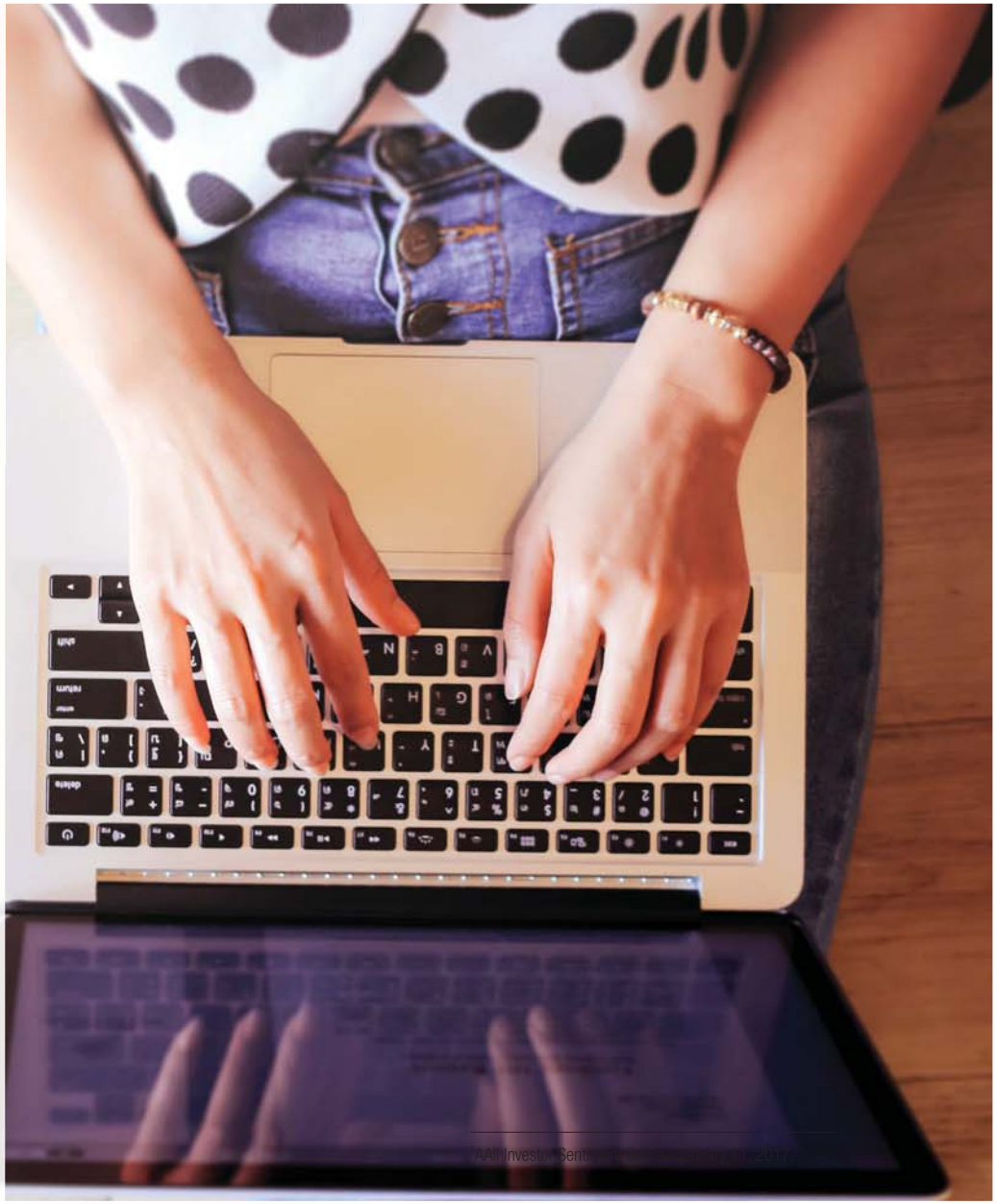
All this makes millennials a prime target for financial advisors of all stripes in the coming years. Admittedly, it's a long-term bet. The vast majority of millennials are not wealthy yet, even if they are earning good money.

However, their assets are primed to grow as these young people ascend in their jobs, start businesses, and accumulate assets for themselves and their growing families. Jefferson National's 2016 Advisor Authority survey of 1,400 RIAs, fee-based advisors, and individual investors estimated millennial net worth at $4 billion in 2015. By 2030, it is projected to swell to $20 trillion.[1] Here is the kicker: almost half of this generation does not currently work with a financial advisor.

The oldest millennials are just crossing their mid-30s, while the youngest are still in school, meaning that a large number of this generation have not yet grappled with the challenges of investing – or even saving. A recent survey from GOBankingRates found that even among the older millennials – those between 25 and 34 – two-thirds (67%) have less than $1000 in savings and one-third (33%) have nothing at all. Among the younger cohort, now between 18 and 24, things are even worse. Roughly three-quarters (72%) have less than $1000 and 31% have nothing. Even so, there are signs of opportunity. About 8% of the youngest millennials have socked away more than $10,000.[2]

Advisors say that millennials begin to think seriously about wealth planning after a change in their lives that makes their finances more complicated. "That typically has to do with one of three different events: A bump in income, passing an artificially created net worth benchmark, or inheriting assets," says Kris Venne, CFP® and Director of Financial Planning at New York-based Ritholtz Wealth Management. "They are looking for the same thing everybody is looking for, reassurance that they are all right and headed down the best path."

Kyle Moore, CFP, at Pitzl Financial in Arden Falls, Minnesota concurs, "The millennial client that seeks us out has arrived at a point in life where everything has become too complicated or overwhelming to handle in their spare time. Some have climbed the corporate ladder and are eligible to benefits like stock options, restricted stock, and deferred compensation. They want to make sure they are making optimal decisions for their situations. Once you throw in a marriage, children, and homeownership on top of a demanding career, there does not leave much time to pay attention to their household finances."



[1] AAII Investor Sentiment Survey, April 2017

How can advisors connect with the millennial generation? We asked advisors who have been successful in serving this market segment for insight. Here are nine ways to reach out to millennial investors:

#1: Recognize the retirement challenge

According to the Pew Research Center's "Millennials in Adulthood" survey, fewer than half of Millennials (49%) believe that they will receive any money from Social Security when they retire, and an additional 39% think they will get only a portion of the benefits that are paid out to current retirees.[3]

Rianka R. Dorsainvil, CFP® and founder of YGC planning, who is herself a millennial, says that she and her peers feel a special responsibility to prepare for a self-reliant retirement. "Those of us between 28 and 36 lived through the great recession during 2008. We saw our parents and grandparents retirement accounts take a huge dive and those who were a year or so away from retirement really having to rethink, "Can I retire?" "Because of the recession, because of the type or workforce environment we came into, being college educated and still not being able to find a job, we're more intentional about savings and being responsible with our money."

"It's difficult to do planning for a retirement that is 30 plus years away," says Moore. "One thing we are certain of is a lot will change during those years and this is why even Monte Carlo simulations are only mildly effective for millennials at this point in their lives. We know that promised Social Security benefits are about 70% funded at this point, so likely our full retirement dates will be pushed back, but we do not completely scrap Social Security from the retirement equation."

Making the most of defined contribution plans is the main goal, says Dorsainvil, since these are the only retirement savings vehicles most millennials have. "No millennial that I have worked with has a defined benefit plan – unless they've been in the military," she notes. "So it's really on them to save for their retirement." She recommends contributing enough to max out any employer match, if available.

Venne adds that millennials have one enormous advantage in retirement investing: time. "If someone in their 20s or early 30s is already approaching the retirement planning process they are putting themselves in a great spot for long term savings and investing," he explains. "Sure, they may not have access to defined benefit plans the way that generations prior did — but they have massive time to allow assets to compound."

49%

THE NUMBER OF MILLENNIALS THAT BELIEVE THEY WILL RECEIVE ANY MONEY AT ALL FROM SOCIAL SECURITY WHEN THEY RETIRE

[1] "The richest advisers are targeting millennials now," by Mitchell Caplan, Financial Planning, October 12, 2016
http://www.financial-planning.com/opinion/the-richest-advisers-are-targeting-millennials-now
[2] "Here's how much the average millennial has in savings," by Kathleen Elkins, CNN, November, 23 2016
[3] "The richest advisers are targeting millennials now," by Mitchell Caplan, Financial Planning, October 12, 2016
http://www.financial-planning.com/opinion/the-richest-advisers-are-targeting-millennials-now

#2: Educate a new generation of investors

Millennials who saw their parents burned by the 2008 market meltdown have become overly cautious with their assets. Dorsainvil says it is not uncommon for her to begin relationships with millennials who have tens of thousands of dollars in cash savings – but nothing invested in stocks or bonds. That is consistent with a 2016 BankRate survey that found that 38% of investors under 30 rated cash as the most favored investment.[4]

"Because they don't understand how the stock market works, they're afraid, and because of their fear, they're sitting in cash," Dorsainvil explains. "What I have to do with these millennials is truly educate them about the stock market, what it means to invest one dollar, the potential of compounding interest, and how really today time is your friend. Yes, the market will go up and down, but eventually it has always had an upward trend."

#3: Integrate debt into the financial plan

Talk to millennials about finances and sooner or later, student loans will come up. A 2015 survey by MoneyUnder30.com found that student loan debt was the #1 concern for 19% of all 20-somethings, ahead of earning more (17%) and repaying credit cards (15%). That same survey found that younger millennials held an average of $36,584 in debt, up nearly $700 from the prior year.[5]

Dorsainvil says that, particularly for younger millennials, managing debt is a priority. "You really need to have a conversation about student loans. Which repayment strategy makes sense for them? Is it the income-based repayment plan? The standard?" And for millennials who are starting to make a good salary and accumulate assets, there's an additional question around whether to invest or pay off debt. She had recently come from a meeting with older millennial clients with $40,000 in savings and a remaining $10,000 in debt where they were paying around 6% in interest. "When you hold cash, you have a guaranteed interest of 0%. So basically you're losing money after inflation," she says. "But by paying off debt, you have a guaranteed return of 6%."

Some millennials may require more liquid savings than others, she admits, and for young people paying off loans with interest rates of 4% and under, investing in higher return assets may make sense. "It really depends on the individual situation," she concludes.

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[4] "Almost 40% of Millennials Are Making This Horrible Money Mistake," by Martha C. White, Money Magazine, July 19, 2016 http://time.com/money/4411657/millennials-investing-mistake-cash/

[5] MoneyUnder30.com: The 2015 Millennial Money Report. https://www.moneyunder30.com/20-somethings-money-survey

#4: Begin talking about education savings

Approximately four in ten millennials have one or more children, according to research by the Gallup Organization, including an unusually high percentage of those that have never been married. Moreover, because of their personal experience with student loan debt, millennials parents are motivated to spare their children similar struggles. "They're saying, 'I want my children to get a better start than I did.' They often don't know what it's called, but they know that they need some sort of education plan," says Dorsainvil. "So I'm steering them towards 529 plans."

#5: Tailor planning for entrepreneurs

Millennials have been slow to start businesses, compared to other generations, but as they enter their late-30s and early 40s, prime age for entrepreneurship, more and more will likely join the ranks of the self-employed. Dorsainvil says she is already working with a number of millennial entrepreneurs, helping them manage both their personal finances and their business concerns. Many, she says, have a background in tech, and are not as comfortable taking on management and financial functions. Very few, she adds, are saving for retirement. "If you don't start your business off earmarking money for savings, you are really living beyond your means to run this business because you're not saving," she says. She helps them set up retirement savings programs like Simple 401(k), SEP-IRAs and IRAs.

#6: Help young clients deal with inheritance

A $30 trillion wealth transfer is already underway, and millennials will be on the receiving end for much of it. Indeed, the wealthiest millennials are far more likely to have inherited their money than either Gen Xers or baby boomers. A Spectrum Group study found that, among those under 32 years old with up to $1 million to invest, a third inherited their money, while less than a quarter of the two previous generations had done so. That gap was even larger among investors with more than $1 million.[7]

Young inheritors have unique needs for advice and guidance, says Moore. "It's quite a shock to inherit money at a young age and it can be difficult to know how to think about it for many millennials," he explains. "They want someone to help them come up with a purpose for the money and make sure it is stewarded wisely, otherwise the inheritance can feel like quite a burden to them."

Venne says that in families that share values ahead of inheritance, the event is less disruptive. He works with many of his clients' children to build a relationship long before assets are transferred. "Their concerns depend entirely on their upbringing. If they are familiar with the emotions involved with having assets the conversations tend to be very different than someone who it's entirely new to," he says. "For someone new to having money, it's important to make sure that its purpose is contextualized within the frame of a long term financial plan."

$30 TRILLON

THE AMOUNT OF WEALTH TRANSFER UNDERWAY IN WHICH MILLENIALS WILL BE ON THE RECEIVING END

[6] "Gallup Analysis: Millennials, Marriage and Family," May 19, 2016. http://www.gallup.com/poll/191462/gallup-analysis-millennials-marriage-family.aspx

[7] "Millennials Make Most of Massive Inheritance: Study," by Paul O'Donnell, CNBC, May 31, 2013

#7: Reflect millennial values

Millennials are an extraordinarily values-driven generation, looking for meaning from their lives, relationships, jobs, and investments. The 2016 U.S. Trust Wealth and Worth Survey found that millennials were more than four times as likely as boomers to own impact investments and nearly three times as likely to be interested in them.[8]

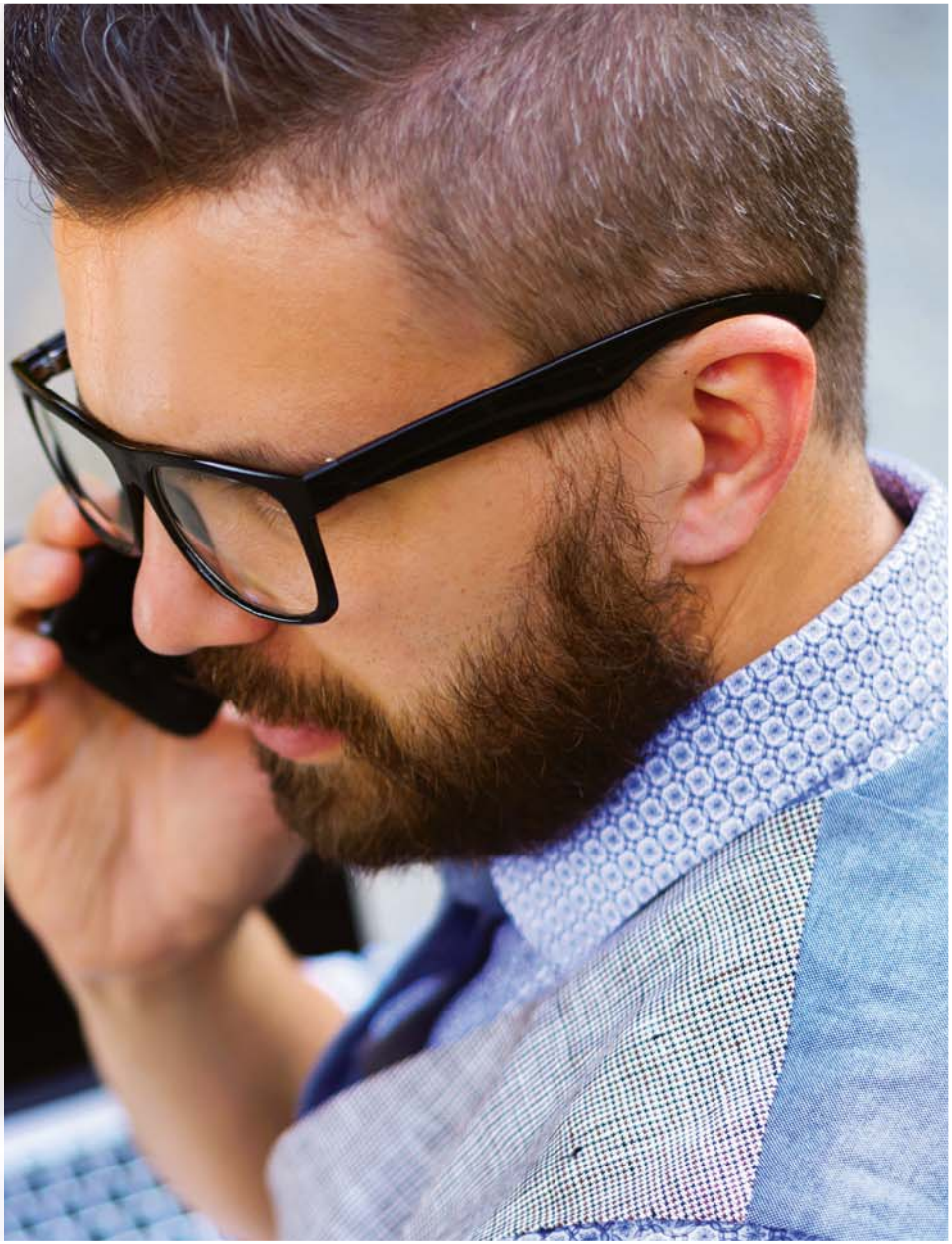
"We offer an environmental, social and governance (ESG) in our mix of portfolios, and it does in fact resonate with millennials," Venne says. "That said, it's by no means true across the board.

Dorsainvil asserts that, while she has not worked with any of her millennial clients on socially responsible investing (SRI) strategies, "What I've noticed with millennials is that they're more charitably inclined -- giving to causes." She recently worked with a client to build in regular charitable gifts into his budget. More elaborate charitable structures, like trusts, are still out of the reach of most her young clientele. "Most of my millennial clients are not there yet," she says.

#8: Invest in technology to reach a wired generation

Millennials are the first generation to have grown up on mobile platforms, turning to apps and online retailers for nearly everything they need. As survivors of the 2008 market crash, they are inherently distrustful of financial institutions. The Millennial Disruption Index, a three-year study of disruption at the hands of teens to 30-some-things found that 73% of millennials would be more excited about a new offering in financial services from GOOGLE, AMAZON, APPLE, PAYPAL, or SQUARE than from their own nationwide bank.[9]

To be successful advisors have to meet millennials on their own terms, using virtual technology to transform the fi nancial advice business. Dorsainvil, for instance, says her business is 100% virtual. An online scheduling app allows clients and prospects to set a time and date for meeting with her, by video, at their convenience. A shared vault allows them to receive and upload documents relating to their finances.



[8] U.S. Trust Wealth and Worth Survey, 2016, Key findings, page 40. http://www.ustrust.com/publish/content/application/pdf/GWMOL/USTp_AR9R6RKS_2016-05.pdf

[9] Millennial Disruption Index. http://www.millennialdisruptionindex.com/

Moore agrees that technology is crucial. His firm uses GoToMeeting for virtual meetings, and eMoney's portal, which gives client's a single log-in to see all of their accounts and loans in one place.

Both advisors agree that, even when clients are close by, they are reluctant to spend the time going to and from a meeting that they can schedule virtually. "I know, for me, if you want me to drive an hour through D.C. traffic, you better offer me dinner, or at least some cookies," says Dorsainvil. "I've tried to make financial planning convenient for my busy, multi-tasking clients."

#9: Add millennial advisors to your team

The final, and perhaps most effective, way to connect with millennial clients is to bring in advisors who can connect with them as peers — to hire and promote millennials within your firm. That is a tall order in an industry where, according to a recent Cerulli report, the average advisor is now over 50 and 43% are over the age of 55.[10]

"Right now, there are more advisors over the age of 70 than there are under 30," says Dorsainvil. "So just from a business succession standpoint, there needs to be more of us in the workforce so that the client and the client's children can be taken care of." She adds that she recently won business from a baby boomer and his wife who were unnerved when both their estate planning attorney and tax advisor died in succession. They were specifically looking for a financial advisor who was younger than they were to ensure continuity.

Millennial advisors, too, can take the long view of clients who may not have a lot of money yet, but are earning and saving and investing for security down the road. Says Moore, "Being a millennial myself, I am willing to invest my time with a younger client who will one day be profitable even if the client relationship currently is not. The monthly retainer model has its drawbacks, but at least it has provided a way for millennials who want financial planning help to find it."

BEING A MILLENNIAL MYSELF, I AM WILLING TO INVEST MY TIME WITH A YOUNGER CLIENT WHO WILL ONE DAY BE PROFITABLE EVEN IF THE CLIENT RELATIONSHIP CURRENTLY IS NOT

[10] "43% Of Advisors Nearing Retirement, Says Cerulli," Financial Planning, JANUARY 17, 2014 http://www.fa-mag.com/news/43--of-all-advisors-are-approaching-retirement--says-cerulli-16661.html

Advisors: attract and retain millennial assets with Premier Trust

In a nutshell, you can see the argument for paying attention to millennials now, even though they may not yet have the economic clout or sophistication of the baby boom or even Gen X clients. Advisors who work with these clients will be able to help them as they accumulate assets, both through inheritance and via their own hard work. In time, these clients will be ready for more sophisticated strategies like charitable giving and charitable trusts, closely held business planning, education planning, estate planning, and even multi-generational trusts.

What can advisors do now to attract and retain millennial assets? Nearly 70 percent of your current baby boomer clients currently have trusts. Do you know who they have named as their successor trustee? If your client has a friend or family member listed as successor trustee on their trust your odds of retaining their account as it passes to their millennial heirs is incredibly small. Statistics have shown that 80-95 percent of an advisor's accounts leave the advisor after the client passes away. What is a sure-fire way to manage the assets of your clients' heirs? Naming an advisor-friendly trustee as successor trustee on your clients' trusts. When your client passes away, the advisor-friendly trustee will step in to administer the trust, while retaining you as the financial advisor throughout the process.

Given the choice, many clients would name their financial advisor as trustee of their trusts. Most financial institutions view this as a conflict of interest and prohibit their advisors form serving in this capacity. The next best solution is to work with an advisor-friendly trustee that will not poach your book of business. Premier Trust can be a partner in helping millennial clients make the transition as they move from the very beginnings of a saving and investment strategy, into sophisticated planning to protect and conserve their assets.

Premier Trust is a trust administration firm only with offices in Las Vegas and Reno. Their staff of 40 plus administrators have extensive experience in wealth management issues. They are based in Nevada, allowing clients across the nation to benefit from the Nevada Advantage; Nevada's favorable trust, corporate, asset protection, and tax laws.

Whether your clients are millennials, baby boomers, or members of America's greatest generation, good financial strategies start with a dream and a plan. Since 2001, Premier Trust has helped countless families plan and administer their estate plans objectively and professionally.

For more information about partnering with Premier Trust, contact us at 702-577-1777 or email us at info@premiertrust.com.